

Fayette County Memorial Hospital

**Financial Report
with Additional Information
December 31, 2015**



Dave Yost • Auditor of State

Board of Trustees
Fayette County Memorial Hospital
1430 Columbus Avenue
Washington Court House, OH 43160

We have reviewed the Independent Auditor's Report of the Fayette County Memorial Hospital, Fayette County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2015 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

July 26, 2016

This page intentionally left blank.

Fayette County Memorial Hospital

Contents

Report Letter	1-3
Management's Discussion and Analysis	4-15
Financial Statements	
Statement of Net Position	16-17
Statement of Revenue, Expenses, and Changes in Net Position	18
Statement of Cash Flows	19-20
Notes to Financial Statements	21-45
Required Supplemental Information	46
Schedule of Fayette County Memorial Hospital Contributions OPERS	47
Schedule of Fayette County Memorial Hospital's Share of the Net Pension Liability OPERS	48
Notes to Pension Required Supplemental Schedules	49
Supplemental Information	50
Combining Statement of Net Position	51
Combining Statement of Revenue, Expenses, and Changes in Net Position	52
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	53-54
Schedule of Findings and Questioned Costs	55
Summary Schedule of Prior Audit Findings	56

Independent Auditor's Report

To the Board of Trustees
Fayette County Memorial Hospital

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Fayette County Memorial Hospital (the "Hospital"), a component unit of Fayette County, as of and for the years ended December 31, 2015 and 2014 the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Trustees
Fayette County Memorial Hospital

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Fayette County Memorial Hospital as of December 31, 2015 and 2014, and the changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10 to the basic financial statements, during the year ended December 31, 2015, the Hospital adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 27. In accordance with GASB Statement No. 68, the Hospital is now recognizing its unfunded pension benefit obligation as a liability on the statement of net position for the first time. Adopting this statement also resulted in significant changes to the defined benefit related footnote disclosures as well as the required supplemental information schedules. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Trustees
Fayette County Memorial Hospital

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fayette County Memorial Hospital's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2016 on our consideration of Fayette County Memorial Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fayette County Memorial Hospital's internal control over financial reporting and compliance.

Plante & Moran, PLLC

June 17, 2016

Fayette County Memorial Hospital

Management's Discussion and Analysis

Management's Discussion and Analysis

The discussion and analysis of Fayette County Memorial Hospital's (the "Hospital") financial statements provides an overview of the Hospital's financial activities for the years ended December 31, 2015 and 2014. Management is responsible for the completeness and fairness of the financial statements and the related note disclosures along with the discussion and analysis.

Hospital Highlights

The financial turnaround from an operating loss of \$2,822,850 in 2014 to an operating gain of \$1,002,806 in 2015 is undoubtedly the biggest highlight for the 2015 year. Patient volumes in the inpatient and outpatient service lines increased over the previous year. The reasons for this are many but include a revamp of the hospitalist program and a revival of partnerships and relationships in the community.

In February, the Hospital entered into an affiliation with Ohio State University Hospitals, improving the availability, quality, and cost-effectiveness of healthcare services, research, and medical education in Fayette County. Under the agreement, the Hospital remains independent while working together with Ohio State University. The Hospital collaborates in the areas of telestroke, orthopedics, sports medicine, radiology, and purchasing.

In April, the Hospital retired the County's Variable Rate Taxable Demand Notes, Series 2003 with the PNC Bank in the amount of \$2.5 million with the assistance of the Fayette County Contribution in the amount of \$2.0 million. Repayment of the County Contribution is scheduled to be repaid in full on April 1, 2023. The interest on the unpaid principal amount is one percent (1%) per annum.

In June, the Hospital underwent a change in senior leadership with the departure of the Chief Executive Officer and the VP of Human Resources. The Chief Financial Officer and Chief Operating Officer were given the added responsibilities of interim co-managers of the Hospital. The Chief Executive Officer position is unfilled at year end. The VP of human resources position was eliminated from senior management.

In October, the Hospital opened the FCMH Women's Wellness Center located in the Medical Arts Building 2. With the generous donation of over \$222,000 from the FCMH Foundation, the area was completely remodeled and a digital mammography unit was placed into service.

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

Financial Highlights

Cash, investments, and assets limited as to use decreased \$1,398,898, while accounts receivable increased by \$1,025,366. In total, the Hospital's operating revenue exceeded operating expenses, creating an increase in excess of revenue over expenses of \$1,243,414 (compared to an excess of expenses over revenue of \$2,334,398 in the previous year). The implementation of GASB Statement No. 68 (a change in accounting principle), decreased the hospital's net position by \$14,896,644 for the year bringing the net position to a negative \$4,463,804.

Using this Annual Report

The Hospital's financial statements consist of the three statements: statement of net position, statement of revenue, expenses, and changes in net position, and statement of cash flows. These financial statements and related notes provide information about the activities of the Hospital as a whole, and present a snapshot of the Hospital's finances.

The management's discussion and analysis presents three years of data for comparison purposes. However, GASB Statement No. 68 and GASB Statement No. 71 requires public entities to report net pension liabilities in a new manner. Fiscal years 2014 and 2013 are not restated and are not comparable to 2015 for the accounting changes. The biggest change from the new accounting pronouncements is that the Hospital must show its proportionate share of the net pension liability of the public retirement systems on its financial statements. This is not a legal liability of the Hospital, but rather it is an accounting presentation. In Ohio, there are no legal means to enforce the unfunded liability of the pension system as against the public employer.

The Statement of Net Position and the Statement of Revenue, Expenses, and Changes in Net Position

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

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

These two statements report the Hospital's net position and changes in net position. You can think of Hospital's net position, the difference between assets and deferred outflows, and liabilities and deferred inflows, as a way to measure the Hospital's financial health, or financial position. Over time and consideration for the change in accounting resulting from GASB Statement No. 68, an increase or decrease in the Hospital's net position is an indicator of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as the trend in patient days, outpatient visits, conditions of the buildings, and strength of the medical staff to assess the overall health of the Hospital.

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

The Statement of Cash Flows

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

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following is a comparative analysis of the major components of the statement of net position of the Hospital as of December 31, 2015, 2014, and 2013:

	December 31		
	2015	2014	2013
Current assets	\$ 11,333,007	\$ 9,203,728	\$ 7,927,932
Noncurrent assets	1,063,123	3,354,523	4,674,915
Capital assets	8,610,386	8,845,701	10,117,624
 Total assets	 21,006,516	 21,403,952	 22,720,471
 Deferred outflows of resources	 3,728,912	 -	 -
Current liabilities	8,096,437	9,650,928	10,273,969
Long-term liabilities	2,630,624	2,563,598	922,678
Net pension liability	18,131,058	-	-
 Total liabilities	 28,858,119	 12,214,526	 11,196,647
 Deferred inflows of resources	 341,113	 -	 -
Net position:			
Unrestricted	(11,300,059)	2,717,139	4,666,735
Net invested in capital assets	5,781,531	5,354,993	5,807,120
Restricted	1,054,724	1,117,294	1,049,969
 Total net position	 \$ (4,463,804)	 \$ 9,189,426	 \$ 11,523,824

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

The primary changes in the assets, liabilities, and net position relate to a increase in cash and cash equivalents of \$892,502, an increase in net patient accounts receivable of \$1,025,366, a decrease in long-term investments of \$1,447,453, the addition of deferred outflows of resources related to pension of \$3,728,912, a decrease of current liabilities of \$1,554,491, addition of net pension liability of \$18,131,058 and a decrease in net position of \$13,653,320.

