Fayette County Memorial Hospital

Financial Report
with Supplemental Information
December 31, 2016

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, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

September 11, 2017

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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, 2016 and 2015, and 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 audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Fayette County Memorial Hospital as of December 31, 2016 and 2015, 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.

To the Board of Trustees
Fayette County Memorial Hospital

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and 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.

Other Information

Our audit was conducted for the purpose of forming an opinion 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 12, 2017 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 12, 2017

Management's Discussion and Analysis

This discussion and analysis of Fayette County Memorial Hospital's (the "Hospital" or FCMH) financial statements provides an overview of the Hospital's financial activities for the years ended December 31, 2016 and 2015. 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

Throughout the year, the Hospital continued to see growth in the services provided to patients. In 2016, FCMH provided 3,303 acute patient days compared to 2,844 acute patient days in 2015, an increase of 16.1 percent. Outpatient services were at 85,666 visits in 2016 compared to 85,094 in 2015. Clinic visits for 2016 were at 61,026 compared to 60,875 in 2015.

The Hospital invested $152,168 in equipment related to scope services, $38,000 for bone density scanning equipment, $76,502 in IT equipment upgrades, and $260,750 for a new electronic medical record to be used in the emergency department during 2017. The end of the year saw the beginnings of a major remodeling project within the hospital that will house the Surgery Center.

In May, the Hospital received an accreditation decision of Accredited for all services as a critical access hospital by The Joint Commission. This accreditation is valid for up to 36 months and continues a long standing series of successful re-accreditation accomplishments through The Joint Commission.

In August, FCMH welcomed a new chief executive officer, D. Michael Diener. Also during the year, a partnership was created with the Studer Group, which works with healthcare organizations helping them to achieve and sustain exceptional improvement in clinical outcomes and financial results. Another partnership was developed with All Covered to assist FCMH with its IT management and improvement of its IT infrastructure and security for the Hospital.

Financial Highlights

Cash and cash equivalents increased $692,756 while net patient accounts receivable decreased by $81,534. In total, the Hospital's operating revenue exceeded operating expenses, creating an increase in net position of $190,760 (compared to an increase in net position of $1,243,414 in the previous year). The implementation of GASB Statement No. 68 (a change in accounting principle implemented in 2015), decreased the Hospital's net position for the year by $1,045,382 and increased the net pension liability by $6,441,336, bringing the net position to a negative $4,273,044.

In 2015, the Hospital implemented GASB 68, *Accounting and Financial Reporting for Pensions.* GASB 68 requires employers participating in cost-sharing multiple-employer pension plans to recognize a proportionate share of the net pension liabilities of the plans. A proportionate share of the Hospital's net pension liabilities have been allocated to the Hospital based on retirement plan contributions for Hospital employees. The liabilities to be recognized under GASB 68 do not represent legal claims on the Hospital's resources and there are no cash flows related to the recognition of GASB 68 liabilities, deferrals, and expense.

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 are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. 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 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.

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 liabilities, 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 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, state and federal regulatory issues, conditions of the buildings, and strength of the medical staff, to fully assess the overall health of the Hospital.

The statements include all assets and liabilities using the accrual basis of accounting. All of the current year's 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 as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

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, 2016, 2015, and 2014:

Assets, Liabilities, and Net Position

	December 31		
	2016	2015	2014
Current assets	$ 11,174,530	$ 11,333,007	$ 9,203,728
Noncurrent assets	1,437,632	1,063,123	3,354,523
Capital assets	7,909,215	8,610,386	8,845,701
Total assets	20,521,377	21,006,516	21,403,952
Deferred outflow of resources	10,140,069	3,728,912	-
Current liabilities	6,550,211	8,096,437	9,650,928
Long-term liabilities	2,455,569	2,630,624	2,563,598
Net pension liability	24,572,394	18,131,058	-
Total liabilities	33,578,174	28,858,119	12,214,526
Deferred inflows of resources	1,356,316	341,113	-
Net position:			
Unrestricted	(10,298,627)	(11,300,059)	2,717,139
Net invested in capital assets	4,991,309	5,781,531	5,354,993
Restricted	1,034,274	1,054,724	1,117,294
Total net position	**$ (4,273,044)**	**$ (4,463,804)**	**$ 9,189,426**

The primary changes in the assets, liabilities, and net position relates to an increase in cash and cash equivalents of $692,756, a decrease in net patient accounts receivable of $81,534, a decrease in net capital assets of $701,171, an increase in net pension liability of $6,441,336, a decrease of current liabilities of $1,546,226, and an increase in net position of $190,760.

Operating Results and Changes in Net Position

	Year Ended		
	December 31, 2016	December 31, 2015	December 31, 2014
Operating revenue:			
Net patient service revenue	$ 42,627,284	$ 43,678,623	$ 39,562,879
Other	1,341,702	1,209,661	1,448,140
Total operating revenue	43,968,986	44,888,284	41,011,019
Operating expenses:			
Salaries and wages	19,231,676	20,908,861	21,667,444
Employee benefits and payroll taxes	7,134,870	6,499,317	6,360,524
Operating supplies and expenses	4,861,037	4,816,223	4,344,681
Professional services and consultant fees	7,239,968	5,776,990	5,677,030
Insurance	366,393	444,454	495,394
Utilities	822,878	788,204	782,215
Leases and rentals	561,432	534,282	602,545
Maintenance and repairs	1,254,847	1,581,574	1,421,200
Depreciation and amortization	1,170,868	1,290,608	1,339,375
Other expenses	1,345,114	1,244,965	1,143,461
Total operating expenses	43,989,083	43,885,478	43,833,869
Operating (loss) income	(20,097)	1,002,806	(2,822,850)
Nonoperating gains - Net	210,857	240,608	488,452
Changes in net position	190,760	1,243,414	(2,334,398)
Net position - Beginning of year	(4,463,804)	9,189,426	11,523,824
Restatement due to change in accounting principle	-	(14,896,644)	-
Net position - End of year	**$ (4,273,044)**	**$ (4,463,804)**	**$ 9,189,426**

