

FAYETTE COUNTY MEMORIAL HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

CPAs / ADVISORS





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, 2012 through December 31, 2012. 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. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

Finding for Recovery

Ohio Rev. Code Section 2921.41(A) and (B) prohibit committing any theft offense when the offender uses the offender's office in the aid of committing the offense and the property or service involved is owned by the state, any other state, the United States, a county, a municipal corporation, a township, or any political subdivision, department, or agency of any of them, is owned by a political party, or is part of a political campaign fund. Whoever violates this section is guilty of theft in office.

During the period of July 1, 2009 through January 31, 2013, the Hospital identified four unauthorized payments made to Kim Crabtree totaling \$17,410 that were endorsed by Kim Crabtree. In addition, the Hospital identified one unauthorized payment made to CP&S totaling \$9,284 that was endorsed by Michael Crabtree, Kimberly Crabtree's husband. Kim Crabtree was employed by the Hospital as a staff accountant and had access to issuing checks for the hospital during this period.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public property converted or misappropriated is hereby issued against former staff accountant, Kimberly Crabtree, in the amount of \$26,694 and in favor of the Hospital.

Board of Trustees
Fayette County Memorial Hospital
Page -2-

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". The signature is written in a cursive style with a large, looping initial "D" and a long, sweeping tail on the "y".

Dave Yost
Auditor of State

July 9, 2013

FAYETTE COUNTY MEMORIAL HOSPITAL

TABLE OF CONTENTS DECEMBER 31, 2012 AND 2011

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management's Discussion and Analysis (Unaudited)	i-ix
Consolidated Financial Statements	
Consolidated Balance Sheets	4
Consolidated Statements of Operations and Changes in Net Position	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	9
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 ...	33
Schedule of Audit Findings and Responses- Year Ended December 31, 2012	35



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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) a business-type activity of Fayette County, Ohio, as of and for the year ended December 31, 2012 and 2011, 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.

Board of Trustees
Fayette County Memorial Hospital

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2012 and 2011, 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.

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, 2012 and 2011, 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.

Other Matters

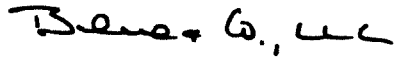
Required Supplementary Information

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.

Board of Trustees
Fayette County Memorial Hospital

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2013, 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 5, 2013

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

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, 2012 and 2011. 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 \$437,000 while accounts receivable decreased approximately \$114,000. In total, the Hospital's revenues and other support exceeded expenses, creating an increase in net position of \$763,749 (compared to an increase of \$748,338 in the previous year).

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

In 2010, the Hospital formed Fayette County Memorial Hospital Foundation (the Foundation), a 501(c)(3) nonprofit corporation. The Foundation is governed by a 15 member board of directors. The Foundation's purpose is to raise funds, create awareness and support the Hospital's mission.

Also in 2010, the Hospital closed the obstetrics department and sold the Hospital's home health. Proceeds from the sale of home health are included in non-operating gains for 2010.

Using this Annual Report

The Hospital's financial statements consist of the three statements – Balance Sheet, 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 Balance Sheet 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 balance sheet 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)

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?"

Condensed Financial Information

The following is a comparative analysis of the major components of the balance sheets of the Hospital as of December 31, 2012 and 2011.