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

Operating Results and Changes in Net Position

	December 31, 2015	December 31, 2014	December 31, 2013
Operating revenue:			
Net patient service revenue	\$ 43,678,623	\$ 39,562,879	\$ 42,589,717
Other	1,209,661	1,448,140	1,316,943
Total operating revenue	44,888,284	41,011,019	43,906,660
Operating expenses:			
Salaries and wages	20,908,861	21,667,444	23,314,906
Employee benefits and payroll taxes	6,499,317	6,360,524	6,996,501
Operating supplies and expenses	4,816,223	4,344,681	5,574,480
Professional services and consultant fees	5,776,990	5,677,030	5,347,131
Insurance	444,454	495,394	419,904
Utilities	788,204	782,215	853,166
Leases and rentals	534,282	602,545	475,646
Maintenance and repairs	1,581,574	1,421,200	1,752,808
Depreciation and amortization	1,290,608	1,339,375	1,311,031
Other expenses	1,244,965	1,143,461	1,326,323
Total operating expenses	43,885,478	43,833,869	47,371,896
Operating income (loss)	1,002,806	(2,822,850)	(3,465,236)
Nonoperating gains - Net	240,608	488,452	284,695
Change in net position	1,243,414	(2,334,398)	(3,180,541)
Net position - Beginning of year	9,189,426	11,523,824	14,704,365
Restatement due to change in accounting principle	(14,896,644)	-	-
Net position - End of year	<u><u>\$ (4,463,804)</u></u>	<u><u>\$ 9,189,426</u></u>	<u><u>\$ 11,523,824</u></u>

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

The Hospital's total operating expenses for the year ended December 31, 2015 were adjusted by \$153,385 as a result of the implementation of GASB Statement No. 68. Prior to the GASB Statement No. 68 adjustment, the total operating expenses for the year ended June 30, 2015 totaled \$44,038,863, which is an increase of \$204,994 from the total operating expenses as of December 31, 2014.

Operating Revenue

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

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased by \$4,115,744, or 10 percent from 2014. An increase in inpatient admissions of 9 percent, along with an increase in inpatient days of 13 percent, a 4 percent growth in outpatient revenue, and a 6 percent growth in clinic revenue contributed to the increase. Revenue deductions are the amounts that are not paid to the Hospital under contractual arrangements with Medicare, Medicaid, and various other commercial payers. Medicare pays critical access hospitals under a cost basis, while Medicaid pays primarily on a prospective basis and other payers as a percent of charges. Revenue deductions were approximately 62, 64, and 61 percent of gross revenue in 2015, 2014, and 2013, respectively.
- In 2014, net patient service revenue decreased by \$3,026,838, or 7 percent, from 2013. A decrease in inpatient admissions of 16 percent, along with a decrease in inpatient days of 25 percent in conjunction with increased revenue deductions stemming from reduced costs, were the leading contributors. Revenue deductions are the amounts that are not paid to the Hospital under contractual arrangements with Medicare, Medicaid, and various other commercial payers. Medicare pays critical access hospitals under a cost basis, while Medicaid pays primarily on a prospective basis and other payors as a percent of charges.

Fayette County Memorial Hospital

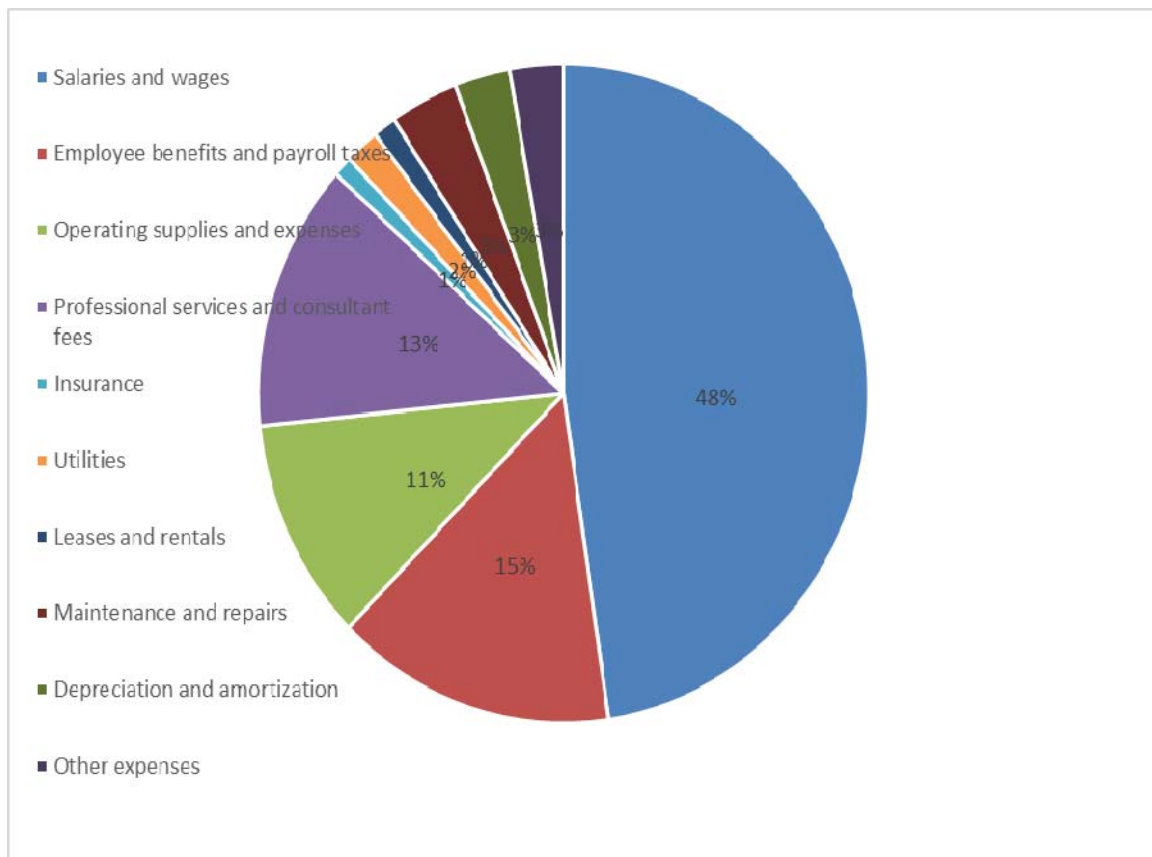
Management's Discussion and Analysis (Continued)

Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services of the Hospital. Operating expense changes were a result of the following factors:

- Salaries and wages decreased \$758,583. This was attributable to continued reductions in FTEs, mostly through attrition throughout the year. Employee benefits increased \$619,790, with increases in employee health and employee benefits and payroll taxes decreased approximately \$636,000. This was attributable to an increase in employee health insurance benefit costs.
- Operating supplies and expenses increased \$471,542, or 11 percent, with increases in patient volumes.
- Maintenance and repairs increased \$160,374 or, 11 percent, with the aging of the buildings and equipment.
- Other expenses were in line with the prior year.