The Hospital's total operating expenses for the year ended December 31, 2016 was adjusted by $1,045,382 as a result of the recently implemented GASB Statement No. 68. Prior to the GASB 68 adjustment, the total operating expenses for the year ended December 31, 2016 was $42,943,701, which is decrease of $1,126,252 from the total operating expenses of $44,069,953 (also prior to the GASB 68 adjustment) as of December 31, 2015.

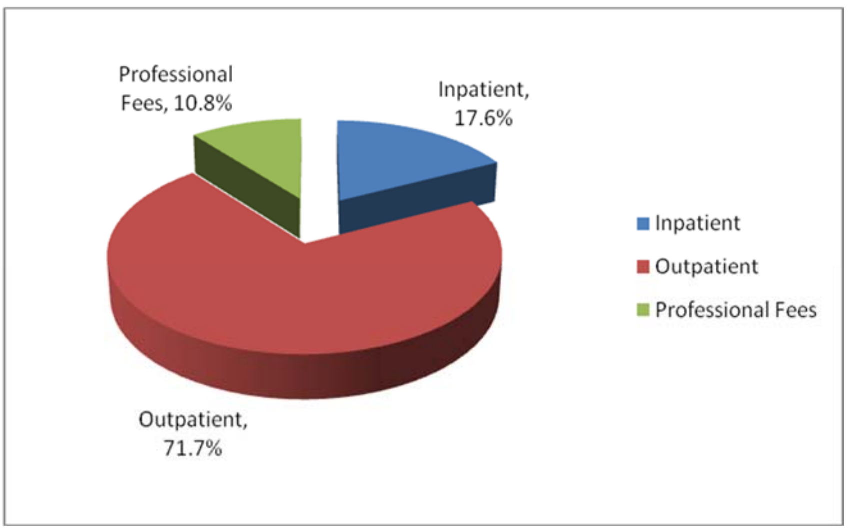
Operating Revenue

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 decreased by $1,051,339, or 2.5 percent. An increase in inpatient discharges of 13.9 percent along with an increase in inpatient days of 16.1 percent, a 1.2 percent growth in outpatient revenue, and a 1.7 percent growth in professional fees was offset by the increases in revenue deductions of 8.3 percent. 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 64 and 61 percent of gross revenue in 2016 and 2015, respectively.

The following is a graphic illustration of operating revenue by source:

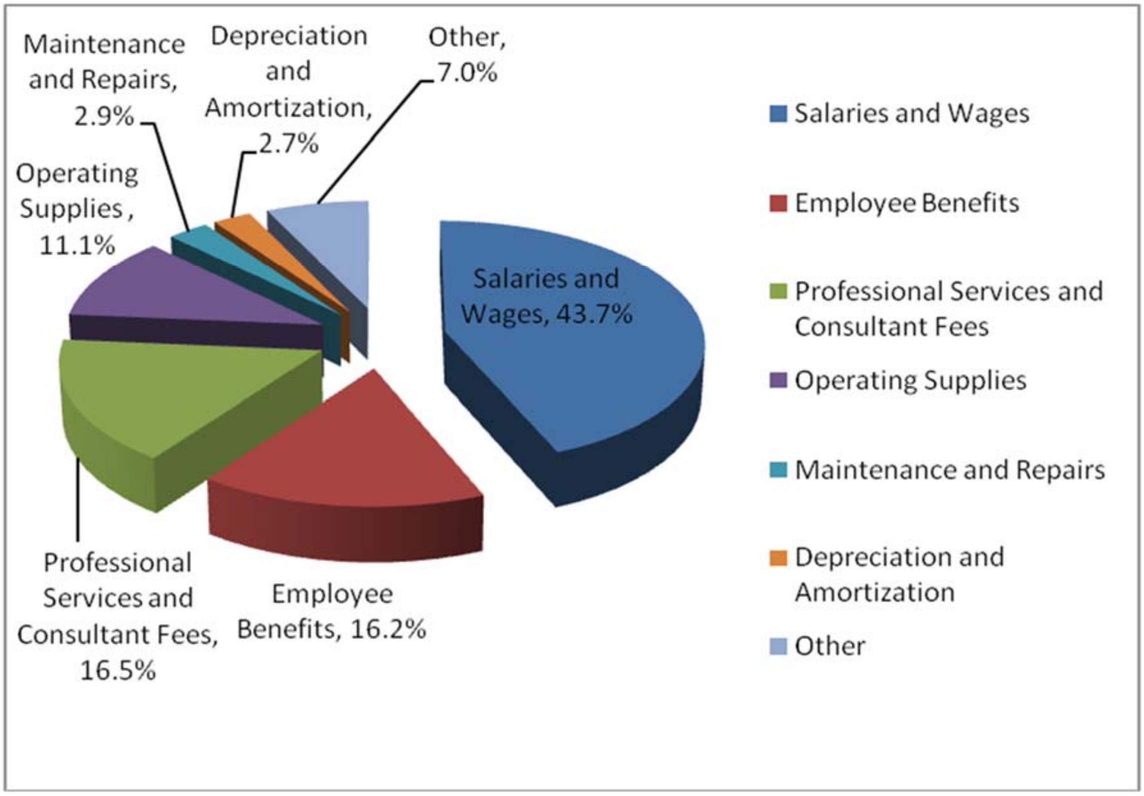


Operating Expenses

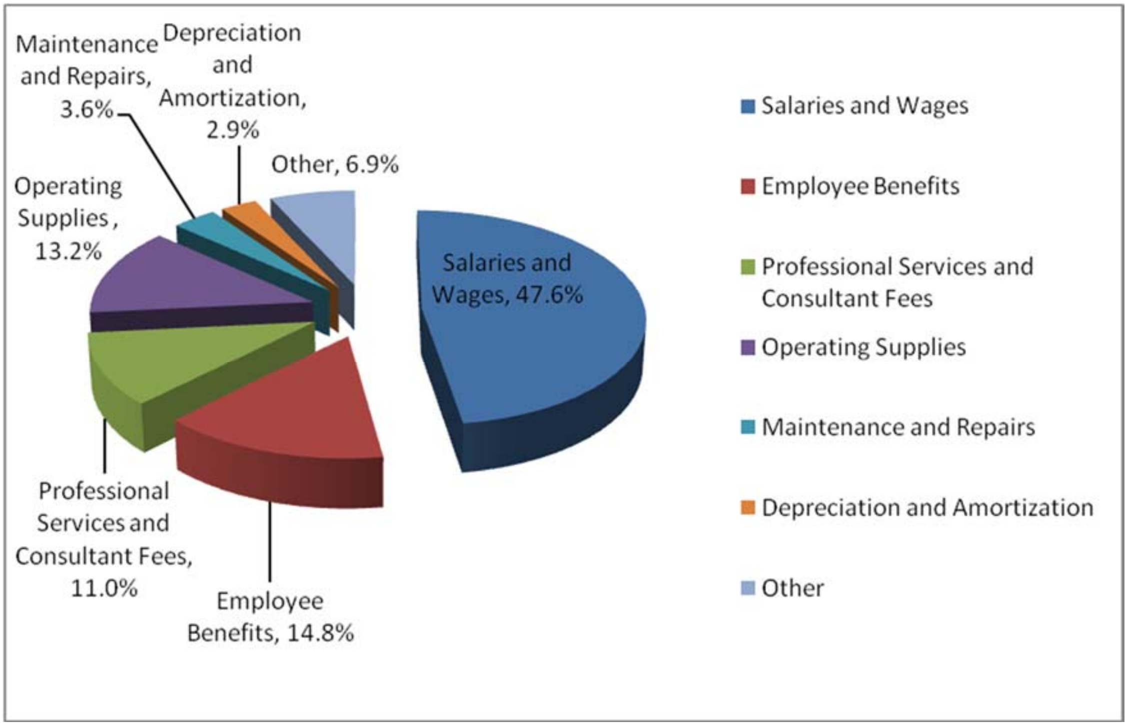
Operating expenses are all the costs necessary to perform and conduct the services of the Hospital. Operating expense changes were a result of the following factors:

- Salaries and wages decreased $1,677,185 over the prior year. The Hospital contracted out the services for the food services, environmental services, and security during most of 2016. Overall, full-time equivalents (FTEs) did decrease by 2.1 FTEs, or 0.6 percent.
- Employee benefits increased $635,553 with the GASB 68 effect. Without GASB 68, employee benefits would have been at $6,089,488, or 31.6 percent of salaries and a decrease of $563,214.
- Professional services and consultant fees increased with addition of the previous departments that were outsourced.
- The Hospital went out for bid resulting in a decrease of insurance premiums of $78,061, or 17.6 percent.
- Maintenance and repairs decreased $326,727, or 20.7 percent.

The following is a graphic illustration of 2016 operating expenses by type:



The following is a graphic illustration of 2015 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 decreased $279,295, or 54.2 percent.
- Other income increased $47,605, or 55.8 percent.

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

Operating activities	$ 1,237,054	$ 141,725	$ 718,569
Capital and related financing activities	(450,105)	(1,785,409)	(1,064,164)
Noncapital and related financing activities	111,495	240,652	435,204
Investing activities	10,354	1,485,656	1,685,745
Net Change in Cash and Cash Equivalents	908,798	82,624	1,775,354
Cash - Beginning of year	3,527,875	3,445,251	1,669,897
Cash - End of year	**$ 4,436,673**	**$ 3,527,875**	**$ 3,445,251**

Cash generated from operating activities was $1,237,054 in 2016 compared to cash generated from operating activities of $141,725 in 2015. Capital purchases were $734,461 in 2016 compared to $809,783 in 2015.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2016, the Hospital had approximately $29 million invested in capital assets, with an accumulated depreciation of approximately $21.2 million. Depreciation and amortization approximated $1.2 million for the current year consistent with the prior year. Details of these gross capital assets for the past three years are shown below:

Capital Assets

	2016	2015	2014
Land	$ 433,225	$ 433,225	$ 433,225
Land improvements	624,690	624,690	624,690
Buildings	15,889,776	15,883,455	15,761,850
Fixed equipment	1,837,916	1,837,916	1,837,916
Major moveable equipment	10,260,855	9,608,423	9,091,718
Construction in progress	14,973	279,737	27,025
Total	**$ 29,061,435**	**$ 28,667,446**	**$ 27,776,424**

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 $2,917,906 in debt outstanding, as compared to $2,828,855 in 2015. The table below summarizes these amounts by type of debt instrument:

Debt	2016	2015	2014
Notes payable - 2003 Series	$ -	$ -	$ 2,590,000
Notes payable - County	2,000,000	2,000,000	-
Note payable	258,920	337,426	412,115
Lease obligation	658,986	491,429	488,593
Total notes and leases	**$ 2,917,906**	**$ 2,828,855**	**$ 3,490,708**

More detailed information about the Hospital's long-term liabilities 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 the County to various operations and financial covenants. For the quarter ended December 31, 2016, 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, 2016.