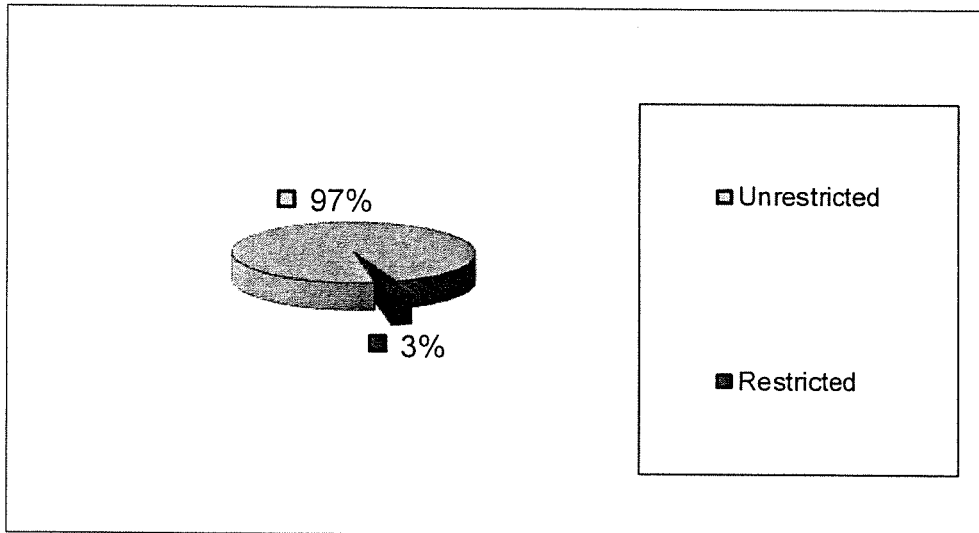
Assets, Liabilities and Net Position

	December 31		
	2012	2011	2010
Current assets	\$ 9,427,160	\$ 8,321,093	\$ 7,048,013
Noncurrent assets	5,447,685	6,259,796	4,998,321
Capital assets	10,379,752	9,757,567	10,262,555
Total assets	\$ 25,254,597	\$ 24,338,456	\$ 22,308,889
Current liabilities	\$ 6,919,319	\$ 5,961,962	\$ 4,962,276
Long-term liabilities	3,630,913	4,435,878	4,154,335
Total liabilities	\$ 10,550,232	\$ 10,397,840	\$ 9,116,611
Net position			
Unrestricted	14,282,140	13,447,701	12,669,216
Restricted	422,225	492,915	523,062
Total net position	\$ 14,704,365	\$ 13,940,616	\$ 13,192,278

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

The primary changes in the assets, liabilities and net position relates to the increase in inventories of \$203,741, an increase in estimated third party receivable of \$1,504,219 (from an asset of \$894,219 in 2012 compared to a liability of \$610,000 in 2011), an increase in net capital assets of \$622,185, a decrease in notes receivable of \$279,120, a decrease in trustee held investments of \$500,000, an increased liability for accounts payable and accrued payroll and related benefits of \$1,399,491, a decrease in debt of \$400,745, a decrease in physician recruitment liability of \$254,933 and an increase in net position of \$763,749.

The following chart provides a breakdown of net position by category for the year ended December 31, 2012:



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

Operating Results and Changes in Net Position

	Year Ended		
	2012	2011	2010
Operating revenues			
Net patient service revenues	\$ 41,487,596	\$ 37,009,529	\$ 33,611,880
Other	2,104,493	109,787	175,731
Total operating revenues	<u>43,592,089</u>	<u>37,119,316</u>	<u>33,787,611</u>
Operating expenses			
Salaries and wages	20,841,165	17,870,686	16,074,819
Employee benefits	6,270,085	5,039,642	4,920,045
Physicians fees	811,746	775,557	1,517,091
Other fees	4,319,154	4,303,306	3,469,973
Supplies	5,388,328	4,169,134	4,154,332
Depreciation and amortization	1,103,444	1,193,170	1,589,465
Other expenses	4,531,382	3,400,680	3,902,573
Total operating expenses	<u>43,265,304</u>	<u>36,752,175</u>	<u>35,628,298</u>
Operating income (loss)	326,785	367,141	(1,840,687)
Non-operating gains - net	<u>436,964</u>	<u>381,197</u>	<u>1,216,443</u>
Change in net position	763,749	748,338	(624,244)
Net position - beginning of year	<u>13,940,616</u>	<u>13,192,278</u>	<u>13,816,522</u>
Net position - end of year	<u>\$ 14,704,365</u>	<u>\$ 13,940,616</u>	<u>\$ 13,192,278</u>

