

# **FAYETTE COUNTY MEMORIAL HOSPITAL**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013 AND 2012**







# Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Fayette County Memorial Hospital, prepared by Blue & Co., LLC, for the audit period January 1, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

July 17, 2014

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# FAYETTE COUNTY MEMORIAL HOSPITAL

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Fayette County Memorial Hospital  
Washington Court House, Ohio

To the Board of Trustees:

### ***Report on the Financial Statements***

We have audited the accompanying consolidated financial statements of the business-type activities of Fayette County Memorial Hospital (the Hospital), as of and for the year ended December 31, 2013 and 2012, and the related notes to the consolidated financial statements, which collectively comprise the Hospital's basic consolidated financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Hospital's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Hospital's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Board of Trustees  
Fayette County Memorial Hospital  
Washington Court House, Ohio

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Hospital as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

***Uncertainty Regarding Going Concern***

The accompanying consolidated financial statements have been prepared assuming the Hospital will continue as a going concern. As discussed in Note 19 to the consolidated financial statements, the Hospital did not meet certain covenants related to the debt outstanding at December 31, 2013. As a result the corresponding debt has been classified as a current liability in the consolidated statement of net position as of December 31, 2013. The bank may demand repayment of the related debt, though no such demand has been made. The consolidated statements of operations and changes in net position also include a 2013 operating loss of approximately \$3,465,000. These conditions raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

***Emphasis of Matter***

We draw attention to Note 1, which describes the consolidated financial statements of Fayette County Memorial 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 Fayette County that is attributable to the transactions of Fayette County Memorial Hospital. They do not purport to, and do not present fairly the financial position of Fayette County as of December 31, 2013 and 2012, the changes in its financial position or its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Change in Accounting Principle***

As discussed in Note 1 to the consolidated financial statements, the Hospital adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment to GASB Statements No. 14 and No. 34*. Our opinion is not modified with respect to this matter.

Board of Trustees  
Fayette County Memorial Hospital  
Washington Court House, Ohio

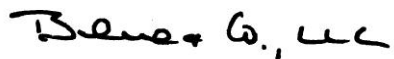
**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic consolidated financial statements. Although this information is not part of the basic consolidated financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2014, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



Columbus, Ohio  
June 2, 2014



# **FAYETTE COUNTY MEMORIAL HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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## **Management's Discussion and Analysis**

The discussion and analysis of Fayette County Memorial Hospital's (the Hospital) financial statements provides an overview of the Hospital's financial activities for the years ended December 31, 2013 and 2012. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with the discussion and analysis.

## **Financial Highlights**

Cash, investments, and assets limited as to use decreased approximately \$1,988,000 while accounts receivable decreased approximately \$1,009,000. In total, the Hospital's expenses exceeded revenues and other support, creating a decrease in net position of \$3,180,541 (compared to an increase in net position of \$763,749 in the previous year).

In February 2013, the Hospital went live with a new information technology system for electronic medical records.

In October 2012, the Hospital opened Urgent Care to provide non-life threatening services to residents of Fayette County, Ohio.

## **Using this Annual Report**

The Hospital's financial statements consist of the three statements – Consolidated Statement of Net Position, a Statement of Operations and Changes in Net Position, and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purpose by contributors, grantors, or enabling legislation.

## **The Statement of Net Position and the Statement of Operations 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 operations and changes in net position report information on the Hospital as a whole and on its activities in a way that helps answer this question. When revenue and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The relationship between revenue and expenses may be thought of as the Hospital's operating results.

# **FAYETTE COUNTY MEMORIAL HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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These two statements report the Hospital's net position and changes in them. 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, 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 non-financial factors, such as the trend in patient days, outpatient visits, conditions of the buildings, and strength of the medical staff, to assess the overall health of the Hospital.

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

## **The Statement of Cash Flows**

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, 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?"

**FAYETTE COUNTY MEMORIAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

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**Condensed Financial Information**

The following is a comparative analysis of the major components of the statements of net position of the Hospital as of December 31, 2013 and 2012.

**Assets, Liabilities and Net Position**

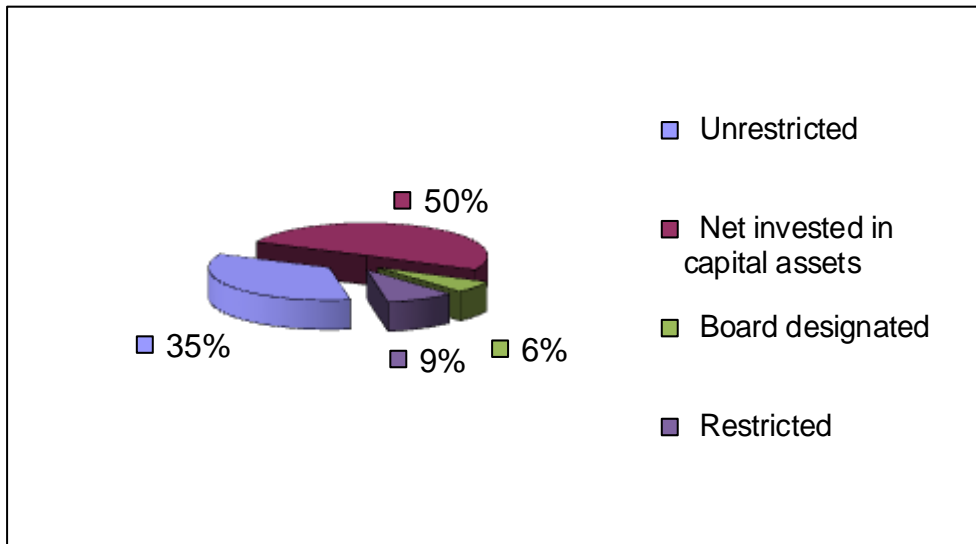
	December 31		
	2013	2012	2011
Current assets	\$ 7,927,932	\$ 10,446,332	\$ 8,321,093
Noncurrent assets	4,674,915	5,447,685	6,259,796
Capital assets	10,117,624	10,379,752	9,757,567
<b>Total assets</b>	<b>\$ 22,720,471</b>	<b>\$ 26,273,769</b>	<b>\$ 24,338,456</b>
Current liabilities	\$ 10,273,969	\$ 7,938,491	\$ 5,961,962
Long-term liabilities	922,678	3,630,913	4,435,878
<b>Total liabilities</b>	<b>\$ 11,196,647</b>	<b>\$ 11,569,404</b>	<b>\$ 10,397,840</b>
Net position			
Unrestricted	3,991,877	6,797,326	6,632,167
Net invested in capital assets	5,807,120	6,299,656	5,276,726
Board designated	674,858	673,651	646,820
Restricted	1,049,969	933,732	1,384,903
<b>Total net position</b>	<b>\$ 11,523,824</b>	<b>\$ 14,704,365</b>	<b>\$ 13,940,616</b>

# FAYETTE COUNTY MEMORIAL HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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The primary changes in the assets, liabilities and net position relates to a decrease in cash and cash equivalents of \$1,343,837, a decrease in net patient accounts receivable of \$1,009,213, a decrease in investments of \$761,597, and a decrease in net position of \$3,180,541. At December 31, 2013, the Hospital failed its debt covenants and the related debt has been classified as current.