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.

Statement of Net Position

December 31, 2016 and 2015

	2016	2015
Current Assets		
Cash and cash equivalents (Note 3)	$ 3,483,909	$ 2,791,153
Accounts receivable (Note 4)	5,053,314	5,134,848
Notes receivable	278,427	325,583
Estimated third-party payor settlements	243,520	186,481
Inventory	621,832	637,570
Other current assets	1,493,528	2,257,372
Total current assets	11,174,530	11,333,007
Assets Limited as to Use (Notes 3 and 5)	1,437,632	1,063,123
Capital Assets (Note 6)		
Nondepreciable capital assets	448,198	712,962
Depreciable capital assets	28,613,237	27,954,484
Total capital assets	29,061,435	28,667,446
Less accumulated depreciation	21,152,220	20,057,060
Net capital assets	7,909,215	8,610,386
Total assets	20,521,377	21,006,516
Deferred Outflows of Resources Related to Pension (Note 11)	10,140,069	3,728,912
Total assets and deferred outflows of resources	**$ 30,661,446**	**$ 24,735,428**
Current Liabilities		
Accounts payable	$ 2,215,627	$ 3,085,310
Current portion of long-term debt (Note 8)	462,337	198,231
Estimated third-party payor settlements	1,309,818	2,105,171
Accrued liabilities and other:		
Accrued compensation	1,371,310	1,330,017
Accrued compensated absences (Note 8)	1,191,119	1,377,708
Total current liabilities	6,550,211	8,096,437
Noncurrent Liabilities		
Long-term debt - Net of current portion (Note 8)	2,455,569	2,630,624
Net pension liability (Note 11)	24,572,394	18,131,058
Total liabilities	33,578,174	28,858,119
Deferred Inflows Related to Pension (Note 11)	1,356,316	341,113
Net Position		
Net investment in capital assets	4,991,309	5,781,531
Restricted - Expendable for capital improvements and other purposes	1,034,274	1,054,724
Unrestricted	(10,298,627)	(11,300,059)
Total net position	(4,273,044)	(4,463,804)
Total liabilities, deferred inflows of resources, and net position	**$ 30,661,446**	**$ 24,735,428**

See notes to financial statements.

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenue		
Net patient service revenue (Note 2)	$ 42,627,284	$ 43,678,623
Other	1,341,702	1,209,661
Total operating revenue	43,968,986	44,888,284
Operating Expenses		
Salaries and wages	19,231,676	20,908,861
Employee benefits and payroll taxes	7,134,870	6,499,317
Operating supplies and expenses	4,861,037	4,816,223
Professional services and consultant fees	7,239,968	5,776,990
Insurance	366,393	444,454
Utilities	822,878	788,204
Leases and rentals	561,432	534,282
Maintenance and repairs	1,254,847	1,581,574
Depreciation and amortization	1,170,868	1,290,608
Other	1,345,114	1,244,965
Total operating expenses	43,989,083	43,885,478
Operating (Loss) Income	(20,097)	1,002,806
Other Income (Expense)		
Contributions	236,264	515,559
Realized gain on sale of investments (Note 5)	22,309	21,597
Other income	132,940	85,335
Change in unrealized investment gain (loss) (Note 5)	13,572	(26,392)
Interest expense	(69,459)	(80,521)
Other expense	(124,769)	(274,970)
Total other income	210,857	240,608
Excess of Revenue Over Expenses	190,760	1,243,414
Restatement Due to Change in Accounting Principle (Note 2)	-	(14,896,644)
Increase (Decrease) in Net Position	190,760	(13,653,230)
Net Position - Beginning of year	(4,463,804)	9,189,426
Net Position - End of year	**$ (4,273,044)**	**$ (4,463,804)**

See notes to financial statements.

Statement of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	$ 42,616,063	$ 41,812,895
Cash payments to suppliers for services and goods	(17,254,251)	(14,872,124)
Cash payments to employees	(25,466,460)	(28,008,707)
Other operating revenue received	1,341,702	1,209,661
Net cash provided by operating activities	1,237,054	141,725
Cash Flows Provided by Noncapital Financing Activities - Donations and other	111,495	240,652
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(513,991)	(1,062,624)
Proceeds from sale of capital assets	44,294	19,589
Proceeds from long-term debt	361,382	2,309,088
Interest paid on long-term debt	(69,459)	(80,521)
Principal payments on notes payable	(272,331)	(2,970,941)
Net cash used in capital and related financing activities	(450,105)	(1,785,409)
Cash Flows from Investing Activities		
Investment income	35,881	(4,795)
Change in assets limited as to use - Net	(158,467)	1,481,459
Rental receipts - Net of expenses paid	132,940	85,335
Changes in advances to physicians	-	(64,085)
Other	-	(12,258)
Net cash provided by investing activities	10,354	1,485,656
Net Increase in Cash and Cash Equivalents	908,798	82,624
Cash and Cash Equivalents - Beginning of year	3,527,875	3,445,251
Cash and Cash Equivalents - End of year	**$ 4,436,673**	**$ 3,527,875**
Statement of Net Position Classification of Cash		
Cash and cash equivalents (Note 3)	$ 3,483,909	$ 2,791,153
Assets limited as to use (Note 3)	952,764	736,722
Total cash and cash equivalents	**$ 4,436,673**	**$ 3,527,875**

See notes to financial statements.