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

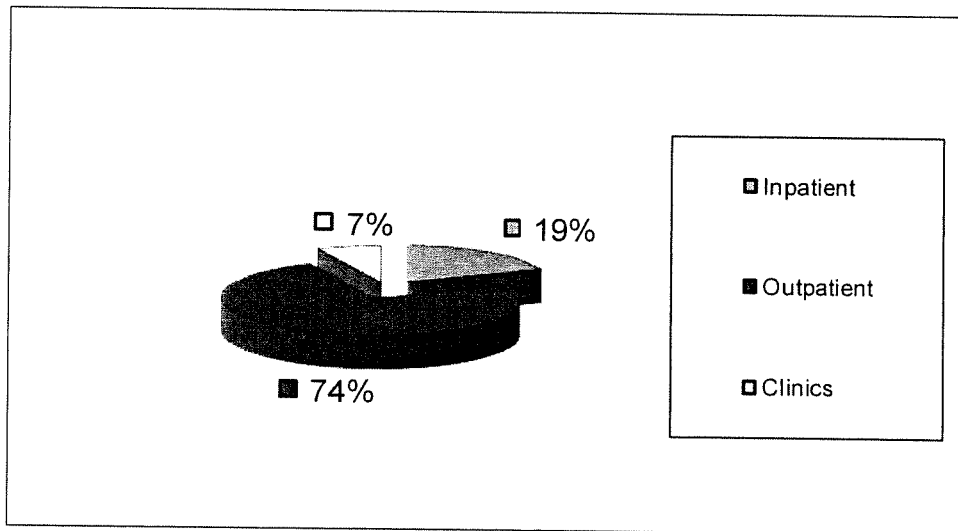
Operating Revenues

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 \$4,478,000. 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 60% and 58% of gross revenue in 2012 and 2011, respectively.

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



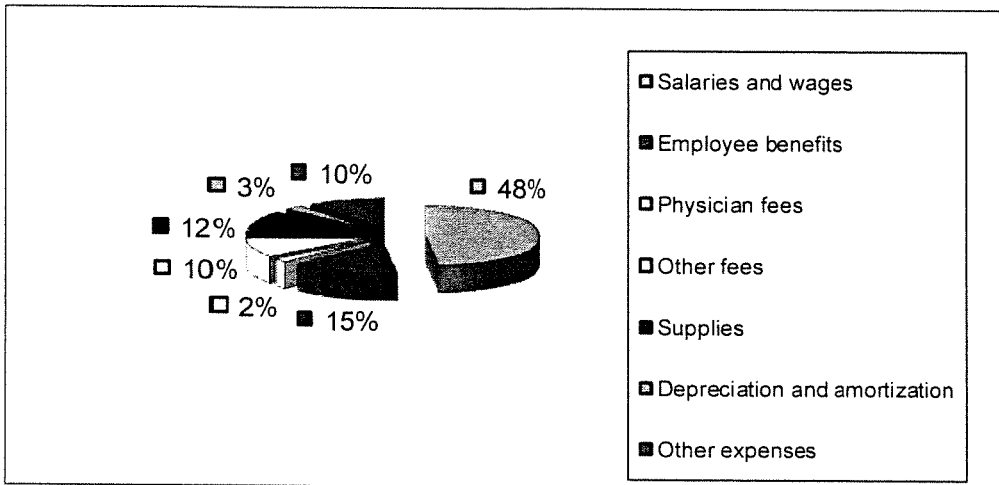
Operating Expenses

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

- Salaries and wages increased 17%.
- Employee benefits increased 24%
- Supplies increased 29%
- Other expenses increased 33%

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

The following is a graphic illustration of 2012 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 increased \$196,000.
- Other gains decreased \$153,000.

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

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

	2012	2011	2010
Cash from			
Operating activities	\$ 1,298,874	\$ 2,090,421	\$ 386,725
Capital and related financing activities	(2,303,481)	(809,535)	(317,903)
Non-capital and related financing activities	352,701	375,966	814,844
Investing activities	327,612	(572,335)	(585,357)
Net change in cash and cash equivalents	(324,294)	1,084,517	298,309
Cash - Beginning of year	2,989,344	1,904,827	1,606,518
Cash - End of year	\$ 2,665,050	\$ 2,989,344	\$ 1,904,827

Cash provided by operating activities was \$1,298,874 in 2012 compared to \$2,090,421 in 2011. Capital purchases were \$1,790,315 in 2012 compared to \$782,771 in 2011. Cash provided by investing activities increased due to decreases in advances to physicians and investments.