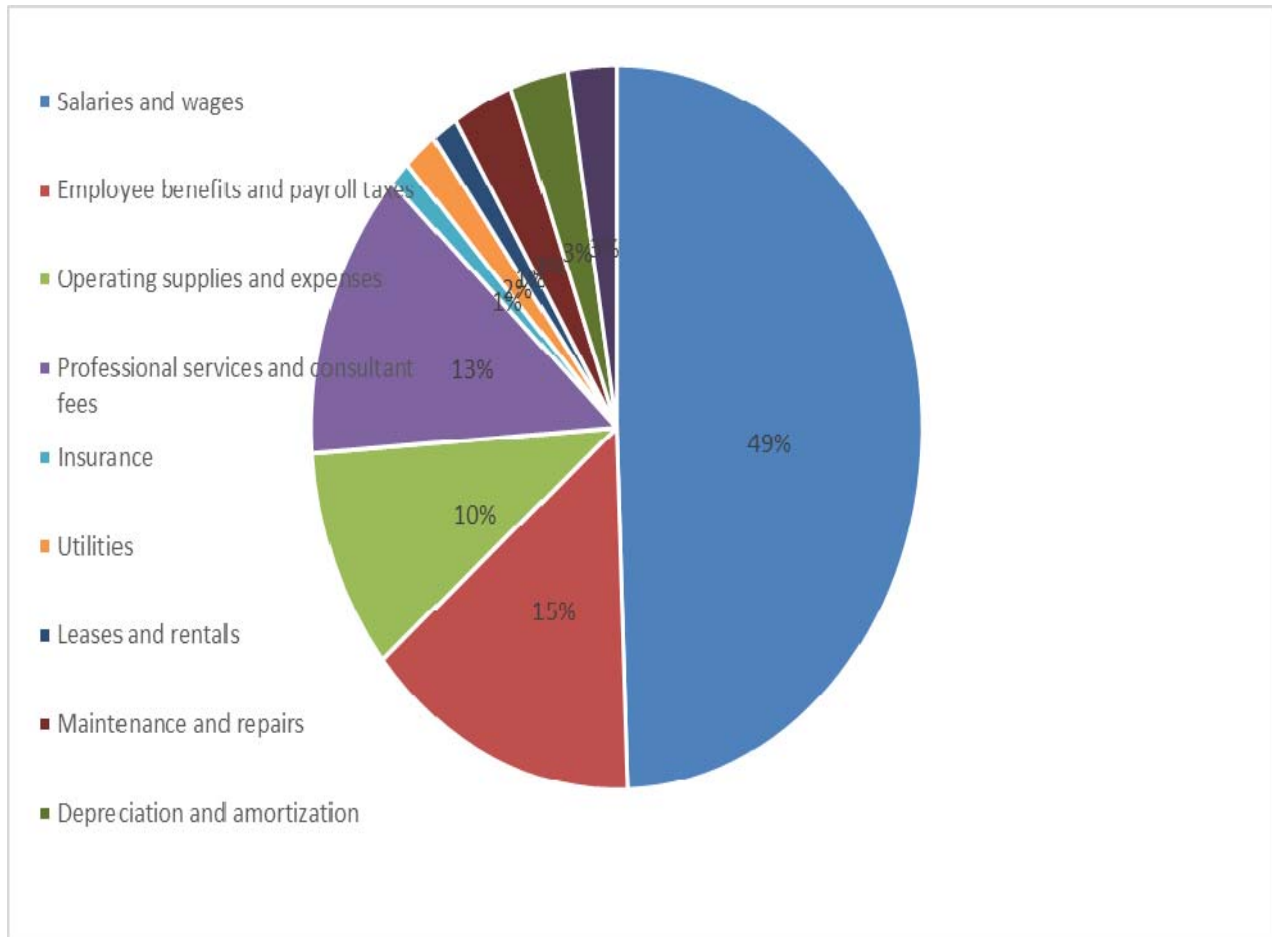
The following is a graphic illustration of 2015 operating expenses by type:



Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

The following is a graphic illustration of 2014 operating expenses by type:



Other Operating Gains and Losses

Other operating gains are all sources and uses that are primarily nonexchange in nature. They would consist primarily of income from the operations of the medical office building (rents), investment income (including realized and unrealized gains and losses), grants and contracts, and interest expense that do not require any services to be performed.

Significant changes were the result of the following factors:

- Donations, gifts, and grants increased \$38,137, or 8 percent.
- Interest expense decreased \$23,494, or 23 percent.

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

Statement of Cash Flows

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

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

	2015	2014	2013
Cash from:			
Operating activities	\$ 141,725	\$ 718,569	\$ (1,659,488)
Capital and related financing activities	(1,785,409)	(1,064,164)	(951,535)
Noncapital and related financing activities	240,652	435,204	302,150
Investing activities	1,485,656	1,685,745	1,313,720
Net change in cash and cash equivalents	82,624	1,775,354	(995,153)
Cash - Beginning of year	3,445,251	1,669,897	2,665,050
Cash - End of year	<u>\$3,527,875</u>	<u>\$3,445,251</u>	<u>\$1,669,897</u>

Cash generated from operating activities was \$141,725 in 2015 compared to cash generated from operating activities of \$718,569 in 2014. Capital purchases were \$1,062,624 in 2015 compared to \$140,353 in 2014.

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

At December 31, 2015, the Hospital had approximately \$27.9 million invested in depreciable capital assets, with an accumulated depreciation of approximately \$20.1 million. Depreciation and amortization approximated \$1.3 million for the current year, which is consistent with the prior year. Details of these gross capital assets for the past three years are shown below:

Capital Assets	2015	2014	2013
Land	\$ 433,225	\$ 433,225	\$ 433,225
Land improvements	624,690	624,690	624,690
Buildings	15,883,455	15,761,850	15,761,850
Fixed equipment	1,837,916	1,837,916	1,837,916
Major moveable equipment	9,608,423	9,091,718	9,652,101
Construction in progress	279,737	27,025	560,441
Total	<u>\$ 28,667,446</u>	<u>\$27,776,424</u>	<u>\$28,870,223</u>

More detailed information about the Hospital's capital assets is presented in the notes to the financial statements.

Debt

At year end, the Hospital had \$2,828,855 in debt outstanding, as compared to \$3,490,708 in 2014 and \$4,310,504 in 2013, respectively. The table below summarizes these amounts by type of debt instrument:

Debt	2015	2014	2013
Notes payable - 2003 Series	\$ -	\$ 2,590,000	\$ 2,815,000
Notes payable - County	2,000,000		
Note payable	337,426	412,115	483,179
Lease obligation	491,429	488,593	1,012,325
Total notes and leases	<u>\$ 2,828,855</u>	<u>\$ 3,490,708</u>	<u>\$ 4,310,504</u>

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

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

The Hospital is bound by the terms of the Hospital Assistance Agreement with the board of county commissioners, the auditor, the treasurer, and the prosecuting attorney of Fayette County to various operations and financial covenants. For the quarter ended December 31, 2015, these covenants include maintaining a minimum reserve of cash on hand of \$1,576,832. The Hospital was in compliance with the covenants as of December 31, 2015.

Contacting the Hospital's Management

This financial report is intended to provide the people of Fayette County, the state and federal governments, and our debt holders with a general overview of the Hospital's finances, and to show the Hospital's accountability for the money it receives from the services it provides. If you have questions about this report or need additional information, we welcome you to contact the Chief Financial Officer at 1430 Columbus Avenue, Washington Court House, Ohio 43160.

Fayette County Memorial Hospital

Statement of Net Position

	December 31, 2015	December 31, 2014
Current Assets		
Cash and cash equivalents (Note 2)	\$ 2,791,153	\$ 1,898,651
Accounts receivable (Note 3)	5,134,848	4,109,482
Notes receivable	325,583	468,126
Estimated third-party payor settlements	186,481	184,741
Inventory	637,570	597,985
Other current assets	<u>2,257,372</u>	<u>1,944,743</u>
Total current assets	11,333,007	9,203,728
Assets Limited as to Use (Notes 2 and 4)	1,063,123	1,907,070
Long-term Investments (Note 2)	-	1,447,453
Capital Assets (Note 5)		
Nondepreciable capital assets	712,962	460,250
Depreciable capital assets	27,954,484	27,316,174
Accumulated depreciation	<u>(20,057,060)</u>	<u>(18,930,723)</u>
Total capital assets	<u>8,610,386</u>	<u>8,845,701</u>
Total assets	21,006,516	21,403,952
Deferred Outflows of Resources Related to Pension (Note 10)	<u>3,728,912</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 24,735,428</u>	<u>\$ 21,403,952</u>

Fayette County Memorial Hospital

Statement of Net Position (Continued)

	December 31, 2015	December 31, 2014
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 198,231	\$ 927,110
Accounts payable	3,085,310	2,873,700
Estimated third-party payor settlements	2,105,171	2,631,164
Accrued liabilities and other:		
Accrued compensation	1,330,017	1,827,514
Accrued compensated absences (Note 7)	1,377,708	1,327,355
Other accrued liabilities	-	64,085
Total current liabilities	8,096,437	9,650,928
Noncurrent Liabilities		
Long-term debt - Net of current portion (Note 7)	2,630,624	2,563,598
Net pension liability (Note 10)	18,131,058	-
Total liabilities	28,858,119	12,214,526
Deferred Inflows Related to Pension (Note 10)	341,113	-
Net Position		
Net investment in capital assets	5,781,531	5,354,993
Restricted - Expendable for capital improvements and other purposes	1,054,724	1,117,294
Unrestricted	(11,300,059)	2,717,139
Total net position	(4,463,804)	9,189,426
Total liabilities, deferred inflows of resources, and net position	\$ 24,735,428	\$ 21,403,952