Statement of Cash Flows (Continued)

Years Ended December 31, 2016 and 2015

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

	2016	2015
Cash Flows from Operating Activities		
Operating (loss) income	$ (20,097)	$ 1,002,806
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation	1,170,868	1,290,608
Provision for bad debts	4,912,942	3,659,356
Changes in assets and liabilities:		
Accounts receivable	(4,831,408)	(4,684,722)
Estimated third-party settlements	(852,392)	(527,733)
Inventory	15,738	(39,585)
Other assets	811,000	(170,086)
Accounts payable	(869,683)	211,610
Other accrued liabilities	(145,296)	(447,144)
Net pension liability	1,045,382	(153,385)
Net cash provided by operating activities	**$ 1,237,054**	**$ 141,725**

Note 1 - Nature of Business

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.

Note 2 - Significant Accounting Policies

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. Cash balances held in the bank exceed the federal depository insurance limit. The Hospital’s cash is only insured up to the federal depository insurance limit.

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.

Note 2 - Significant Accounting Policies (Continued)

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 cost, determined on a first-in, first-out basis.

Assets Limited as to Use

Assets limited as to use include board-designated assets, assets temporarily restricted by donors, and restricted assets held by the Foundation (see Note 5). Amounts required to meet current liabilities of the Hospital have been reclassified in the statement of net position.

Investments

Investments include equity securities, mutual funds, and corporate bonds, 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 estimated acquisition 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.

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.

Note 2 - Significant Accounting Policies (Continued)

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.

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.

Net patient service revenue is $42,627,284 and $43,678,623 as of December 31, 2016 and 2015, respectively. Net patient service revenue is net of provision for contractual adjustments of $71,157,571 and bad debt of $4,912,942 in 2016 and contractual adjustments of $67,234,638 and bad debt of $3,659,356 in 2015.

Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 (AARA) 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 ERH 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 in the amount of $245,000 and $255,000 were recorded for the years ended December 31, 2016 and 2015, respectively.

Note 2 - 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 2016 and 2015 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. No provision for income taxes has been included in the financial statements.

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 polices, 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 $136,000 and $139,000 of services to indigent patients during 2016 and 2015, 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 $993,000 and $1,211,000 for 2016 and 2015, respectively, and are reported as net patient service revenue in the financial statements.

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 (see Note 11).

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 (see Note 11).

Note 2 - Significant Accounting Policies (Continued)

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.

Adoption of New Standards

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.

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 governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable 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 adopted this standard for the year ended December 31, 2016 and it was retroactively applied to the year ended December 31, 2015.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including June 12, 2017, which is the date the financial statements were available to be issued.

Note 3 - Deposits and Investments

Deposits and investments are reported in the financial statements as follows as of December 31, 2016:

	Cash and Cash Equivalents	Assets Limited as to Use	Total
Deposits	$ 3,483,909	$ 952,764	$ 4,436,673
Corporate bond	-	14,100	14,100
Mutual funds	-	265,562	265,562
Equities	-	205,206	205,206
Total	$ 3,483,909	$ 1,437,632	$ 4,921,541

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	$ 2,791,153	$ 1,063,123	$ 3,854,276

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 Treasury bills, notes, bonds, or any other obligation guaranteed as to principal and interest by the United States of America, and bonds on other obligations of the State of Ohio or federal government agencies. Investments in no-load money market mutual funds, repurchase agreements, commercial paper, and bankers' acceptances are permitted subject to certain limitations that include completion of additional training, approved by the auditor of state, by the 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.

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.

Note 3 - Deposits and Investments (Continued)

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, 2016 and 2015, 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. At year end, there were no investment securities that were collateralized with securities held by the counterparty or by its trust department or agent.

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, 2016, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Corporate bond	$ 14,100	1.45

As of December 31, 2015, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Corporate bond	$ 11,800	2.46

Note 3 - Deposits and Investments (Continued)

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, 2016 and 2015, the credit quality ratings of debt securities (other than the corporate bond CCC rating) are appropriate.

As of December 31, 2016, the rating of debt securities are as follows:

Investment Type	Fair Value	Rating	Rating Organization
Corporate bond	$ 14,100	CCC	S&P

As of December 31, 2015, the rating of debt securities are as follows:

Investment Type	Fair Value	Rating	Rating Organization
Corporate bond	$ 11,800	CCC	S&P

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.

Note 4 - Accounts Receivable

The details of patient accounts receivable are set forth below:

	2016	2015
Patient accounts receivable	$ 15,542,888	$ 15,183,979
Less:		
Allowance of uncollectible accounts	2,455,777	2,186,518
Allowance for contractual adjustments	8,033,797	7,862,613
Net patient accounts receivable	$ 5,053,314	$ 5,134,848

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:

	2016	2015
Medicare (includes HMOs)	35 %	41 %
Medicaid (includes HMOs)	19	20
Commercial insurance	21	20
Self pay	25	19
Total	100 %	100 %

Note 5 - Assets Limited as to Use

The detail of assets limited as to use is summarized in the following schedule:

	2016	2015
Board designated	$ 369,310	$ -
Donor restricted:		
Community health services	825,783	817,158
Capital expenditures	64,424	64,424
Foundation-restricted assets	178,115	181,541
Total assets limited as to use	$ 1,437,632	$ 1,063,123

The Hospital had net unrealized gains of $13,572 and net unrealized losses of $26,392 in its investment portfolio as of December 31, 2016 and 2015, respectively. Interest, dividends, and realized gains and losses amounted to $22,309 and $21,597 for the years ended December 31, 2016 and 2015, respectively.