The following chart provides a breakdown of net position by category for the year ended December 31, 2013:



**FAYETTE COUNTY MEMORIAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

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**Operating Results and Changes in Net Position**

	Year Ended		
	2013	2012	2011
<b>Operating revenues</b>			
Net patient service revenues	\$ 42,589,717	\$ 41,487,596	\$ 37,009,529
Other	1,316,943	2,104,493	109,787
Total operating revenues	43,906,660	43,592,089	37,119,316
<b>Operating expenses</b>			
Salaries and wages	23,314,906	20,841,165	17,870,686
Employee benefits	6,996,501	6,270,085	5,039,642
Physicians fees	946,157	811,746	775,557
Other fees	4,400,974	4,319,154	4,303,306
Supplies	5,574,480	5,388,328	4,169,134
Depreciation and amortization	1,311,031	1,103,444	1,193,170
Other expenses	4,827,847	4,531,382	3,400,680
Total operating expenses	47,371,896	43,265,304	36,752,175
<b>Operating income (loss)</b>	(3,465,236)	326,785	367,141
<b>Non-operating gains - net</b>	284,695	436,964	381,197
<b>Change in net position</b>	(3,180,541)	763,749	748,338
<b>Net position - beginning of year</b>	14,704,365	13,940,616	13,192,278
<b>Net position - end of year</b>	<u>\$ 11,523,824</u>	<u>\$ 14,704,365</u>	<u>\$ 13,940,616</u>

# FAYETTE COUNTY MEMORIAL HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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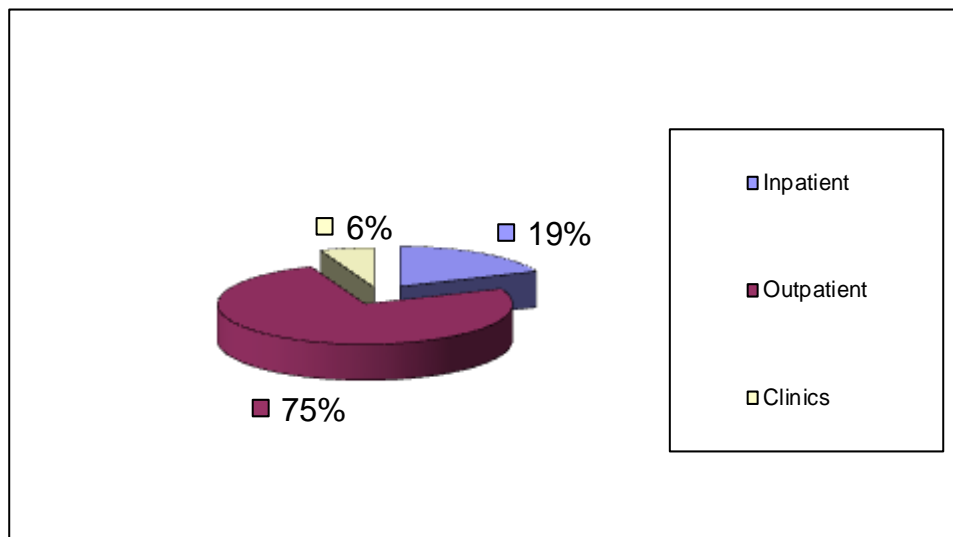
## Operating Revenues

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

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased approximately \$1,102,000. This was attributable to increases in gross rates charged for inpatient and outpatient services offset by increases in revenue deductions. Revenue deductions are the amounts that are not paid to the Hospital under contractual arrangements with Medicare, Medicaid, and various other commercial payors. These revenue deductions were approximately 61% and 60% of gross revenue in 2013 and 2012, respectively.

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



## Operating Expenses

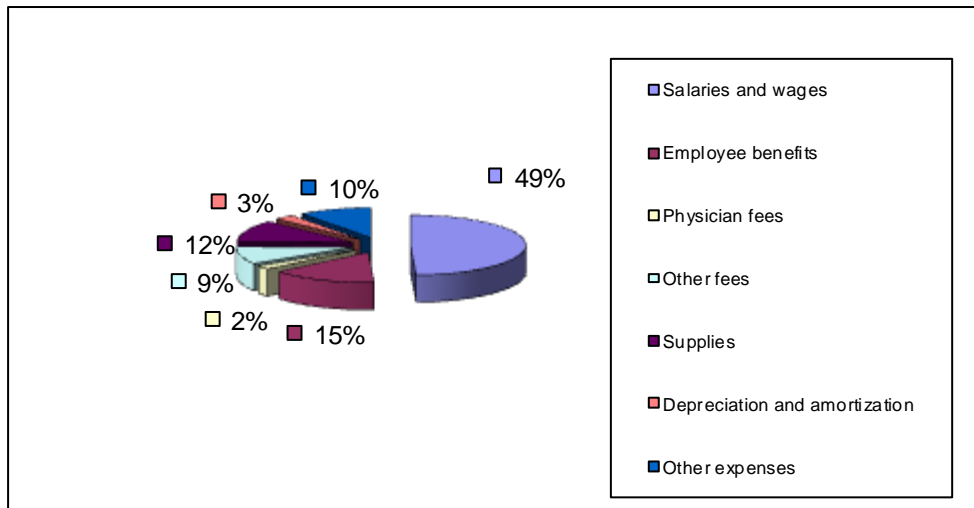
Operating expenses are all the costs necessary to perform and conduct the services of the Hospital. Operating expense changes were a result of the following factors:

- Salaries and wages increased approximately \$2,500,000 and employee benefits increased approximately \$726,000. This was attributable to a 10% increase in full time equivalents and a 2% average wage rate increase.

# FAYETTE COUNTY MEMORIAL HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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The following is a graphic illustration of 2013 operating expenses by type:



## Non-Operating Gains – net

Non-operating gains are all sources and uses that are primarily non-exchange 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 \$95,054.
- Investment income decreased \$118,124.

**FAYETTE COUNTY MEMORIAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

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**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:

- 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

	2013	2012	2011
<b>Cash from</b>			
Operating activities	\$ (1,659,488)	\$ 1,298,874	\$ 2,090,421
Capital and related financing activities	(951,535)	(2,303,481)	(809,535)
Non-capital and related financing activities	302,150	352,701	375,966
Investing activities	1,313,720	327,612	(572,335)
Net change in cash and cash equivalents	(995,153)	(324,294)	1,084,517
<b>Cash - Beginning of year</b>	2,665,050	2,989,344	1,904,827
<b>Cash - End of year</b>	\$ 1,669,897	\$ 2,665,050	\$ 2,989,344

Cash from operating activities was (\$1,659,488) in 2013 compared to \$1,298,874 in 2012. Capital purchases were \$270,382 in 2013 compared to \$1,790,315 in 2012. Cash provided by investing activities increased due to the sale of investments.