Fayette County Memorial Hospital

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended	
	December 31, 2015	December 31, 2014
Operating Revenue		
Net patient service revenue (net of provision for contractual adjustments of \$67,235,000 and bad debt of \$3,659,000 in 2015 and contractual adjustments of \$65,601,000 and bad debt of \$4,739,000 in 2014)	\$ 43,678,623	\$ 39,562,879
Other	1,209,661	1,448,140
Total operating revenue	44,888,284	41,011,019
Operating Expenses		
Salaries and wages	20,908,861	21,667,444
Employee benefits and payroll taxes	6,499,317	6,360,524
Operating supplies and expenses	4,816,223	4,344,681
Professional services and consultant fees	5,776,990	5,677,030
Insurance	444,454	495,394
Utilities	788,204	782,215
Leases and rentals	534,282	602,545
Maintenance and repairs	1,581,574	1,421,200
Depreciation and amortization	1,290,608	1,339,375
Other	1,244,965	1,143,461
Total operating expenses	43,885,478	43,833,869
Operating Income (Loss)	1,002,806	(2,822,850)
Other Income (Expense)		
Contributions	515,559	477,422
Realized gain on sale of investments	21,597	46,344
Other income	85,335	93,396
Change in unrealized investment (loss) gain	(26,392)	17,523
Interest expense	(80,521)	(104,015)
Other expense	(274,970)	(42,218)
Total other income	240,608	488,452
Excess of Revenue Over (Under) Expenses	1,243,414	(2,334,398)
Net Position - Beginning of year	9,189,426	11,523,824
Restatement Due to Change in Accounting Principle (Note 1)	(14,896,644)	-
Net Position - End of year	\$ (4,463,804)	\$ 9,189,426

Fayette County Memorial Hospital

Statement of Cash Flows

	Year Ended	
	December 31, 2015	December 31, 2014
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 41,812,895	\$ 42,546,277
Cash payments to suppliers for services and goods	(14,872,124)	(15,469,610)
Cash payments to employees	(28,008,707)	(27,806,238)
Other operating revenue received	1,209,661	1,448,140
Net cash provided by operating activities	141,725	718,569
Cash Flows from Noncapital Financing Activities -		
Donations and other	240,652	435,204
Cash Flows from Investing Activities		
Investment income	(4,795)	63,867
Change in investments - Net	1,481,459	1,494,577
Rental receipts - Net of expenses paid	85,335	93,396
Changes in advances to physicians	(64,085)	(38,995)
Other	(12,258)	72,900
Net cash provided by investing activities	1,485,656	1,685,745
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,062,624)	(140,353)
Proceeds from sale of capital assets	19,589	-
Proceeds from long-term debt	2,309,088	-
Interest paid on long-term debt	(80,521)	(104,015)
Principal payments on notes payable	(2,970,941)	(819,796)
Net cash used in capital and related financing activities	(1,785,409)	(1,064,164)
Net Increase in Cash and Cash Equivalents	82,624	1,775,354
Cash and Cash Equivalents - Beginning of year	3,445,251	1,669,897
Cash and Cash Equivalents - End of year	\$ 3,527,875	\$ 3,445,251
Balance Sheet Classification of Cash		
Cash and cash equivalents (Note 2)	\$ 2,791,153	\$ 1,898,651
Investments and assets limited as to use (Note 2)	736,722	1,546,600
Total cash	\$ 3,527,875	\$ 3,445,251

Fayette County Memorial Hospital

Statement of Cash Flows (Continued)

A reconciliation of operating loss to net cash from operating activities is as follows:

	Year Ended	
	December 31, 2015	December 31, 2014
Cash Flows from Operating Activities		
Operating income (loss)	\$ 1,002,806	\$ (2,822,850)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	1,290,608	1,339,375
Provision for bad debts	3,659,356	4,738,661
Changes in assets and liabilities:		
Accounts receivable	(4,684,722)	(3,769,162)
Estimated third-party settlements	(527,733)	2,684,069
Inventory	(39,585)	114,550
Other assets	(170,086)	(811,580)
Accounts payable	211,610	(976,224)
Other accrued liabilities	(447,144)	221,730
Net pension liability	(153,385)	-
Net cash provided by operating activities	<u>\$ 141,725</u>	<u>\$ 718,569</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note I - Nature of Business and Significant Accounting Policies

Organization and Reporting Entity - Fayette County Memorial Hospital (the "Hospital"), a component of the County of Fayette (the "County"), located in Washington Courthouse, Ohio, is a general short-term acute care facility and operated by a board of trustees. The Hospital's activity is reflected as an enterprise fund in the County's financial statements. In December 2005, the Hospital obtained critical access status. The Hospital's primary mission is to provide healthcare services to the citizens of Fayette County and the surrounding area. Members of the board of trustees are appointed by the county commissioners, the probate court judge, and the common pleas judge.

The financial statements of the Hospital 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 the County that is attributable to the transactions of the Hospital. They do not purport to, and do not, present the financial position of the County and the changes in the County's financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Blended Component Unit - The accompanying financial statements include the accounts of Fayette County Memorial Hospital and its blended component unit, Fayette County Memorial Hospital Foundation (collectively, the "Hospital"). Fayette County Memorial Hospital Foundation (the "Foundation") is a separate not-for-profit entity that was organized during 2010 to support the operations of the Hospital.

All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Presentation - The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Hospital's financial activities.

Cash and Cash Equivalents - Cash and cash equivalents include cash, money markets, certificates of deposit, and investments in highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates, or the discounted rates if negotiated, and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

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

Assets Limited as to Use - Assets limited as to use include assets designated by the board of trustees for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital have been reclassified in the balance sheet. Assets limited as to use also include assets temporarily restricted by donor.

Investments - Investments include equity securities, mutual funds, corporate bonds, and U.S. government and agency obligations, which are recorded at fair value on the statement of net position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in other income when earned.

Capital Assets - Capital assets are stated at cost or, if donated, at fair value at the date of receipt. Depreciation is computed using the straight-line method over the estimated useful life of each class of depreciable asset. Equipment under capital lease is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Costs of maintenance and repairs are charged to expense when incurred.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Compensated Absences - Paid time off is charged to operations when earned. Unused and earned benefits are recorded as a current liability in the financial statements. Employees accumulate vacation days at varying rates depending on years of service. Employees also earn sick leave benefits at a Hospital-determined rate for all employees. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments equal to one-fourth of 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 one-fourth of the accumulated sick leave balance up to a maximum of 240 hours.

Employees accumulate holiday benefits at a Hospital-determined rate.

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

Classification of Net Position - Net position of the Hospital is classified in three components. Net investment in capital assets consist of capital assets, net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable assets represent noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted assets.

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

Net Patient Service Revenue - The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others. Retroactive adjustments to these estimated amounts are recorded in future periods as final settlements are determined.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note I - Nature of Business and Significant Accounting Policies (Continued)

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 with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. During 2014, the Hospital identified a potential overpayment for discounts on pharmacy purchases through the Medicare 340B program. The Hospital has estimated the maximum overpayments at \$295,000. The Hospital is in the process of resolving this issue with the assistance of its legal counsel. The Hospital will be contacting the Office of Pharmacy Affairs to disclose the issue and take necessary steps to correct the error. As of December 31, 2015, the Hospital has accrued \$295,000 within accounts payable on the statement of net position.

The Medicare program has initiated a recovery audit contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program began for Ohio hospitals in 2010. The Hospital has been audited during 2015 and 2014 and the net outcome was not significant to the financial statements. If selected for further audits, the potential exists for significant overpayment or underpayment of claims.

Electronic Health Records Incentive Payments - The American Recovery and Reinvestment Act of 2009 (ARRA) established funding in order to provide incentive payments to hospitals and physicians that implement the use of electronic health record (EHR) technology by 2014. The Hospital may receive an incentive payment for up to four years, provided the Hospital demonstrates meaningful use of certified EHR technology for the EHR reporting period. Under the Medicare program, as a critical access hospital, the Hospital receives incentive payments based on the amount of funds spent on EHR technology to demonstrate meaningful use. Under the Medicaid program, the Hospital may receive an incentive payment, provided the Hospital demonstrates meaningful use of certified EHR technology for the EHR reporting period.

The revenue from the incentive payments is recognized using the cliff recognition method in which the Hospital records income at the end of the EHR reporting period in which compliance is received. The amounts are recorded within other operating revenue as the incentive payments are related to the Hospital's ongoing and central activities yet not critical to the delivery of patient service.