Note 6 - Capital Assets

Cost of capital assets and related depreciable lives for December 31, 2016 are summarized below:

	2015	Additions	Transfers	Retirements	2016	Depreciable Life - Years
Capital assets not being depreciated:						
Land	$ 433,225	$ -	$ -	$ -	$ 433,225	-
Construction in progress	279,737	53,538	(274,008)	(44,294)	14,973	-
Total capital assets not being depreciated	712,962	53,538	(274,008)	(44,294)	448,198	
Capital assets being depreciated:						
Land improvements	624,690	-	-	-	624,690	10-20
Buildings	15,883,456	6,320	-	-	15,889,776	15-50
Fixed equipment	1,837,916	-	-	-	1,837,916	5-20
Major movable equipment	9,608,422	454,133	274,008	(75,708)	10,260,855	5-25
Total capital assets being depreciated	27,954,484	460,453	274,008	(75,708)	28,613,237	
Less accumulated depreciation:						
Land improvements	599,383	9,395	-	-	608,778	
Buildings	9,852,829	486,181	-	-	10,339,010	
Fixed equipment	1,607,423	39,608	-	-	1,647,031	
Major movable equipment	7,997,425	635,684	-	(75,708)	8,557,401	
Total accumulated depreciation	20,057,060	1,170,868	-	(75,708)	21,152,220	
Total capital assets being depreciated - Net	7,897,424	(710,415)	274,008	-	7,461,017	
Total capital assets - Net	$ 8,610,386	$ (656,877)	$ -	$ (44,294)	$ 7,909,215	

Note 6 - Capital Assets (Continued)

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	-	-	599,383	
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	-	(164,271)	7,997,425	
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	

Note 7 - Estimated Third-party Settlements

Approximately 71 and 72 percent of the Hospital's revenue from patient services is received from the Medicare and Medicaid programs for 2016 and 2015, respectively. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its 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.

Note 7 - Estimated Third-party Settlements (Continued)

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

Cost Report Settlements

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, 2016 and 2015, the Hospital recognized a change in estimate of approximately $852,000 and $644,000, 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 8 - 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.

The Hospital has entered into various noncancelable capital lease agreements for equipment. As of December 31, 2016, capital leases have imputed interest rates of 3.30 to 6.89 percent. They expire at various times through 2022 and are collateralized by the equipment leased. The cost of leased equipment was $1,028,941 and $1,101,801 for the years ended December 31, 2016 and 2015, respectively.

Note 8 - Long-term Debt (Continued)

Long-term debt activity at December 31, 2016 and 2015 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2016					
Leases and notes payable:					
Lease obligations	$ 491,429	$ 361,382	$ (193,825)	$ 658,986	$ 240,703
Notes payable - Fayette County	2,000,000	-	-	2,000,000	139,089
Notes payable	337,426	-	(78,506)	258,920	82,545
Total lease and notes payable	2,828,855	361,382	(272,331)	2,917,906	462,337
Other liabilities - Compensated absences	1,377,708	1,646,550	(1,833,139)	1,191,119	1,191,119
Total long-term and other liabilities	$ 4,206,563	$ 2,007,932	$ (2,105,470)	$ 4,109,025	$ 1,653,456

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2015					
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	$ 4,818,063	$ 4,131,094	$ (4,742,594)	$ 4,206,563	$ 1,575,939

Total interest expense for the year ended December 31, 2016 and 2015 was approximately $69,000 and $81,000, 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
2017	$ 221,652	$ 30,978	$ 252,630	$ 240,685	$ 26,055	$ 266,740
2018	227,333	25,297	252,630	227,069	14,354	241,423
2019	231,401	19,380	250,781	92,467	6,679	99,146
2020	143,315	15,428	158,743	42,855	3,833	46,688
2021	144,751	13,991	158,742	34,152	1,949	36,101
Thereafter	1,290,468	18,261	1,308,729	21,758	405	22,163
Total	$ 2,258,920	$ 123,335	$ 2,382,255	$ 658,986	$ 53,275	$ 712,261

Note 9 - Operating Leases

The Hospital has entered into operating lease agreements for equipment, which expire at various times through 2021. Operating lease expense totaled approximately $561,000 and $534,000 in 2016 and 2015, respectively.

Future minimum annual commitments under these operating leases are as follows:

Years Ending	Amount
2017	$ 206,454
2018	115,615
2019	75,179
2020	55,247
2021	49,431
Thereafter	49,431
Total	$ 551,357

Note 10 - 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 11 - 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.

Note 11 - 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 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.

Member contributions are 10 percent of gross wages for all plans, set at the maximums authorized by the ORC. The plans’ 2016 and 2015 contribution rates on covered payroll are as follows:

	Pension	Postretirement Health Care	Death Benefits	Total
OPERS - 2016	12.00 %	2.00 %	- %	14.00 %

	Pension	Postretirement Health Care	Death Benefits	Total
OPERS - 2015	12.00 %	2.00 %	- %	14.00 %

The Hospital's required and actual contributions to the plan for the years ended December 31, 2016 and 2015 were approximately $3,613,000 and $2,785,000, respectively.