# FAYETTE COUNTY MEMORIAL HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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## Capital Assets and Debt Administration

### Capital Assets

At December 31, 2013, the Hospital had approximately \$28.9 million invested in capital assets, with an accumulated depreciation of approximately \$18.8 million. Depreciation and amortization approximated \$1.3 million for the current year compared to approximately \$1.1 million last year. Details of these gross capital assets for the past three years are shown below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 433,225	\$ 433,225	\$ 433,225
Land improvements	624,690	624,690	624,690
Buildings	15,761,850	15,370,327	15,120,395
Fixed equipment	1,837,916	1,817,598	1,827,004
Major movable equipment	9,652,101	9,609,188	8,782,458
Construction in progress	<u>560,441</u>	<u>548,871</u>	<u>286,870</u>
Total	<u>\$ 28,870,223</u>	<u>\$ 28,403,899</u>	<u>\$ 27,074,642</u>

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

### Debt

At year-end, the Hospital had \$4,310,504 in debt outstanding, as compared to \$4,080,096 in 2012. The table below summarizes these amounts by type of debt instrument:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Notes payable - 2003 Series	\$ 2,815,000	\$ 3,025,000	\$ 3,225,000
Note payable	483,179	550,439	616,132
Lease obligation	<u>1,012,325</u>	<u>504,657</u>	<u>639,709</u>
Total notes and leases	<u>\$ 4,310,504</u>	<u>\$ 4,080,096</u>	<u>\$ 4,480,841</u>

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

# **FAYETTE COUNTY MEMORIAL HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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The Hospital is bound by the terms of the Trust Indenture and Reimbursement Agreement to various operations and financial covenants. For quarter ended December 31, 2013, these covenants include maintaining a minimum debt service ratio of 1.25 to 1.00, and minimum days cash on hand of 50. The Hospital was not in compliance with the covenants as of December 31, 2013. As such, all debt relating to the 2003 series bonds has been classified as a current liability on the statement of net position at December 31, 2013.

## **Other Economic Factors**

There are many outside factors that may affect the Hospital in 2014 and future years including:

- The 2013 budget sequestration will continue into 2014 and will result in reduced reimbursements from Medicare. The federal and state governments are under continued pressure to decrease funding for Medicare and Medicaid.
- While the overall financial impact is still being fully determined, there have been policy changes due to the passing of the Patient Protection Affordable Care Act (PPACA or ACA) signed by President Obama in 2010.
- The local and state economies are struggling. This climate may continue to lead to more bad debt expense, charity care, and Medicaid utilization.
- The introduction of the health insurance exchange would provide coverage and reimbursement to the ever growing uninsured population. The potential risk of the health insurance exchange may force smaller employers to drop their current insurance plans and transitioning those employees to the exchange program. This will result from employees transitioning from a managed care plan to a Medicaid reimbursed based program. This will create a negative shift on reimbursement and the longevity of the Hospital.
- Another risk relates to the recent issuance of GASB 67 and 68 (also see notes to the financial statements). These new standards will change the recognition and reporting requirements for public pensions (OPERS). The Hospital will now be required to report a portion of the unfunded liability on our financial statements. While the overall structure of the Hospital remains unchanged, we will now be required to recognize any shifts in the total net unfunded liability of OPERS.

## **Contacting the Hospital's Management**

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

# FAYETTE COUNTY MEMORIAL HOSPITAL

## CONSOLIDATED STATEMENTS OF NET POSITION DECEMBER 31, 2013 AND 2012

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### ASSETS

	<u>2013</u>	<u>2012</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 470,043	\$ 1,813,880
Patient accounts receivable, net of uncollectible accounts of \$2,844,000 in 2013 and \$1,936,000 in 2012	5,078,981	6,088,194
Current portion of notes receivable	326,716	651,574
Inventories	712,535	762,341
Prepaid expenses and other current assets	485,852	236,124
Estimated third-party settlements	853,805	894,219
Total current assets	<u>7,927,932</u>	<u>10,446,332</u>
<b>Other assets</b>		
Assets limited as to use - board designated	674,858	673,651
Assets limited as to use - restricted	1,049,969	933,732
Notes receivable	172,562	301,179
Investments	2,777,526	3,539,123
Capital assets, net	10,117,624	10,379,752
Total other assets	<u>14,792,539</u>	<u>15,827,437</u>
Total assets	<u>\$ 22,720,471</u>	<u>\$ 26,273,769</u>

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See accompanying notes to consolidated financial statements.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## CONSOLIDATED STATEMENTS OF NET POSITION DECEMBER 31, 2013 AND 2012

### LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 3,387,826	\$ 538,255
Accounts payable	2,053,837	2,856,136
Accrued payroll and related benefits	2,685,439	2,424,622
Other accrued expenses	2,043,787	1,857,293
Current portion of physician recruitment liability	103,080	262,185
Total current liabilities	<u>10,273,969</u>	<u>7,938,491</u>
<b>Long-term liabilities</b>		
Physician recruitment liability	-	45,747
Long-term debt	922,678	3,541,841
Fair value of interest rate swap agreement	-	43,325
Total long-term liabilities	<u>922,678</u>	<u>3,630,913</u>
Total liabilities	11,196,647	11,569,404
<b>Net position</b>		
Unrestricted	3,991,877	6,797,326
Net invested in capital assets	5,807,120	6,299,656
Board designated	674,858	673,651
Restricted:		
Expendable for capital expenditures and other purposes	1,049,969	933,732
Total net position	<u>11,523,824</u>	<u>14,704,365</u>
Total liabilities and net position	<u>\$ 22,720,471</u>	<u>\$ 26,273,769</u>

*See accompanying notes to consolidated financial statements.*

## FAYETTE COUNTY MEMORIAL HOSPITAL

### CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Operating revenue</b>		
Net patient service revenue	\$ 42,589,717	\$ 41,487,596
Other operating revenue	1,316,943	2,104,493
Total operating revenues	43,906,660	43,592,089
<b>Operating expenses</b>		
Salaries and wages	23,314,906	20,841,165
Employee benefits	6,996,501	6,270,085
Physician fees	946,157	811,746
Other fees	4,400,974	4,319,154
Supplies	5,574,480	5,388,328
Utilities	853,166	822,942
Maintenance and repairs	1,752,808	1,639,699
Leases and rentals	475,646	397,108
Insurance	419,904	500,898
Depreciation and amortization	1,311,031	1,103,444
Other expenses	1,326,323	1,170,735
Total operating expenses	47,371,896	43,265,304
<b>Operating income (loss)</b>	(3,465,236)	326,785
<b>Non-operating gains - net</b>	284,695	436,964
<b>Change in net position</b>	(3,180,541)	763,749
<b>Net position, beginning of year</b>	14,704,365	13,940,616
<b>Net position, end of year</b>	\$ 11,523,824	\$ 14,704,365