Incentive payments were recognized as income within other operating revenue in the amount of approximately \$255,000 and \$638,000 for the years ended December 31, 2015 and 2014, respectively.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Revenue from County for Emergency Medical Services - The County has approved the use of certain sales tax income to be used to assist the Hospital in funding expenses for emergency medical services provided by the Hospital. The Hospital has recognized income in other operating revenue of \$600,000 in 2015 and 2014, related to this assistance.

Operating Income (Loss) - For the purpose of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as other income (loss).

Income Taxes - The Hospital, as a political subdivision, is exempt from federal income taxes under Section 115 of the Internal Revenue Code. The Foundation, as a blended component unit, is a tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code.

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation which applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue. The Hospital estimates that it provided \$139,000 and \$216,000 of services to indigent patients during 2015 and 2014, respectively.

The Hospital participates in the Hospital Care Assurance Program (HCAP), which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately \$1,211,000 and \$680,000 for 2015 and 2014, respectively, and are reported as net patient service revenue in the financial statements.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Hospital deferred outflows of resources related to the net pension liability. (Note 10)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Hospital deferred inflows of resources related to the net pension liability. (Note 10)

Pension and Other Postemployment Benefit Costs - For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Ohio Public Employees' Retirement System Pension Plan (OPERS) and additions to/deductions from OPERS' fiduciary net position have been determined on the same basis as they are reported by OPERS. OPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Contributions - Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The Hospital reports gifts of property and equipment as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Hospital reports the expiration of donor restrictions when the assets are placed in service.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Adoption of New Standard - The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 68 requires governmental entities providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB Statement No. 71 is a clarification to GASB Statement No. 68 requiring a governmental entity to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The statements also enhance accountability and transparency through revised note disclosures and required supplemental information (RSI). In accordance with the statement, the Hospital has reported a net pension liability of approximately \$14,897,000 as a change in accounting principle adjustment to unrestricted net position as of January 1, 2015. December 31, 2014 amounts have not been restated to reflect the impact of GASB Statement No. 68 because the information is not available to calculate the impact on pension expense for the fiscal year ending December 31, 2014.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including June 17, 2016, which is the date the financial statements were available to be issued.

Note 2 - Deposits and Investments

Deposits and investments are reported in the financial statements as follows as of December 31, 2015:

	Cash and Cash Equivalents	Assets Limited as to Use	Total
Deposits	\$ 2,791,153	\$ 736,722	\$ 3,527,875
Corporate bond	-	11,800	11,800
Mutual funds	-	231,931	231,931
Equities	-	82,670	82,670
Total	<u>\$ 2,791,153</u>	<u>\$ 1,063,123</u>	<u>\$ 3,854,276</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 2 - Deposits and Investments (Continued)

Deposits and investments are reported in the financial statements as follows as of December 31, 2014:

	Cash and Cash Equivalents	Investments	Assets Limited as to Use	Total
Deposits	\$ 1,898,651	\$ 89,854	\$ 1,456,746	\$ 3,445,251
Corporate bond	-	-	18,200	18,200
Mutual funds	-	-	162,076	162,076
Equities	-	-	97,311	97,311
United States government and agency obligations	-	1,357,599	172,737	1,530,336
Total	<u>\$ 1,898,651</u>	<u>\$ 1,447,453</u>	<u>\$ 1,907,070</u>	<u>\$ 5,253,174</u>

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 which are eligible to become a public depository. Section 135.14 of the Ohio Revised Code allows the local government to invest in United States and State of Ohio bonds, notes, and other obligations. Investments in no-load money market mutual funds, repurchase agreements, commercial paper, and bankers' acceptance are permitted subject to certain limitations that include completion of additional training, approved by the auditor of state, treasurer, or governing board investing in these instruments.

The Hospital has designated seven banks for the deposit of its funds. An investment policy has been filed with the auditor of state on behalf of the Hospital. The Hospital's deposits and investment policies are in accordance with statutory authority.

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

Active Funds - Active funds are those funds required to be kept in a "cash" or "near-cash" status for immediate use by the Hospital. Such funds must be maintained either in depository accounts or withdrawable on demand, including negotiable-order-of-withdrawal (NOW) accounts.

Inactive Funds - Inactive funds are 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 no later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to, passbook accounts.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 2 - Deposits and Investments (Continued)

Interim Funds - Interim funds are those funds which are not needed for immediate use but will be needed before the end of the current period of designation of deposit.

Protection of the Hospital's deposits is provided by the Federal Deposit Insurance Corporation by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer, by the financial institution, or by a 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 the purpose of arbitrage, the use of leverage, and short selling is also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Hospital, and must be purchased with the expectation that it will be held to maturity.

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. At December 31, 2015 and 2014, the Hospital had bank deposits (certificates of deposit, checking, and savings accounts) at one financial institution that exceeded the insured amount that were uninsured but are collateralized with securities held by the pledging financial institution. The Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Hospital does not have a policy for custodial credit risk. A year end, the following approximates the investment securities that were collateralized with securities held by the counterparty or by its trust department or agent:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Held By</u>
At December 31, 2015		
United States government and agency obligations	\$ <u> -</u>	Counterparty
At December 31, 2014		
United States government and agency obligations	\$ <u> 1,530,336</u>	Counterparty

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 2 - Deposits and Investments (Continued)

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. The Hospital does not have an investment policy that addresses interest rate risk. As of December 31, 2015 and 2014, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (years)
At December 31, 2015		
Corporate bond	\$ 11,800	2.46
At December 31, 2014		
United States government and agency obligations	\$ 1,530,336	1.62
Corporate bond	18,200	3.46
Total	\$ 1,548,536	

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Hospital does not have an investment policy that addresses credit risk. As of December 31, 2015 and 2014, the credit quality ratings of debt securities (other than the Corporate bond CCC rating) are appropriate.

Investment Type	Fair Value	Rating	Rating Organization
At December 31, 2015			
Corporate bond	\$ 11,800	CCC	S&P
At December 31, 2014			
United States government and agency obligations	\$ 1,530,336	AA+	S&P
Corporate bond	18,200	CCC	S&P
Total	\$ 1,548,536		

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	<u>2015</u>	<u>2014</u>
Patient accounts receivable	\$ 15,183,979	\$ 11,633,165
Less:		
Allowance of uncollectible accounts	(2,186,518)	(1,955,053)
Allowance for contractual adjustments	<u>(7,862,613)</u>	<u>(5,568,630)</u>
Net patient accounts receivable	<u>\$ 5,134,848</u>	<u>\$ 4,109,482</u>

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

	<u>2015</u>	<u>2014</u>
Medicare (includes HMOs)	41 %	34 %
Medicaid (includes HMOs)	20	22
Commercial insurance	20	26
Self pay	<u>19</u>	<u>18</u>
Total	<u>100 %</u>	<u>100 %</u>

Note 4 - Assets Limited as to Use

Assets limited as to use consist of the following:

	<u>2015</u>	<u>2014</u>
Board designated	\$ -	\$ 789,776
Donor restricted:		
Community health services	817,158	848,506
Capital expenditures	64,424	64,424
Foundation-restricted assets	<u>181,541</u>	<u>204,364</u>
Total assets limited as to use	<u>\$ 1,063,123</u>	<u>\$ 1,907,070</u>

The Hospital had net unrealized losses of \$26,392 and net unrealized gains of \$17,523 in its investment portfolio as of December 31, 2015 and 2014, respectively. Interest, dividends, and realized gains and losses amounted to \$21,597 and \$46,344 for the years ended December 31, 2015 and 2014, respectively.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 5 - Capital Assets

Cost of capital assets and related depreciable lives for December 31, 2015 are summarized below:

	2014	Additions	Transfers	Retirements	2015	Depreciable Life - Years
Capital assets not being depreciated:						
Land	\$ 433,225	\$ -	\$ -	\$ -	\$ 433,225	-
Construction in progress	27,025	503,975	(251,135)	(128)	279,737	-
Total capital assets not being depreciated	460,250	503,975	(251,135)	(128)	712,962	-
Capital assets being depreciated:						
Land improvements	624,690	-	-	-	624,690	10-20
Buildings	15,761,850	-	121,606	-	15,883,456	15-50
Fixed equipment	1,837,916	-	-	-	1,837,916	5-20
Major movable equipment	9,091,718	558,648	129,529	(171,473)	9,608,422	5-25
Total capital assets being depreciated	27,316,174	558,648	251,135	(171,473)	27,954,484	-
Less accumulated depreciation:						
Land improvements	589,553	9,830	-	(164,271)	435,112	-
Buildings	9,365,625	487,204	-	-	9,852,829	-
Fixed equipment	1,554,944	52,479	-	-	1,607,423	-
Major movable equipment	7,420,601	741,095	-	-	8,161,696	-
Total accumulated depreciation	18,930,723	1,290,608	-	(164,271)	20,057,060	-
Total capital assets being depreciated - Net	8,385,451	(731,960)	251,135	(7,202)	7,897,424	-
Total capital assets - Net	\$ 8,845,701	\$ (227,985)	\$ -	\$ (7,330)	\$ 8,610,386	-