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

Capital Assets and Debt Administration

Capital Assets

At December 31, 2012, the Hospital had \$28.4 million invested in capital assets, with an accumulated depreciation of \$18.0 million. Depreciation and amortization totaled \$1.1 million for the current year compared to \$1.2 million last year. Details of these gross capital assets for the past three years are shown below:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 433,225	\$ 433,225	\$ 519,750
Land improvements	624,690	624,690	624,690
Buildings	15,370,327	15,120,395	15,076,977
Fixed equipment	1,817,598	1,827,004	1,749,899
Major movable equipment	9,609,188	8,782,458	8,736,613
Construction in progress	548,871	286,870	7,650
	<u>548,871</u>	<u>286,870</u>	<u>7,650</u>
Total	<u>\$ 28,403,899</u>	<u>\$ 27,074,642</u>	<u>\$ 26,715,579</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 \$4,080,096 in debt outstanding, as compared to \$4,480,841 in 2011. The table below summarizes these amounts by type of debt instrument:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Notes payable - 2003 Series	\$ 3,025,000	\$ 3,225,000	\$ 3,420,000
Note payable	550,439	616,132	677,121
Lease obligation	504,657	639,709	325,040
	<u>504,657</u>	<u>639,709</u>	<u>325,040</u>
Total notes and leases	<u>\$ 4,080,096</u>	<u>\$ 4,480,841</u>	<u>\$ 4,422,161</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)

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, 2012, 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 in compliance with the covenants as of December 31, 2012.

Other Economic Factors

There are many outside factors that may affect the Hospital in 2013 and future years including:

- The budget sequestration in 2013 will result in reduced reimbursements from Medicare. The federal and state governments are under continued pressure to decrease funding for Medicare and Medicaid.
- Healthcare reform signed into law in 2010. All implications for the Hospital are not yet known or understood.
- Medicare has initiated the Recovery Audit Contractor (RAC) program to identify overpayments. The Hospital is unable to determine if it will be audited and the extent of liability, if any.
- The local and state economies are struggling. This climate may continue to lead to more bad debt expense, charity care, and Medicaid utilization.

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 BALANCE SHEETS DECEMBER 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 1,813,880	\$ 1,852,580
Patient accounts receivable, net of uncollectible accounts of \$1,936,000 in 2012 and \$1,896,000 in 2011	5,190,849	5,305,146
Current portion of notes receivable	651,574	517,218
Inventories	762,341	558,600
Prepaid expenses and other current assets	114,297	87,549
Estimated third-party settlements	894,219	-
Total current assets	<u>9,427,160</u>	<u>8,321,093</u>
Other assets		
Assets limited as to use - restricted	422,225	492,915
Notes receivable	301,179	714,655
Investments	4,724,281	4,552,226
Investments-trustee held	-	500,000
Capital assets, net	10,379,752	9,757,567
Total other assets	<u>15,827,437</u>	<u>16,017,363</u>
Total assets	<u>\$ 25,254,597</u>	<u>\$ 24,338,456</u>

See accompanying notes to consolidated financial statements.

FAYETTE COUNTY MEMORIAL HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2012 AND 2011

LIABILITIES AND NET POSITION

	2012	2011
Current liabilities		
Current portion of long-term debt	\$ 538,255	\$ 406,285
Accounts payable	2,028,950	1,143,522
Accrued payroll and related benefits	2,424,622	1,910,559
Other accrued expenses	1,665,307	1,575,742
Current portion of physician recruitment liability	262,185	315,854
Estimated third-party settlements	-	610,000
Total current liabilities	<u>6,919,319</u>	<u>5,961,962</u>
Long-term liabilities		
Physician recruitment liability	45,747	247,011
Long-term debt	3,541,841	4,074,556
Fair value of interest rate swap agreement	43,325	114,311
Total long-term liabilities	<u>3,630,913</u>	<u>4,435,878</u>
Total liabilities	10,550,232	10,397,840
Net position		
Unrestricted	7,982,484	8,170,975
Net invested in capital assets	6,299,656	5,276,726
Restricted:		
Expendable for capital expenditures and other purposes	422,225	492,915
Total net position	<u>14,704,365</u>	<u>13,940,616</u>
Total liabilities and net position	<u>\$ 25,254,597</u>	<u>\$ 24,338,456</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, 2012 AND 2011

	2012	2011
Operating revenue		
Net patient service revenue	\$ 41,487,596	\$ 37,009,529
Other operating revenue	2,104,493	109,787
Total operating revenues	43,592,089	37,119,316
Operating expenses		
Salaries and wages	20,841,165	17,870,686
Employee benefits	6,270,085	5,039,642
Physician fees	811,746	775,557
Other fees	4,319,154	4,303,306
Supplies	5,388,328	4,169,134
Utilities	822,942	804,235
Maintenance and repairs	1,639,699	1,286,982
Leases and rentals	397,108	348,693
Insurance	500,898	512,078
Depreciation and amortization	1,103,444	1,193,170
Other expenses	1,170,735	448,692
Total operating expenses	43,265,304	36,752,175
Operating income	326,785	367,141
Non-operating gains - net	436,964	381,197
Change in net position	763,749	748,338
Net position, beginning of year	13,940,616	13,192,278
Net position, end of year	\$ 14,704,365	\$ 13,940,616

See accompanying notes to consolidated financial statements.