*See accompanying notes to consolidated financial statements.*

# FAYETTE COUNTY MEMORIAL HOSPITAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Operating activities</b>		
Cash received from patients and third party payors	\$ 43,639,344	\$ 39,200,329
Cash payments to suppliers for services and goods	(16,565,185)	(13,408,761)
Cash payments to employees for services	(30,050,590)	(26,597,187)
Other operating revenue received	1,316,943	2,104,493
Net cash flow from operating activities	(1,659,488)	1,298,874
<b>Non-capital and related financing activities</b>		
Donations and other	302,150	352,701
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(270,382)	(1,790,315)
Loss on disposal of capital assets	4,420	64,686
Interest paid	(133,040)	(177,107)
Principal payments on long-term debt	(552,533)	(400,745)
Net cash flow from capital and related financing activities	(951,535)	(2,303,481)
<b>Investing activities</b>		
Change in advances to physicians	248,623	24,187
Change in investments, net	992,837	113,041
Investment income received on investments	72,260	190,384
Net cash flow from investing activities	1,313,720	327,612
Net change in cash and cash equivalents	(995,153)	(324,294)
<b>Cash and cash equivalents, beginning of year</b>	2,665,050	2,989,344
<b>Cash and cash equivalents, end of year</b>	\$ 1,669,897	\$ 2,665,050
<b>Supplemental disclosure of cash flow information</b>		
Assets acquired under capital leases	\$ 782,941	\$ -
<b>Balance sheet classification of cash and cash equivalents</b>		
Current assets	\$ 470,043	\$ 1,813,880
Investments	29,646	12,706
Assets limited as to use	1,170,208	838,464
Total cash and cash equivalents	\$ 1,669,897	\$ 2,665,050

*See accompanying notes to consolidated financial statements.*

# FAYETTE COUNTY MEMORIAL HOSPITAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS (continued) YEARS ENDED DECEMBER 31, 2013 AND 2012

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

	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities</b>		
Operating income (loss)	\$ (3,465,236)	\$ 326,785
<b>Adjustments to reconcile operating income (loss) to net cash from operating activities:</b>		
<b>Bad debts</b>	7,069,983	6,303,087
<b>Depreciation and amortization</b>	1,311,031	1,103,444
<b>Changes in assets and liabilities</b>		
Patient accounts receivable	(6,060,770)	(6,188,790)
Inventories	49,806	(203,741)
Prepaid expenses and other current assets	(249,728)	(26,748)
Estimated third-party settlements	40,414	(1,504,219)
Accounts payable	(802,299)	885,428
Other accrued expenses	447,311	603,628
	<u>447,311</u>	<u>603,628</u>
Net cash flow from operating activities	<u>\$ (1,659,488)</u>	<u>\$ 1,298,874</u>

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*See accompanying notes to consolidated financial statements.*

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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### 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

Fayette County Memorial Hospital (the Hospital) is a general short-term acute care facility, owned by Fayette County, Ohio (the County), 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. Members of the Board of Trustees are appointed by the County Commissioners, the Probate Court Judge, and the Common Pleas Judge. There is an agreement with Mount Carmel Health System to provide a Chief Executive Officer to oversee the operations of the Hospital.

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

#### Blended Component Unit

As required by the accounting principles generally accepted in the United States of America, the accompanying consolidated financial statements present the Hospital and one blended component unit for which the Hospital is financially accountable, the Fayette County Memorial Hospital Foundation, Inc. (the 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 have been eliminated for financial reporting purposes.

#### 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 certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash, money markets, certificates of deposit and investments in highly liquid investments purchased with a maturity of three months or less. Cash and cash equivalents included in assets limited as to use are considered cash and cash equivalents for the purpose of the statement of cash flows.



# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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### Inventories

Inventories, consisting of medical and office supplies and pharmaceutical products, are stated at lower of market or cost, as determined by the first-in, first-out method.

### Investments

The Hospital has investments in mutual funds, equities and U.S. government and agency obligations, which are stated at fair value on the accompanying statement of net position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in non-operating gains (losses).

### 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 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.

### Assets Limited as to Use

Assets limited as to use include assets temporarily restricted by the donor. Assets limited as to use also consist of invested funds designated by the Board of Trustees for the replacement, improvement, and expansion of the Hospital's facilities. Investments with readily determinable fair values are measured at fair value as determined by quoted market prices.

### Capital Assets

Capital assets are recorded at cost. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Equipment under capital leases is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Costs of maintenance and repairs are charged to expense when incurred.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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### Compensated Absences

Paid time off is charged to operations when earned. The earned and unused benefits are recorded as a current liability in the financial statements. Employees accumulate vacation days at varying rates depending on years of service, and may carry over to the next year up to 2 times the number of hours eligible to be earned during the year, or up to 120 hours for part-time employees. 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 holidays at a Hospital determined rate for all employees.

### Restricted Resources

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

### Classification of Net Position

Net position of the Hospital is classified in three components. (1) Net invested in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balance of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Restricted expendable net position are assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital including amounts deposited with trustees as required by revenue note indentures. (3) Board designated net position are assets specified for an intended use by the Board of Trustees. (4) Unrestricted net position is remaining net position that do not meet the definition of invested in capital assets net of related debt, restricted, or board designated.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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### 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.

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

### Contributions

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

### Operating Income

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as non-operating gains and losses.

### 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.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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### 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 net patient service revenue.

Of the Hospital's total reported expenses (approximately \$47,372,000 and \$43,265,000 during 2013 and 2012, respectively), an estimated \$1,567,000 and \$1,518,000 arose from providing services to charity patients during 2013 and 2012, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue. 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 \$454,413 and \$495,303 for 2013 and 2012, respectively, and are reported as net patient service revenue in the consolidated financial statements.

### Pension Plan

Substantially all of the Hospital's employees are eligible to participate in a defined benefit pension plan sponsored by the Ohio Public Employees Retirement System (OPERS). The Hospital funds pension costs, based on contribution rates determined by OPERS.

### Physician Recruitment Agreements and Physician Advances Receivable

Consistent with the Hospital's policy on physician relocations and recruitment, the Hospital provides income guarantees to certain physicians who agree to relocate to the community to fill a need in the Hospital's service area and commit to remain in practice for a specified term. Under such agreements, the Hospital is required to make payments to the physicians in excess of amounts earned in their respective practices up to the amount of the income guarantee. Income guarantee periods are generally two years. Such payments are recoverable from the physician in the event that their commitment period is not met, which is typically three years. The Hospital also advances monies to physicians under various loan agreements. These loans are unsecured and are forgiven systematically in accordance with the loan agreements.

Should the arrangement between the Hospital and the physician be terminated prior to the end date agreed upon by both parties, the Hospital will pursue collection of any outstanding advances.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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The Hospital recorded a liability of \$103,080 and \$307,932 at December 31, 2013 and 2012, respectively, for the estimated obligation to the Hospital under these agreements with an offsetting asset recorded within the accompanying statement of net position.

### Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid program. To qualify for these payments, the Hospital must meet “meaningful use” criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (ending on September 30<sup>th</sup>). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital’s cost reports. For Critical Access Hospitals, the payment calculation is based upon the net book value of the qualifying assets multiplied by the Medicare utilization using Medicare to total inpatient days plus 20%, not to exceed 100%. The total days are multiplied by a factor of total charges excluding charity care to total charges. Critical Access Hospitals can be reimbursed over a four year period for additional qualifying assets not claimed in the first year. The transitional factor ranges from 100% in first payment year and decreases by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2013 and 2012, the Hospital recognized approximately \$446,000 and \$1,238,000, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Hospital records income at the end of the EHR reporting period in which compliance is received. EHR incentive income is included in other operating revenue in the consolidated statement of operations. EHR incentive income recognized is based on management’s estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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### Change in Accounting Principle

During 2013, the Hospital implemented GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment to GASB Statements No. 14, the Financial Reporting Entity, and 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. The objective of the implementation is to improve the financial reporting of the government financial reporting entity. As discussed in Note 17 to the consolidated financial statements, the Hospital adopted GASB Statement No. 61 which requires reporting condensed combining information in the notes to the financial statements for blended component units of primary governments that are business-type activities.

### Reclassifications

Certain 2012 amounts have been reclassified to conform to the 2013 presentation in the accompanying financial statements. These reclassifications primarily resulted in the 2012 net position to change by including a separate line item for board designated funds of \$673,651 previously recorded in unrestricted net position. These reclassifications also increased donor restricted funds by \$511,507 previously recorded in unrestricted net position. These reclassifications are included in the statements of net position. Such reclassifications did not impact the 2012 change in net assets.

### Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the statement of net position date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is June 2, 2014.

## 2. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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

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

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

The Hospital's policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. No transfers between levels occurred in 2013 and 2012.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2013 and 2012.

*Mutual Funds:* Valued at the daily closing prices as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

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

*Equities:* Valued at the closing price reported on the active market on which the individual securities are traded.

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

*Interest rate swap agreements:* Valued using pricing models that are derived principally from observable market data based on discounted cash flows and interest rate yield curves.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds:				
Mid-cap	\$ 35,210	\$ -	\$ -	\$ 35,210
Large-cap	27,148	-	-	27,148
Small-cap	86,985	-	-	86,985
Corporate bonds:				
Consumer cyclical bonds	-	17,000	-	17,000
Equities:				
Real estate	3,348	-	-	3,348
Energy	102,658	-	-	102,658
Financial services	17,850	-	-	17,850
Utilities	7,309	-	-	7,309
Basic materials	1,494	-	-	1,494
Industrials	8,517	-	-	8,517
Technology	5,505	-	-	5,505
Healthcare	5,916	-	-	5,916
Consumer cyclical	3,766	-	-	3,766
Consumer defensive	8,577	-	-	8,577
Communication services	5,450	-	-	5,450
US government securities	-	2,965,766	-	2,965,766
Money market	-	463,739	-	463,739
	319,733	3,446,505	-	3,766,238
Cash	-	-	-	324,657
Certificates of deposit	-	-	-	411,458
	\$ 319,733	\$ 3,446,505	\$ -	\$ 4,502,353



# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Mutual funds:				
Mid-cap	\$ 40,661	\$ -	\$ -	\$ 40,661
Large-cap	30,741	-	-	30,741
Small-cap	98,388	-	-	98,388
Corporate bonds:				
Consumer cyclical bonds	-	11,800	-	11,800
Equities:				
Real estate	17,773	-	-	17,773
Energy	115,599	-	-	115,599
Financial services	17,394	-	-	17,394
Utilities	6,288	-	-	6,288
Basic materials	1,035	-	-	1,035
Industrials	6,295	-	-	6,295
Technology	4,148	-	-	4,148
Healthcare	4,559	-	-	4,559
Consumer cyclical	3,082	-	-	3,082
Consumer defensive	7,309	-	-	7,309
Communication services	5,095	-	-	5,095
US government securities	-	3,925,169	-	3,925,169
Money market	-	281,704	-	281,704
	<u>4,218,673</u>	<u>4,218,673</u>	<u>-</u>	<u>4,577,040</u>
Cash	-	-	-	158,683
Certificates of deposit	-	-	-	410,783
	<u>\$ 4,218,673</u>	<u>\$ 4,218,673</u>	<u>\$ -</u>	<u>\$ 5,146,506</u>
Liabilities:				
Interest rate swap	\$ -	\$ 43,325	\$ -	\$ 43,325

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

### 3. DEPOSITS AND INVESTMENTS

The Hospital's deposits and investments are composed of the following as of December 31, 2013 and 2012:

2013	Cash and Cash Equivalents	Investments	Assets Limited as to Use
Deposits	\$ 470,043	\$ 29,646	\$ 1,170,208
Bonds	-	-	17,000
Mutual funds	-	-	149,343
Equities	-	-	170,390
United States government and agency obligations	-	2,747,880	217,886
Total	<u>\$ 470,043</u>	<u>\$ 2,777,526</u>	<u>\$ 1,724,827</u>

2012	Cash and Cash Equivalents	Investments	Assets Limited as to Use
Deposits	\$ 1,813,880	\$ 12,706	\$ 838,464
Bonds	-	-	11,800
Mutual funds	-	-	169,790
Equities	-	-	188,577
United States government and agency obligations	-	3,526,417	398,752
Total	<u>\$ 1,813,880</u>	<u>\$ 3,539,123</u>	<u>\$ 1,607,383</u>

Concentration of credit risk – The Hospital has a policy whereby deposits and investments are diversified between several issuers. The Hospital maintains its cash and investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits	2013	2012
Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit)	\$ 1,480,514	\$ 2,585,708
Amount of deposits covered by federal depository insurance	797,914	932,308
Amounts of deposits uninsured	<u>\$ 682,600</u>	<u>\$ 1,653,400</u>

Amounts uninsured are collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital's name.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

The Hospital had the following investments and maturities, all of which are held in the Hospital's name by custodial banks that are agents of the Hospital:

	Carrying amount	Maturities			
		< than 1 year	1-5 years	6-10 years	> than 10 years
<b>December 31, 2013</b>					
Certificates of deposit	\$ 411,458	\$ 165,384	\$ 191,263	54,811	\$ -
Bonds	17,000	-	-	17,000	-
United States government and agency obligations	\$ 2,965,766	\$ 311,029	\$ 2,467,404	\$ 4,881	\$ 182,452

	Carrying amount	Maturities			
		< than 1 year	1-5 years	6-10 years	> than 10 years
<b>December 31, 2012</b>					
Certificates of deposit	\$ 410,783	\$ 72,764	\$ 283,208	\$ 54,811	\$ -
Bonds	11,800	-	-	11,800	-
United States government and agency obligations	\$ 3,925,169	\$ 639,069	\$ 2,923,732	\$ 3,114	\$ 359,254