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 5 - Capital Assets (Continued)

Cost of capital assets and related depreciable lives for December 31, 2014 are summarized below:

	2013	Additions	Transfers	Retirements	2014	Depreciable Life - Years
Capital assets not being depreciated:						
Land	\$ 433,225	\$ -	\$ -	\$ -	\$ 433,225	-
Construction in progress	560,441	36,418	(498,458)	(71,376)	27,025	-
Total capital assets not being depreciated	993,666	36,418	(498,458)	(71,376)	460,250	-
Capital assets being depreciated:						
Land improvements	624,690	-	-	-	624,690	10-20
Buildings	15,761,850	-	-	-	15,761,850	15-50
Fixed equipment	1,837,916	-	-	-	1,837,916	5-20
Major movable equipment	9,652,101	103,935	498,458	(1,162,776)	9,091,718	5-25
Total capital assets being depreciated	27,876,557	103,935	498,458	(1,162,776)	27,316,174	-
Less accumulated depreciation:						
Land improvements	579,392	10,160	-	-	589,552	-
Buildings	8,872,362	493,263	-	-	9,365,625	-
Fixed equipment	1,492,439	62,505	-	-	1,554,944	-
Major movable equipment	7,808,406	773,447	-	(1,161,251)	7,420,602	-
Total accumulated depreciation	18,752,599	1,339,375	-	(1,161,251)	18,930,723	-
Total capital assets being depreciated - Net	9,123,958	(1,235,440)	498,458	(1,525)	8,385,451	-
Total capital assets - Net	\$ 10,117,624	\$ (1,199,022)	\$ -	\$ (72,901)	\$ 8,845,701	-

Note 6 - Estimated Third-party Settlements

Approximately 72 percent and 70 percent of the Hospital's revenue from patient services was received from Medicare and Medicaid for 2015 and 2014, respectively. The Hospital has agreements with third-party payors that provide for reimbursement at amounts different from established rates. A summary of the basis of reimbursement with these third-party payors is as follows:

- **Medicare** - In December 2005, the Hospital was designated as a critical access hospital. As a result, the Hospital is reimbursed based on cost for all acute-care inpatient and outpatient services. Medicare cost reports settled through 2013 are final.
- **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.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 6 - Estimated Third-party Settlements (Continued)

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

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. During the years ended December 31, 2015 and 2014, the Hospital recognized a change in estimate of approximately \$644,000 and \$94,000, respectively, due to the difference between original estimates and subsequent revisions due to final settlements and changes in allowance methodology. The change in estimate is included in net patient service revenue in the statement of revenue, expenses, and changes in net position.

Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare, Medicaid, and HMO programs that are subject to audit by fiscal intermediaries.

Note 7 - Long-term Debt

The County of Fayette, Ohio, acting by and through the Fayette County Memorial Hospital board of trustees, issued Variable Rate Taxable Demand Revenue Notes, Series 2003 (the "Notes") to finance the acquisition and construction of a medical office building, along with the financing costs associated therewith and with related transactions (the "Project").

In April 2015, the Hospital signed an assistance agreement with the county commissioners of Fayette County (the "County"), whereby the County assisted the Hospital with terminating the 2003 Notes. Under this agreement, the County contributed \$2,000,000 and the Hospital contributed \$481,160 toward the payoff of the notes, and the Hospital will repay the County the principal plus annual interest of 1.0 percent through 2023. Per the agreement with the County, interest payments are quarterly and started during July 2015 and principal payments are semiannual and will start during April 2017. The Hospital submitted notice to optionally redeem the 2003 Notes effective May 15, 2015.

The assistance agreement includes certain operational and financial covenants. These covenants include a minimum reserve of cash and cash equivalents to be maintained equal to 75 percent of the remaining repayment amounts on a monthly basis.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 7 - Long-term Debt (Continued)

The Hospital has entered into various noncancelable capital lease agreements for equipment. Capital leases have imputed interest rates of 2.94 to 6.89 percent. They expire at various times through 2022 and are collateralized by the equipment leased. The cost of leased equipment was \$1,101,801 and \$1,409,799 for the years ended December 31, 2015 and 2014, respectively.

Long-term debt activity for the years ended December 31, 2015 and 2014 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>2015</u>					
Leases and notes payable:					
Lease obligations	\$ 488,593	\$ 309,088	\$ (306,252)	\$ 491,429	\$ 119,743
Notes payable - 2003 series	2,590,000	-	(2,590,000)	-	-
Notes payable - Fayette County	-	2,000,000	-	2,000,000	-
Notes payable	412,115	-	(74,689)	337,426	78,488
Total lease and notes payable	3,490,708	2,309,088	(2,970,941)	2,828,855	198,231
Other liabilities - Compensated absences	1,327,355	1,822,006	(1,771,653)	1,377,708	1,377,708
Total long-term and other liabilities	<u>\$ 4,818,063</u>	<u>\$ 4,131,094</u>	<u>\$ (4,742,594)</u>	<u>\$ 4,206,563</u>	<u>\$ 1,575,939</u>
<u>2014</u>					
Leases and notes payable:					
Lease obligations	\$ 1,012,325	\$ -	\$ (523,732)	\$ 488,593	\$ 262,496
Notes payable - 2003 series	2,815,000	-	(225,000)	2,590,000	590,000
Notes payable	483,179	-	(71,064)	412,115	74,614
Total lease and notes payable	4,310,504	-	(819,796)	3,490,708	927,110
Other liabilities - Compensated absences	1,347,478	1,892,402	(1,912,525)	1,327,355	1,327,355
Total long-term and other liabilities	<u>\$ 5,657,982</u>	<u>\$ 1,892,402</u>	<u>\$ (2,732,321)</u>	<u>\$ 4,818,063</u>	<u>\$ 2,254,465</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 7 - Long-term Debt (Continued)

Total interest expense for the year ended December 31, 2015 and 2014 was approximately \$81,000 and \$104,000, respectively. Annual debt service requirements to maturity for the above variable rate debt and note obligations are as follows:

Years Ending December 31	Long-term Debt			Capital Lease Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 78,488	\$ 35,399	\$ 113,887	\$ 119,743	\$ 24,933	\$ 144,676
2017	221,652	30,978	252,630	127,071	17,605	144,676
2018	227,333	25,297	252,630	109,785	9,918	119,703
2019	231,419	19,380	250,799	47,094	5,651	52,745
2020	143,315	15,428	158,743	34,652	3,469	38,121
Thereafter	1,435,219	32,252	1,467,471	53,084	2,325	55,409
Total	<u>\$ 2,337,426</u>	<u>\$ 158,734</u>	<u>\$ 2,496,160</u>	<u>\$ 491,429</u>	<u>\$ 63,901</u>	<u>\$ 555,330</u>

Note 8 - Operating Leases

The Hospital has entered into operating lease agreements for equipment, which expire at various times through 2021. Operating lease expense totaled approximately \$534,000 and \$603,000 in 2015 and 2014, respectively.

Future minimum lease payments for operating leases, by year and in the aggregate, are summarized as follows:

Years Ending December 31	Amount
2016	\$ 341,826
2017	192,497
2018	98,282
2019	60,460
2020	49,431
Thereafter	49,430
Total minimum lease payments	<u>\$ 791,926</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 9 - Risk Management

Based on the nature of its operations, the Hospital is at times subject to pending or threatened legal actions, which arise in the normal course of its activities.

The Hospital is insured against medical malpractice claims under a claims made-based policy. The policy covers claims resulting from incidents that occurred during the policy terms, regardless of when the claim is reported to the insurance carrier. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claim exceeding \$1,000,000 or aggregate claims exceeding \$3,000,000 for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$8,000,000 of coverage.