Note 11 - Defined Benefit Pension Plan (Continued)

Net Pension Liability, Deferrals, and Pension Expense

At December 31, 2016, 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, 2016 and 2015 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, 2016 and 2015, the Hospital's proportion was 0.14 and 0.15 percent, respectively.

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

At December 31, 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 73,689	$ 512,357
Differences between actual and proportionate share of contributions	164,277	843,959
Net difference between projected and actual earnings on pension plan investments	7,312,508	-
Employer contributions to the plan subsequent to the measurement date	2,589,595	-
Total	$ 10,140,069	$ 1,356,316

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

Description	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	2,753,872	-
Total	$ 3,728,912	$ 341,113

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	Amount
2017	$ 1,294,766
2018	1,417,457
2019	1,822,467
2020	1,654,336
2021	9,622
Thereafter	(4,490)

Note 11 - Defined Benefit Pension Plan (Continued)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year 2017.

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:

	2016	2015
Valuation date	December 31, 2015	December 31, 2014
Actuarial cost method	Individual entry age	Individual entry age
Cost of living	3.0 percent	3.0 percent
Salary increases, including inflation	4.25 to 10.05 percent	4.25 to 8.05 percent
Inflation	3.75 percent	3.75 percent
Investment rate of return	8.00 percent - Net of pension plan investment expense	8.00 percent - Net of pension plan investment expense
Mortality rates	RP-2000 mortality table projected 20 years using Projection Scale AA	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, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 8.0 percent as of December 31, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that 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.

Projected Cash Flows

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 for the year ended December 31, 2016 in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed income	23.00 %	2.31 %
Domestic equities	20.70	5.84
Real estate	10.00	4.25
Private equity	10.00	9.25
International equity	18.30	7.40
Other investments	18.00	4.59

Note 11 - Defined Benefit Pension Plan (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized for the year ended December 31, 2015 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 Percent Decrease (7.0%)	Current Discount Rate (8.0%)	1 Percent Increase (9.0%)
Net pension liability - 2016	$ 39,247,131	$ 24,572,394	$ 12,198,713

	1 Percent Decrease (7.0%)	Current Discount Rate (8.0%)	1 Percent Increase (9.0%)
Net pension liability - 2015	$ 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.

Note 12 - 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 another 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.

Note 12 - Other Postemployment Benefits (Continued)

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 2016 and 2015, 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 2016 and 2015. The portion of employer contributions allocated to health care for members in the combined plan was 2 percent during 2016 and 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 his or her surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The portion of the Hospital's contribution used to fund postemployment benefits for 2016, 2015, and 2014 was $516,000, $398,000, and $410,000, respectively.

Note 13 - 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 to $200,000 and the Jefferson Health Plan has an internal pool to cover claims from $200,000 to $1,500,000 and Sunlife Insurance Company covers any claims over $1,500,000. A liability for claims incurred but not reported is included within accounts payable. Claims, charged to operations when incurred, were approximately $3,079,000 and $3,460,000 for the years ended December 31, 2016 and 2015, respectively. Claim payments were approximately $3,017,000 and $2,462,000 for the years ended December 31, 2016 and 2015, respectively.

Note 14 - 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, 2016 and 2015:

	2016	2015
Assets Limited as to Use	$ 178,115	$ 181,541
Net Position		
Restricted - Expendable for capital improvements and other purposes	$ 142,211	$ 141,793
Unrestricted	35,904	39,748
Total net position	$ 178,115	$ 181,541
Other Income (Expense)		
Contributions	$ 121,342	$ 152,519
Other expense	(124,768)	(276,224)
Total other expense	$ (3,426)	$ (123,705)
Net Cash Used in Financing Activities	$ (3,426)	$ (123,705)
Cash and Cash Equivalents - Beginning of year	181,541	305,246
Cash and Cash Equivalents - End of year	$ 178,115	$ 181,541

Note 15 - Fair Value Measurements

Accounting standards require certain assets be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Hospital's assets measured at fair value on a recurring basis at December 31, 2016 and 2015 and the valuation techniques used by the Hospital to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Hospital has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Hospital's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Note 15 - Fair Value Measurements (Continued)

The Hospital has the following recurring fair value measurements as of December 31, 2016 and 2015.

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
Assets				
Mutual funds	$ 265,562	$ -	$ -	$ 265,562
Equities	205,206	-	-	205,206
Corporate bonds	-	14,100	-	14,100
Total assets	$ 470,768	$ 14,100	$ -	$ 484,868

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Assets				
Mutual funds	$ 231,931	$ -	$ -	$ 231,931
Equities	82,670	-	-	82,670
Corporate bonds	-	11,800	-	11,800
Total assets	$ 314,601	$ 11,800	$ -	$ 326,401

The fair value of Level 2 securities as of December 31, 2016 and 2015 was determined primarily on quoted prices from the Hospital's custodian bank.

Note 16 - Upcoming Accounting Pronouncements

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.

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Required Supplemental Information

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Required Supplemental Information
Schedule of Fayette County Memorial Hospital Contributions OPERS

Years Ended December 31, 2016 and 2015

	2016	2015
Contractually required contribution	$ 2,590,631	$ 2,753,872
Contributions in relation to the contractually required contribution	2,590,631	2,753,872
Contribution Deficiency	**$ -**	**$ -**
Hospital's Covered Employee Payroll - Calendar year ended December 31, 2016 and 2015, respectively	$ 19,231,676	$ 20,402,903
Contributions as a Percentage of Covered Employee Payroll	13.5 %	13.5 %

Required Supplemental Information
Schedule of Fayette County Memorial Hospital's Share of the Net Pension Liability OPERS

Years Ended December 31, 2016 and 2015

	2016	2015
Hospital's proportion of the net pension liability	0.14 %	0.15 %
Hospital's proportionate share of the net pension liability	$ 24,572,394	$ 18,131,058
Hospital's covered employee payroll - Plan year ended December 31, 2015 and 2014, respectively	$ 20,402,903	$ 20,549,680
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	120.44 %	88.23 %
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	81.20 %	86.53 %

Changes of Benefit Term

Amounts reported in 2016 for OPERS reflect no change in benefits.