Interest rate risk – The Hospital has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – The Hospital may invest in United States obligations or any other obligation guaranteed by the United States; bonds, notes or any other obligations or securities issued by any federal government or instrumentality; time certificate of deposit or savings or deposit accounts, including passbook accounts, in any eligible institution mentioned in Section 135.32 of the Ohio Revised Code, bonds and other obligations of the State of Ohio or the political subdivisions of the state provided that such political subdivisions are located wholly or partly within the same county; and certain no load money market mutual funds; certain commercial paper; and certain repurchase agreements.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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### 4. PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable at December 31, 2013 and 2012 is as follows:

	2013	2012
Total patient accounts receivable	\$ 13,737,807	\$ 12,273,092
Less allowance for:		
Uncollectible accounts	(2,844,467)	(1,935,911)
Contractual adjustments	(5,814,359)	(4,248,987)
Net patient accounts receivable	\$ 5,078,981	\$ 6,088,194

The Hospital provides services without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables and revenue from patients and third-party payors follows:

	2013		2012	
	Receivables	Revenue	Receivables	Revenue
Medicare	18%	43%	19%	44%
Medicaid	6%	19%	6%	19%
Private insurance	50%	27%	48%	26%
Self pay	26%	11%	27%	11%
	100%	100%	100%	100%

### 5. NOTES RECEIVABLE

Notes receivable represent loans and minimum guarantee obligations to physicians under various cash flow support and loan arrangements. These loans are to be repaid in varying monthly installments including interest at rates ranging from 0 percent to 6.5 percent, and are unsecured. A portion of the physicians notes receivable are forgiven over time under the terms of the physician loan agreement.

A note receivable from Fayette County for \$257,719 relating to the overpayment of property tax is also included in notes receivable. This note is payable to the Hospital through 2016. There is no interest associated with this note.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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Notes receivable at December 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Physician notes receivable	\$ 41,800	\$ 41,800
Physician guarantee	103,080	307,932
Home health note receivable	-	125,000
Fayette County receivable	257,719	340,643
Other receivables	<u>138,479</u>	<u>179,178</u>
	541,078	994,553
Less allowance	<u>(41,800)</u>	<u>(41,800)</u>
Total notes receivable	<u>\$ 499,278</u>	<u>\$ 952,753</u>

### 6. BOARD DESIGNATED AND RESTRICTED FUNDS

Board designated and restricted funds are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Board designated:		
Community health services	\$ 674,858	\$ 673,651
Donor restricted:		
Community health services	831,527	832,968
Capital expenditures	64,428	64,428
Foundation restricted assets	<u>154,014</u>	<u>36,336</u>
Total donor restricted	<u>1,049,969</u>	<u>933,732</u>
	<u>\$ 1,724,827</u>	<u>\$ 1,607,383</u>

### 7. ESTIMATED THIRD PARTY SETTLEMENTS

Approximately 62 percent and 63 percent of the Hospital's revenues from patient services were received from the Medicare and Medicaid programs for 2013 and 2012, respectively. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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### Medicare

Effective December 2005, the Hospital was designated as a Critical Access Hospital. As a result, Medicare inpatient and outpatient services are reimbursed at the approximate cost plus 1% of providing those services subject to the federal sequestration cuts. Medicare cost reports are final settled through 2010.

### Medicaid

Inpatient, acute-care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Capital costs relating to Medicaid inpatients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on an established fee-for-service methodology. Medicaid cost reports have been final settled through 2007.

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

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. During the years ended December 31, 2013 and 2012, the Hospital recognized a change in estimate of approximately \$183,000 and \$27,000, 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 consolidated statements of operations and changes in net position.

## 8. ARRANGEMENTS FOR LEASING TO OTHERS

The Hospital has entered into various leasing agreements. The lease terms range from one to five years through September 2016. These leases are for building space and each contain yearly renewal options. The Hospital collected rental income of \$177,881 and \$249,683 for 2013 and 2012 respectively.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

The following schedule shows the aggregate future minimum lease payments required under the lease:

2014	17,861
2015	15,732
2016	11,799
	<u>\$ 45,392</u>

### 9. CAPITAL ASSETS

Capital assets activity for the years ended December 31, 2013 follows:

	2012	Additions	Retirements	2013	Depreciable Life - Years
Land	\$ 433,225	\$ -	\$ -	\$ 433,225	
Land improvements	624,690	-	-	624,690	10-20
Buildings	15,370,327	391,523	-	15,761,850	15-50
Fixed equipment	1,817,598	44,278	(23,960)	1,837,916	5-20
Major movable equipment	9,609,188	605,952	(563,039)	9,652,101	5-25
Construction in progress	548,871	11,570	-	560,441	
Total	28,403,899	1,053,323	(586,999)	28,870,223	
Less accumulated depreciation					
Land improvements	568,855	10,537	-	579,392	
Buildings	8,359,752	512,610	-	8,872,362	
Fixed equipment	1,452,420	63,980	(23,961)	1,492,439	
Major movable equipment	7,643,120	723,904	(558,618)	7,808,406	
Total	18,024,147	1,311,031	(582,579)	18,752,599	
Net carrying amount	\$ 10,379,752			\$ 10,117,624	

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Capital assets activity for the years ended December 31, 2012 follows:

	2011	Additions	Retirements	2012	Depreciable Life - Years
Land	\$ 433,225	\$ -	\$ -	\$ 433,225	
Land improvements	624,690	-	-	624,690	10-20
Buildings	15,120,395	249,932	-	15,370,327	15-50
Fixed equipment	1,827,004	-	(9,406)	1,817,598	5-20
Major movable equipment	8,782,458	1,267,282	(440,552)	9,609,188	5-25
Construction in progress	286,870	273,101	(11,100)	548,871	
Total	27,074,642	1,790,315	(461,058)	28,403,899	
Less accumulated depreciation					
Land improvements	558,276	10,579	-	568,855	
Buildings	7,895,709	464,043	-	8,359,752	
Fixed equipment	1,398,333	62,199	(8,112)	1,452,420	
Major movable equipment	7,464,757	566,623	(388,260)	7,643,120	
Total	17,317,075	1,103,444	(396,372)	18,024,147	
Net carrying amount	\$ 9,757,567			\$ 10,379,752	



# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

### 10. LONG-TERM DEBT

Long-term debt activity for the years ended December 31, 2013 and 2012 follows:

2013	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Leases and notes payable:					
Lease obligations	\$ 504,657	\$ 782,941	\$ (275,273)	\$ 1,012,325	\$ 501,894
Notes payable - 2003 series	3,025,000	-	(210,000)	2,815,000	2,815,000
Note payable	550,439	-	(67,260)	483,179	70,932
Total leases and notes payable	<u>\$ 4,080,096</u>	<u>\$ 782,941</u>	<u>\$ (552,533)</u>	<u>\$ 4,310,504</u>	<u>\$ 3,387,826</u>
2012	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Leases and notes payable:					
Lease obligations	\$ 639,709	\$ -	\$ (135,052)	\$ 504,657	\$ 260,800
Notes payable - 2003 series	3,225,000	-	(200,000)	3,025,000	210,000
Note payable	616,132	-	(65,693)	550,439	67,455
Total leases and notes payable	<u>\$ 4,480,841</u>	<u>\$ -</u>	<u>\$ (400,745)</u>	<u>\$ 4,080,096</u>	<u>\$ 538,255</u>

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).