Should the claims-made policies not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term but reported subsequently will be uninsured.

The Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. The cost of this insurance policy represents the Hospital's cost for such claims for the year, and it has been charged to operations as a current expense.

The Hospital is exposed to various risks of loss related to property and general losses, as well as coverage for medical benefits provided to employees. The Hospital has purchased commercial insurance for malpractice, general liability, employee medical stop-loss, and workers' compensation claims.

Note 10 - Defined Benefit Pension Plan

Plan Description - The Hospital contributes to the Ohio Public Employees' Retirement System of Ohio (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional pension plan benefit. Member contributions, the investment of which are self directed by the members, accumulate retirement assets in a manner similar to the member-directed plan.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 10 - Defined Benefit Pension Plan (Continued)

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 800-222-7377.

Benefits Provided - Plan benefits are established under Chapter 145 of the Ohio Revised Code, as amended by Substitute Senate Bill 343 in 2012. The requirements to retire depend on years of service (15 to 30 years) and from attaining the age of 48 to 62, depending on when the employee became a member. Members retiring before age 65 with less than 30 years service credit receive a percentage reduction in benefit. Member retirement benefits are calculated on a formula that considers years of service (15-30 years), age (48-62 years), and final average salary, using a factor ranging from 1.0 percent to 2.5 percent.

A plan member who becomes disabled before age 60 or at any age, depending on when the member entered the plan, and has completed 60 contributing months is eligible for a disability benefit.

A death benefit of \$500-\$2,500 is determined by the number of years of service credit of the retiree. Benefits may transfer to a beneficiary upon death with 1.5 years of service credits with the plan obtained within the last 2.5 years, except for law enforcement and public safety personnel who are eligible immediately upon employment.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent.

Contributions - State retirement law requires contributions by covered employees and their employers, and Chapter 3307 of the ORC limits the maximum rate of contributions. The retirement boards of the systems individually set contributions rates within the allowable limits. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. Under these provisions, each employer's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 10 - Defined Benefit Pension Plan (Continued)

Member contributions are 10 percent of gross wages for all plans, set at the maximums authorized by the ORC. The plans' 2015 and 2014 contribution rates on covered payroll are as follows:

	2015 Employer Contribution Rate			
	Pension	Post-retirement Health Care	Death Benefits	Total
OPERS	12.00 %	2.00 %	- %	14.00 %

	2014 Employer Contribution Rate			
	Pension	Post-retirement Health Care	Death Benefits	Total
OPERS	12.00 %	2.00 %	- %	14.00 %

The Hospital's required and actual contributions to the plan for the years ended December 31, 2015 and 2014 were approximately \$2,785,000 and \$2,867,000, respectively.

Net Pension Liability, Deferrals, and Pension Expense

At December 31, 2015, the Hospital reported as a liability its proportionate share of the net pension liability of OPERS. The net pension liability was measured as of December 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At December 31, 2014, the Hospital's proportion was 0.15 percent.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 10 - Defined Benefit Pension Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 333,336
Differences between actual and proportionate share of contributions	-	7,777
Net difference between projected and actual earnings on pension plan investments	975,040	-
Employer contributions to the plan subsequent to the measurement date	<u>2,753,872</u>	<u>-</u>
Total	<u>\$ 3,728,912</u>	<u>\$ 341,113</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending December 31	Amount
2016	\$ 91,761
2017	91,761
2018	216,409
2019	241,452
2020	(1,715)
Thereafter	(5,741)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year 2016.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 10 - Defined Benefit Pension Plan (Continued)

Actuarial Assumptions - The total pension liability is based on the results of an actuarial valuation determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	December 31, 2014
Actuarial cost method	Individual entry age
Cost of living	3.0 percent
Salary increases, including inflation	4.25 to 10.05 percent
Inflation	3.75 percent
Investment rate of return	8.00 percent - Net of pension plan investment expense
Mortality rates	RP-2000 mortality table projected 20 years using projection scale AA

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study for the period of five years ended December 31, 2014.

Discount Rate - The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates for all plans. Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 10 - Defined Benefit Pension Plan (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method, in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) 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 and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (%)	Long-term Expected Real Rate of Return
Fixed income	23.00 %	2.31 %
Domestic equities	19.90	5.84
Real estate	10.00	4.25
Private equity	10.00	9.25
International equity	19.10	7.40
Other investments	18.00	4.59

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Hospital, calculated using the discount rate of 8.0 percent, as well as what the Hospital's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (7.0 percent) or 1.00 percentage point higher (9.0 percent) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net pension liability	\$ 33,440,702	\$ 18,131,058	\$ 5,321,516

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in a separately issued OPERS financial report.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 11 - Other Postemployment Benefits

Plan Description - OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health plan, which includes medical, prescription drug program, and Medicare Part B premium reimbursement, for qualifying members of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment healthcare coverage.

In order to qualify for postretirement healthcare coverage, age and service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an other postemployment benefit (OPEB) as described in GASB Statement No. 45.

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling 614-222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority, requiring public employers to fund postretirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement healthcare benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2015 and 2014, state and local employers contributed at a rate of 14 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employers. Active members do not make contributions to the OPEB plan.

OPERS' postemployment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS board of trustees determines the portion of the employer contribution rate that will be set aside for funding of the postemployment healthcare benefits. The portion of employer contributions allocated to health care for members in the traditional plan was 2 percent during 2015. The portion of employer contributions allocated to health care for members in the combined plan was 2 percent during 2015. The OPERS board of trustees is also authorized to establish rules for the payment of a portion of the healthcare benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 11 - Other Postemployment Benefits (Continued)

The portion of the Hospital's contribution used to fund postemployment benefits for 2015, 2014, and 2013 was \$398,000, \$410,000, and \$219,000, respectively.

Note 12 - Self-insured Benefits

The Hospital is a part of the South Central Ohio Insurance Consortium (SCOIC) and the SCOIC is part of the Jefferson Health Plan. The plan is covered by a stop-loss policy that covers claims over \$100,000 and the Jefferson Health Plan has an internal pool to cover claims over \$100,000 to \$500,000. A liability for claims incurred but not reported is included within accounts payable. Claims, charged to operations when incurred, were approximately \$3,460,000 and \$2,636,000 for the years ended December 31, 2015 and 2014, respectively. Claim payments were approximately \$2,462,000 and \$3,500,000 for the years ended December 31, 2015 and 2014, respectively.

Note 13 - Blended Component Unit

The financial statements include the Foundation, a separate entity organized to support the operations of the Hospital as a blended component unit. The following is a summary of the financial position and activities of the entity as of and for the years ended December 31, 2015 and 2014:

	2015	2014
Assets Limited as to Use	<u>\$ 181,541</u>	<u>\$ 305,246</u>
Net Position		
Restricted - Expendable for capital improvements and other purposes	\$ 141,793	\$ 204,364
Unrestricted	<u>39,748</u>	<u>100,882</u>
Total net position	<u>\$ 181,541</u>	<u>\$ 305,246</u>
Other Income (Expense)		
Contributions	\$ 152,519	\$ 130,370
Other expense	<u>(276,224)</u>	<u>(42,218)</u>
Total other income	<u>\$ (123,705)</u>	<u>\$ 88,152</u>
Cash (Used in) Provided by Financing Activities	\$ (123,705)	\$ 88,152
Cash - Beginning of year	<u>305,246</u>	<u>217,094</u>
Cash - End of year	<u>\$ 181,541</u>	<u>\$ 305,246</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2015 and 2014

Note 14 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governmental entities by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Hospital is currently evaluating the impact this standard will have on the financial statements when adopted during the Hospital's 2016 fiscal year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governmental entities that provide postemployment benefits other than pensions (OPEB) to their employees and for governmental entities that finance OPEB for employees of other governmental entities. This OPEB standard will require the Hospital to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Ohio Public Employees' Retirement (OPERS) plan. The statement also enhances accountability and transparency through revised note disclosure and required supplemental information (RSI). The Hospital is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Hospital's financial statements for the year ending December 31, 2018.