Changes of Assumptions

Amounts reported in 2016 reflect no adjustments based on changes of assumptions such as life expectancies, retired life mortality, or retirement age.

Supplemental Information

Combining Statement of Net Position

December 31, 2016

	Fayette County Memorial Hospital	Fayette County Memorial Foundation	Total
Current Assets			
Cash and cash equivalents	$ 3,483,909	$ -	$ 3,483,909
Accounts receivable	5,053,314	-	5,053,314
Notes receivable	278,427	-	278,427
Estimated third-party payor settlements	243,520	-	243,520
Inventory	621,832	-	621,832
Other current assets	1,493,528	-	1,493,528
Total current assets	11,174,530	-	11,174,530
Assets Limited as to Use	1,259,517	178,115	1,437,632
Capital Assets			
Nondepreciable capital assets	448,198	-	448,198
Depreciable capital assets	28,613,237	-	28,613,237
Total capital assets	29,061,435	-	29,061,435
Less accumulated depreciation	21,152,220	-	21,152,220
Net capital assets	7,909,215	-	7,909,215
Total assets	20,343,262	178,115	20,521,377
Deferred Outflows of Resources Related to Pension	10,140,069	-	10,140,069
Total assets and deferred outflows of resources related to pension	**$ 30,483,331**	**$ 178,115**	**$ 30,661,446**

Combining Statement of Net Position (Continued)

December 31, 2016

	Fayette County Memorial Hospital	Fayette County Memorial Foundation	Total
Current Liabilities			
Accounts payable	$ 2,215,627	$ -	$ 2,215,627
Current portion of long-term debt	462,337	-	462,337
Estimated third-party payor settlements	1,309,818	-	1,309,818
Accrued liabilities and other:			
Accrued compensation	1,371,310	-	1,371,310
Accrued compensated absences	1,191,119	-	1,191,119
Total current liabilities	6,550,211	-	6,550,211
Noncurrent Liabilities			
Long-term debt - Net of current portion	2,455,569	-	2,455,569
Net pension liability	24,572,394	-	24,572,394
Total liabilities	33,578,174	-	33,578,174
Deferred Inflows Related to Pension	1,356,316	-	1,356,316
Net Position			
Net investment in capital assets	4,991,309	-	4,991,309
Restricted - Expendable for capital improvements and other purposes	892,063	142,211	1,034,274
Unrestricted	(10,334,531)	35,904	(10,298,627)
Total net position	(4,451,159)	178,115	(4,273,044)
Total liabilities, deferred inflows of resources, and net position	**$ 30,483,331**	**$ 178,115**	**$ 30,661,446**

Combining Statement of Revenue, Expenses, and Changes in Net Position

Year Ended December 31, 2016

	Fayette County Memorial Hospital	Fayette County Memorial Foundation	Total
Unrestricted Revenue, Gains, and Other Support			
Net patient service revenue	$ 42,627,284	$ -	$ 42,627,284
Other	1,341,702	-	1,341,702
Total operating revenue	43,968,986	-	43,968,986
Expenses			
Salaries and wages	19,231,676	-	19,231,676
Employee benefits and payroll taxes	7,134,870	-	7,134,870
Operating supplies and expenses	4,861,037	-	4,861,037
Professional services and consultant fees	7,239,968	-	7,239,968
Insurance	366,393	-	366,393
Utilities	822,878	-	822,878
Leases and rentals	561,432	-	561,432
Maintenance and repairs	1,254,847	-	1,254,847
Depreciation and amortization	1,170,868	-	1,170,868
Other	1,345,114	-	1,345,114
Total operating expenses	43,989,083	-	43,989,083
Operating Loss	(20,097)	-	(20,097)
Other Income (Expense)			
Contributions	114,921	121,343	236,264
Realized gain on sale of investments	22,309	-	22,309
Other income	132,940	-	132,940
Change in unrealized investment gain	13,572	-	13,572
Interest expense	(69,459)	-	(69,459)
Other expense	-	(124,769)	(124,769)
Total other income (expense)	214,283	(3,426)	210,857
Excess of Revenue Over (Under) Expenses	194,186	(3,426)	190,760
Net Position - Beginning of year	(4,645,345)	181,541	(4,463,804)
Net Position - End of year	**$ (4,451,159)**	**$ 178,115**	**$ (4,273,044)**

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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 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 statement of net position as of December 31, 2016, and the related 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 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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.

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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.*

To Management and the Board of Trustees
Fayette County Memorial Hospital

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 12, 2017

Summary of Prior Year Findings

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Summary of Prior Year Findings

Year Ended December 31, 2016

1. **Comments on Findings and Recommendation**
   The Hospital does not have a process in place to evaluate the manual payroll calculation processed outside of the normal payroll system.

2. **Actions Taken or Planned**
   Management acknowledges that there should be a policy and review process in place as recommended and will work toward getting this in place.

3. **Status of Corrective Actions on Prior Findings**
   Cleared.

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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
SEPTEMBER 21, 2017

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