FAYETTE COUNTY MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating activities		
Cash received from patients and third party payors	\$ 40,097,674	\$ 36,711,856
Cash payments to suppliers for services and goods	(14,306,106)	(11,975,094)
Cash payments to employees for services	(26,597,187)	(22,756,128)
Other operating revenue received	2,104,493	109,787
Net cash flow from operating activities	1,298,874	2,090,421
Non-capital and related financing activities		
Donations and other	352,701	375,966
Capital and related financing activities		
Acquisition and construction of capital assets	(1,790,315)	(782,771)
Loss on disposal of capital assets	64,686	94,589
Interest paid	(177,107)	(180,033)
Borrowings on long-term debt	-	500,000
Principal payments on long-term debt	(400,745)	(441,320)
Net cash flow from capital and related financing activities	(2,303,481)	(809,535)
Investing activities		
Change in advances to physicians	24,187	(544,008)
Change in investments, net	113,041	(221,339)
Investment income received on investments	190,384	193,012
Net cash flow from investing activities	327,612	(572,335)
Net change in cash and cash equivalents	(324,294)	1,084,517
Cash and cash equivalents, beginning of year	2,989,344	1,904,827
Cash and cash equivalents, end of year	\$ 2,665,050	\$ 2,989,344
Balance sheet classification of cash and cash equivalents		
Current assets	\$ 1,813,880	\$ 1,852,580
Investments	709,090	903,792
Assets limited as to use	142,080	232,972
Total cash and cash equivalents	\$ 2,665,050	\$ 2,989,344

See accompanying notes to consolidated financial statements.

FAYETTE COUNTY MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued) YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	2012	2011
Cash flows from operating activities		
Operating income	\$ 326,785	\$ 367,141
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Bad debts	6,303,087	5,479,726
Depreciation and amortization	1,103,444	1,193,170
Changes in assets and liabilities		
Patient accounts receivable	(6,188,790)	(6,009,746)
Inventories	(203,741)	(10,308)
Prepaid expenses and other assets	(26,748)	117,322
Estimated third-party settlements	(1,504,219)	232,347
Accounts payable	885,428	605,954
Other accrued expenses	603,628	114,815
Net cash flow from operating activities	<u>\$ 1,298,874</u>	<u>\$ 2,090,421</u>

See accompanying notes to consolidated financial statements.

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 management team 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 fairly 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.

New Pronouncements

During 2012, the Hospital adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which primarily resulted in renaming net assets to net position within the consolidated balance sheets.

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

During 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position, changes in net position or financial reporting disclosures.

Cash and Cash Equivalents

Cash and cash equivalents include cash and investments in highly liquid investments purchased with a maturity of three months or less.

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 balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in non-operating gains (losses).

Assets Limited as to Use

Assets limited as to use include assets temporarily restricted by donor. 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, 2012 AND 2011

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) Unrestricted net position is remaining net position that do not meet the definition of invested in capital assets net of related debt or restricted.

Net Patient Service Revenue and Accounts Receivable

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 and accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others. Retroactive adjustments to these estimated amounts are recorded in future periods as final settlements are determined.

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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.

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.

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Of the Hospital's total reported expenses (approximately \$43,265,000 and \$36,752,000 during 2012 and 2011, respectively), an estimated \$1,518,000 and \$1,485,000 arose from providing services to charity patients during 2012 and 2011, 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 \$495,303 and \$817,405 for 2012 and 2011, respectively.

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.

The Hospital recorded a liability of \$307,932 and \$562,865 at December 31, 2012 and 2011, respectively, for the estimated obligation to the Hospital under these agreements with an offsetting asset recorded within the accompanying balance sheet.

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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.

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare 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 30th). 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 2012 and 2011, the Hospital recognized approximately \$1,238,000 and \$0, 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 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, 2012 AND 2011

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is June 5, 2013.

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.

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 2012 and 2011.

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, 2012 and 2011.