Required Supplemental Information

Fayette County Memorial Hospital

Required Supplemental Information Schedule of Fayette County Memorial Hospital Contributions OPERS Year Ended December 31, 2015

Contractually required contribution	\$ 2,753,872
Contributions in relation to the contractually required contribution	<u>2,753,872</u>
Contribution deficiency	<u>\$ -</u>
Fayette County Memorial Hospital's covered employee payroll - Calendar year ended December 31, 2015	\$ 20,402,903
Contributions as a percentage of covered employee payroll	13.5 %

Fayette County Memorial Hospital

Required Supplemental Information Schedule of Fayette County Memorial Hospital's Share of the Net Pension Liability OPERS Year Ended December 31, 2015

Fayette County Memorial Hospital's proportion of the net pension liability	0.15081 %
Fayette County Memorial Hospital's proportionate share of the net pension liability	\$ 18,131,058
Fayette County Memorial Hospital's covered employee payroll - Plan year ended December 31, 2014	\$ 20,549,680
Fayette County Memorial Hospital's proportionate share of the net pension liability as a percentage of its covered employee payroll	88.23 %
Plan fiduciary net position as a percentage of total pension liability	86.53 %

Fayette County Memorial Hospital

Notes to Pension Required Supplemental Information Schedules Year Ended December 31, 2015

Changes of Benefit Term - Amounts reported in 2015 for OPERS reflect no change in benefits.

Changes of Assumptions - Amounts reported in 2015 reflect no adjustments based on changes of assumptions such as life expectancies, retired life mortality, or retirement age.

Supplemental Information

Fayette County Memorial Hospital

Combining Statement of Net Position December 31, 2015

	Fayette County Memorial Hospital	Fayette County Memorial Foundation	Total
Current Assets			
Cash and cash equivalents	\$ 2,791,153	\$ -	\$ 2,791,153
Accounts receivable	5,134,848	-	5,134,848
Notes receivable	325,583	-	325,583
Estimated third-party payor settlements	186,481	-	186,481
Inventory	637,570	-	637,570
Other current assets	2,257,372	-	2,257,372
Total current assets	11,333,007	-	11,333,007
Assets Limited as to Use	881,582	181,541	1,063,123
Capital Assets			
Nondepreciable capital assets	712,962	-	712,962
Depreciable capital assets	27,954,484	-	27,954,484
Accumulated depreciation	(20,057,060)	-	(20,057,060)
Total assets	20,824,975	181,541	21,006,516
Deferred Outflows Related to Pension	3,728,912	-	3,728,912
Total assets and deferred outflows of resources	\$ 24,553,887	\$ 181,541	\$ 24,735,428
Current Liabilities			
Current portion of long-term debt	\$ 198,231	\$ -	\$ 198,231
Accounts payable	3,085,310	-	3,085,310
Estimated third-party payor settlements	2,105,171	-	2,105,171
Accrued liabilities and other:			
Accrued compensation	1,330,017	-	1,330,017
Accrued compensated absences	1,377,708	-	1,377,708
Total current liabilities	8,096,437	-	8,096,437
Noncurrent Liabilities			
Long-term debt - Net of current portion	2,630,624	-	2,630,624
Net Pension Liability	18,131,058	-	18,131,058
Total liabilities	28,858,119	-	28,858,119
Deferred Inflows Related to Pension	341,113	-	341,113
Net Position			
Net investment in capital assets	5,781,531	-	5,781,531
Restricted - Expendable for capital improvements and other purposes	912,931	141,793	1,054,724
Unrestricted	(11,339,807)	39,748	(11,300,059)
Total net position	(4,645,345)	181,541	(4,463,804)
Total liabilities and net position	\$ 24,553,887	\$ 181,541	\$ 24,735,428

Fayette County Memorial Hospital

Combining Statement of Revenue, Expenses, and Changes in Net Position Year Ended December 31, 2015

	Fayette County Memorial Hospital	Fayette County Memorial Foundation	Total
Unrestricted Revenue, Gains, and Other Support			
Net patient service revenue	\$ 43,678,623	\$ -	\$ 43,678,623
Other	1,209,661	-	1,209,661
Total unrestricted revenue, gains, and other support	44,888,284	-	44,888,284
Expenses			
Salaries and wages	20,908,861	-	20,908,861
Employee benefits and payroll taxes	6,499,317	-	6,499,317
Operating supplies and expenses	4,816,223	-	4,816,223
Professional services and consultant fees	5,776,990	-	5,776,990
Insurance	444,454	-	444,454
Utilities	788,204	-	788,204
Leases and rentals	534,282	-	534,282
Maintenance and repairs	1,581,574	-	1,581,574
Depreciation and amortization	1,290,608	-	1,290,608
Other	1,244,965	-	1,244,965
Total expenses	43,885,478	-	43,885,478
Operating Income	1,002,806	-	1,002,806
Other Income (Expense)			
Contributions	363,040	152,519	515,559
Realized gain on sale of investments	21,597	-	21,597
Other income	85,335	-	85,335
Change in unrealized investment gain	(26,392)	-	(26,392)
Interest expense	(80,521)	-	(80,521)
Other expense	-	(274,970)	(274,970)
Total other income (loss)	363,059	(122,451)	240,608
Excess of Revenue Over (Under) Expenses	\$ 1,365,865	\$ (122,451)	\$ 1,243,414

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

Independent Auditor's Report

To Management and the Board of Trustees
Fayette County Memorial Hospital

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Fayette County Memorial Hospital (the "Hospital"), which comprise the basic statement of net position as of December 31, 2015 and the related basic statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 17, 2016.

Internal Control Over Financial Reporting

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

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

To Management and the Board of Trustees
Fayette County Memorial Hospital

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 deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2015-1 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Fayette County Memorial Hospital's Response to Findings

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

Purpose of this Report

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

Plante & Moran, PLLC

June 17, 2016

Fayette County Memorial Hospital

Schedule of Findings and Questioned Costs Year Ended December 31, 2015

Section II - Financial Statement Audit Findings

Reference Number	Finding
2015-1	<p>Finding Type - Significant deficiency</p> <p>Criteria - The Hospital does not have a process in place to evaluate the manual payroll calculation processed outside of the normal payroll system.</p> <p>Condition - No review of the manual payroll calculation was performed during 2015.</p> <p>Context - Due to the nursing shortage during 2015, the Hospital offered incentive payments to nurses to work additional shifts. The incentive payments were calculated manually outside the payroll system.</p> <p>Cause - The lack of review of the manual payroll calculation resulted in underpayment to certain employees and overpayment to other employees.</p> <p>Effect - The lack of review of the manual payroll calculation resulted in a cumulative overpayment to employees in the amount of \$214.</p> <p>Recommendation - The Hospital should implement a policy and review process to ensure that the manual payroll calculation is accurate.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management acknowledges that there should be a policy and review process in place as recommended and will work toward getting this in place in the coming year.</p>

Fayette County Memorial Hospital

Summary Schedule of Prior Audit Findings Year Ended December 31, 2015

Prior Year Finding Number	Fiscal Year in Which the Finding Initially Occurred	Federal Program, CFDA Number, and Name	Original Finding Description	Status/Partial Corrective Action (as Applicable)	Planned Corrective Action (if Finding Not Corrected)
2014-1	2014	N/A	The Hospital has not appropriately updated cash and investment account signers due to recent turnover.	Corrected during 2015	N/A
2014-2	2014	N/A	The Hospital does not have a process in place to evaluate new leases to determine proper classification and recognition in the financial statements.	Corrected during 2015	N/A
2014-3	2014	N/A	<p>The Hospital did not obtain an actuary report to support the amount reserved related to health care self insurance during 2014.</p> <p>The Hospital does not have a written security control policy in place for electronic transactions.</p> <p>The individual responsible for overseeing the investment or deposit of monies did not meet the continuing education requirement during 2014.</p>	<p>Management has not obtained an actuary report for 2015; however, it has a reasonable methodology in place.</p> <p>Corrected during 2015</p> <p>An exemption was obtained from the auditor of state during 2015.</p>	<p>Management plans to request a waiver to exempt them from the requirement to obtain an actuary report for self-insured health care.</p>

This page intentionally left blank.



Dave Yost • Auditor of State

FAYETTE COUNTY MEMORIAL HOSPITAL

FAYETTE 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
AUGUST 9, 2016