The Hospital is bound by the terms of the Trust Indenture and Reimbursement Agreement to various operations and financial covenants. These covenants include maintaining a minimum debt service ratio of 1.25 to 1.00, and minimum days cash on hand of 50 for the quarter ended December 31, 2013. The Hospital was in not compliance with these covenants as of December 31, 2013. As such, all debt relating to the 2003 series bonds has been classified as a current liability on the statement of net position.

The Notes are payable semi-annually with principal payments ranging from \$210,000 to \$350,000, in aggregate, maturing on August 1, 2023. The interest rate on the variable rate notes was 0.19 percent at December 31, 2013. The Notes are secured by an irrevocable letter-of-credit with the Trustee bank.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

The Notes are remarketed on a weekly basis. Should the remarketing agent be unable to remarket the notes based on its best efforts, these Notes would be “put” back to the Trustee, who would draw down on the letter-of-credit to pay down the Notes. Under the Reimbursement Agreement between the Trustee and the Hospital, the Hospital is obliged to reimburse the Trustee for any draws made on the letter-of credit. A draw due to default would result in payment due on demand, while a draw on the letter due to a failed remarketing would be due at the expiration of the letter of credit. Interest is applied to letter-of-credit draws at a variable rate based on the current market interest rates.

The letter-of-credit expires upon the earliest of August 16, 2014, unless extended, or receipt by the Trustee of payment in full of principal and interest on the Notes. In the event of the expiration of the letter-of-credit, all outstanding Notes would be subject to mandatory purchase by the Hospital. Since the letter-of-credit expires in 2014, the Notes have been classified as current on the statement of net position. Additionally, there is a commitment fee with respect to the issuance and maintenance of the letter-of-credit. The Hospital’s obligation to the Trustee for draws on the letter-of-credit is secured by a pledge of its gross receipts pursuant to an Assignment and Security Agreement, and a lien on any leases pursuant to an Assignment of Rents and Leases.

During 2009, the Hospital refinanced its line of credit to a note payable to a bank maturing December 2012. In March 2012, this note’s maturity was extended through December 21, 2019. The note is unsecured and requires monthly payments of \$7,790 including interest at 5% through maturity.

Rates were used as of December 31, 2013, for the debt service requirements of the variable rate debt of the 2003 Series Bond, assuming current interest rates remain the same for the term of the 2003 bond. As rates vary, variable-rate bond interest payments and net swap payments will vary.

As of December 31, 2013, debt service requirements of the variable-rate debt and note payable for their term were as follows:

Year Ending December 31	Principal Payments on Note Payable	Interest Payments on Note Payable	Principal Payments on 2003 Notes Payable	Interest Payments on 2003 Notes Payable	Total Payments
2014	\$ 70,932	\$ 22,575	\$ 2,815,000	\$ 30,258	\$ 2,878,249
2015	74,534	18,948	-	-	93,482
2016	78,348	15,134	-	-	93,482
2017	82,356	11,126	-	-	93,482
2018	86,570	6,912	-	-	93,482
2019-2023	90,439	2,484	-	-	92,923
Total Payments	<u>\$ 483,179</u>	<u>\$ 77,179</u>	<u>\$ 2,815,000</u>	<u>\$ 30,258</u>	<u>\$ 3,345,100</u>

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

The Hospital has entered into operating lease agreements for equipment, which expire at various times through 2019. Operating lease expense totaled \$475,646 and \$397,108 in 2013 and 2012, respectively.

The Hospital has entered into various non-cancelable capital lease agreements for equipment. Capital leases have imputed interest rates of 3.25 percent to 8.52 percent. They expire at various times through 2018 and are collateralized by the equipment leased.

Minimum payments on these obligations to maturity as of December 31, 2013 are as follows:

	Capital Leases	Operating Leases	Total
2014	\$ 536,886	\$ 249,334	\$ 786,220
2015	305,752	235,767	541,519
2016	100,979	223,574	324,553
2017	81,990	222,239	304,229
2018	63,904	58,983	122,887
Thereafter	-	1,196	1,196
Total minimum payments	1,089,511	\$ 991,093	\$ 2,080,604
Less amount representing interest	77,186		
Total	\$ 1,012,325		
	2013	2012	
Cost of equipment under capital lease	\$ 1,409,799	\$ 701,857	
Less accumulated amortization	459,046	320,050	
Net carrying amount	\$ 950,753	\$ 381,807	

## 11. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

### Contracts

The Hospital has one interest rate swap agreement for the 2003 Series Bond, which expired in August 2013.

### Objectives

As a means to manage the risk associated with interest rate risk on its variable rate bond, the Hospital entered into an interest rate swap in connection with its 2003 Series Bond. The intention of the swap agreement was to effectively change the Hospital's variable interest rate on the bonds to a fixed rate of 5.24%.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

The interest rate swap has been designated by management as a cash flow hedge of variable-rate debt with no hedge effectiveness; therefore, changes in the fair value of the swap are recorded in the change in net position for the reporting period. Under the agreement, the Hospital will pay or receive the net interest rate amount monthly, which will be included in interest expense.

### Terms, Fair Values and Credit Risk

The terms, fair values, and credit ratings of the outstanding swaps as of 3 are as follows. As only half of the Series 2003 Notes were hedged, the notional amount of the swap declines with the hedged portion of the debt.

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate	Variable Rate	Fair Value	Termination Date	Counterparty Credit Rating
2003 Series Bond	\$ 1,530,000	8/1/2003	5.24%	LIBOR	\$ -	August 1, 2013	Baa1/BBB+/A

### Tabular Disclosures

The liability derivative is reported as interest rate swap on the statement of net position. The fair value of the derivative recorded on the statement of net position is as follows:

	Liabilities	
	2013	2012
Interest rate swap	\$ -	\$ 43,325

During 2013 and 2012, the amounts of gain recognized in the statements of operations and changes in net position are as follows:

Financial Instrument	2013	2012	Location
Interest rate swap agreement	\$ 43,325	\$ 70,986	Non-operating gains
Total gain	<u>\$ 43,325</u>	<u>\$ 70,986</u>	

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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### 12. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	<u>2013</u>	<u>2012</u>
<b>Revenue</b>		
Inpatient service		
Routine service	\$ 6,054,713	\$ 6,861,120
Ancillary services	14,710,081	12,442,125
Outpatient ancillary services	<u>88,985,901</u>	<u>83,315,567</u>
 Total patient revenue	 109,750,695	 102,618,812
<b>Revenue deductions</b>		
Provision for contractual allowances	54,642,193	49,807,282
Provision for charity care	3,632,114	3,599,795
Bad debts	7,069,983	6,303,087
Other allowances	<u>1,816,688</u>	<u>1,421,052</u>
 Total revenue deductions	 <u>67,160,978</u>	 <u>61,131,216</u>
 Total net patient service revenue	 <u>\$ 42,589,717</u>	 <u>\$ 41,487,596</u>

### 13. NON-OPERATING GAINS

Non-operating gains consist of the following:

	<u>2013</u>	<u>2012</u>
Donations, gifts and grants	\$ 231,297	\$ 326,351
Investment income	72,260	190,384
Interest expense	(133,040)	(177,107)
Change in fair value of interest rate swap	43,325	70,986
Other gains	<u>70,853</u>	<u>26,350</u>
 Non-operating gains - net	 <u>\$ 284,695</u>	 <u>\$ 436,964</u>

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# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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### 14. DEFINED BENEFIT PENSION PLAN

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

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 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 the OPEB Plan is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, member and employer contribution rates were consistent across all three plans. The 2012 member contribution rates were 10.0% of covered payroll for members in state and local classifications.

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

#### Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013 and 2012, state and local employers contributed at a rate of 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care was 1% and 4% during calendar year 2013 and 2012, respectively. Effective January 1, 2014, the portion of employer contributions allocated to health care was raised to 2%, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Hospital's contributions, representing 100% of employer contributions, for the last three years follow:

<u>Year</u>	<u>Contribution</u>
2013	\$ 3,067,190
2012	\$ 2,754,089
2011	\$ 2,272,640

The portion of the Hospital's contribution in the above table was made to fund post-employment health care benefits approximated \$219,000, \$787,000, and \$649,000 for 2013, 2012, and 2011, respectively.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With recent passage of pension legislation under Senate Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

### 15. RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for malpractice, general liability, employee medical stop-loss and workers' compensation claims.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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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 \$5,000,000 of coverage.

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. There have been no claims settled in the last five years that have exceeded insured limits.

### 16. SELF-INSURANCE

The Hospital provides health insurance to participating employees under a plan that is partially self-insured. The plan is covered by a stop-loss policy that covers claims over \$750,000 per employee per annum to an aggregate amount of \$1,500,000. Expenses charged to operations, including an estimate of incurred but unreported claims totaled \$3,333,556 and \$2,773,446 in 2013 and 2012, respectively.



# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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### 17. BLENDED COMPONENT UNIT

The consolidated 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, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 96,631	\$ 85,417
Assets limited as to use-restricted	115,465	36,336
Investments	5,284	7,789
Total current assets	<u>\$ 217,380</u>	<u>\$ 129,542</u>
<b>Net position</b>		
Board designated	\$ 46,804	\$ 19,781
Donor restricted	154,014	89,906
Restricted- Ralph Gebhart Memorial Fund	5,284	7,789
Unrestricted	11,278	12,066
Total net position	<u>\$ 217,380</u>	<u>\$ 129,542</u>
<b>Operating revenues</b>	\$ 180,555	\$ 148,010
<b>Operating expenses</b>	92,717	87,386
Operating income (loss)	<u>\$ 87,838</u>	<u>\$ 60,624</u>
<b>Cash provided by (used in):</b>		
Operating activities	\$ 87,838	\$ 60,624
<b>Cash - beginning of year</b>	129,542	68,918
<b>Cash - end of year</b>	<u>\$ 217,380</u>	<u>\$ 129,542</u>

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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### 18. RECENT GASB PRONOUNCEMENTS

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

**GASB Statement No. 68**, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

**GASB Statement No. 69**, *Government Combinations and Disposals of Government Operations*, issued January 2013, will be effective for government combinations and disposals of government operations occurring in financial reporting periods for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations (mergers, acquisitions, and transfers of operations) and disposals of government operations. The disclosures required by this Statement will enable financial statement users to evaluate the nature and financial effects of those transactions.

**GASB Statement No. 70**, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013, will be effective for financial reporting periods beginning after June 15, 2013. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. Additional disclosures will be required by both governments that extend and receive financial guarantees.

**GASB Statement No. 71**, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68. This Statement amends previous guidance to require that, at transition, a government 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.

# FAYETTE COUNTY MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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### 19. GOING CONCERN AND MANAGEMENT'S PLANS

The Hospital had an operating income (loss) of (\$3,465,236) and \$326,785 for 2013 and 2012, respectively. The Hospital's current liabilities exceed the Hospital's current assets at December 31, 2013. As noted in footnote 10, the Hospital was not in compliance with certain covenants as of December 31, 2013. These factors could be indicative of the Hospital's inability to continue as a going concern.

Management of the Hospital plans to return the Hospital to profitability through evaluation of contribution margins of certain lines of business, physician recruitment, renegotiation of supplies contracts and vendor agreements, flexing staff levels consistent with inpatient census and outpatient needs in addition to other cost containment initiatives.

It is not possible at this time to predict the success of the Hospital's future plans, and there is no assurance that these plans will be realized. The Hospital's continued existence is dependent on its ability to achieve profitable operations and positive cash flows, and to maintain adequate financing.



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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**

To the Board of Trustees  
Fayette County Memorial Hospital  
Washington Court House, Ohio

To the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the consolidated financial statements of Fayette County Memorial Hospital (the Hospital) a business-type activity of Fayette County, Ohio, as of and for the years ended December 31, 2013, and the related notes to the consolidated financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated June 2, 2014.

Our report included an emphasis-of-matter paragraph stating 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 Fayette County that is attributable to the transactions of Fayette County Memorial Hospital. Those financial statements do not purport to, and do not, present fairly the financial position of Fayette County, Ohio as of December 31, 2013, the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our report also included an emphasis-of-matter paragraph stating that the Hospital adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our opinion was not modified with respect to these matters.

Our report also included an emphasis-of-matter paragraph regarding uncertainty about the Hospital's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

***Internal Control Over Financial Reporting***

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

**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 (continued)**

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

*Bene G., LLC*

Columbus, Ohio  
June 2, 2014

**FAYETTE COUNTY MEMORIAL HOSPITAL**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES**  
**YEAR ENDED DECEMBER 31, 2012**

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**2012-1 Segregation of Duties**

Condition: The payroll clerk had access to the accounts payable system. This led to misappropriation of funds at the Hospital. The clerk was able to manipulate the system to avoid detection.

Recommendation: We recommend the Hospital consider hiring additional employees so that proper segregation of duties can be in place to deter this from happening in the future.

Current Status: The accounting department was reorganized along with management implementing internal controls to ensure proper segregation of duties.



# 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  
JULY 29, 2014