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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, 2012 AND 2011

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

	Level 1	Level 2	Level 3	Total
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
	<u>\$ 358,367</u>	<u>\$ 3,936,969</u>	<u>\$ -</u>	<u>\$ 4,295,336</u>
Liabilities:				
Interest rate swap	<u>\$ -</u>	<u>\$ 43,325</u>	<u>\$ -</u>	<u>\$ 43,325</u>

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds:				
Mid-cap	\$ 36,907	\$ -	\$ -	\$ 36,907
Large-cap	27,224	-	-	27,224
Small-cap	87,252	-	-	87,252
Corporate bonds:				
Financial services	-	9,050	-	9,050
Equities:				
Real estate	13,747	-	-	13,747
Energy	97,941	-	-	97,941
Financial services	70,472	-	-	70,472
US government securities	-	4,065,784	-	4,065,784
	<u>\$ 333,543</u>	<u>\$ 4,074,834</u>	<u>\$ -</u>	<u>\$ 4,408,377</u>
Liabilities:				
Interest rate swap	<u>\$ -</u>	<u>\$ 114,311</u>	<u>\$ -</u>	<u>\$ 114,311</u>

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

3. DEPOSITS AND INVESTMENTS

The Hospital's deposits and investments are composed of the following:

2012	Cash and Cash Equivalents	Investments	Assets Limited as to Use
Deposits	\$ 1,813,880	\$ 709,090	\$ 142,080
Bonds	-	-	11,800
Mutual funds	-	-	169,790
Equities	-	90,022	98,555
United States government and agency obligations	-	3,925,169	-
Total	<u>\$ 1,813,880</u>	<u>\$ 4,724,281</u>	<u>\$ 422,225</u>

2011	Cash and Cash Equivalents	Investments	Assets Limited as to Use
Deposits	\$ 1,852,580	\$ 903,792	\$ 232,972
Fixed income	-	-	9,050
Mutual funds	-	-	151,383
Equities	-	82,650	99,510
United States government and agency obligations	-	4,065,784	-
Total	<u>\$ 1,852,580</u>	<u>\$ 5,052,226</u>	<u>\$ 492,915</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	2012	2011
Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit)	\$ 2,585,708	\$ 2,960,517
Amount of deposits covered by federal depository insurance	932,308	954,928
Amounts of deposits uninsured	<u>\$ 1,653,400</u>	<u>\$ 2,005,589</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, 2012 AND 2011

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
December 31, 2012					
Certificates of deposit	\$ 208,798	\$ 72,764	\$ 136,034	\$ -	\$ -
Bonds	11,800	-	-	11,800	-
United States government and agency obligations	\$ 3,925,169	\$ 639,069	\$ 2,923,732	\$ 3,114	\$ 359,254
	Carrying amount	Maturities			
		< than 1 year	1-5 years	6-10 years	> than 10 years
December 31, 2011					
Certificates of deposit	\$ 410,777	\$ 157,851	\$ 252,926	\$ -	\$ -
Bonds	9,050	-	-	9,050	-
United States government and agency obligations	\$ 4,065,784	\$ 616,698	\$ 2,880,308	\$ 3,580	\$ 565,198

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, 2012 AND 2011

4. PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable at December 31, 2012 and 2011 is as follows:

	2012	2011
Total patient accounts receivable	\$ 11,375,747	\$ 11,607,719
Less allowance for:		
Uncollectible accounts	(1,935,911)	(1,896,173)
Contractual adjustments	(4,248,987)	(4,406,400)
Net patient accounts receivable	\$ 5,190,849	\$ 5,305,146

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:

	2012		2011	
	Receivables	Revenue	Receivables	Revenue
Medicare	19%	39%	19%	43%
Medicaid	6%	20%	6%	18%
Private insurance	48%	31%	46%	30%
Self pay	27%	10%	29%	9%
	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 Caretenders VNA of Ohio, LLC for \$125,000 related to the sale of Home Health is also included in notes receivable. This note is payable to the Hospital on November 1, 2013. The interest rate on this note is 6% and interest is payable quarterly.

A note receivable from Fayette County for \$340,643 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, 2012 AND 2011

Notes receivable at December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Physician notes receivable	\$ 41,800	\$ 41,800
Physician guarantee	307,932	562,865
Home health note receivable	125,000	125,000
Fayette County receivable	340,643	420,000
Other receivables	179,178	124,008
	<u>994,553</u>	<u>1,273,673</u>
Less allowance	(41,800)	(41,800)
Total notes receivable	<u>\$ 952,753</u>	<u>\$ 1,231,873</u>

6. RESTRICTED FUNDS

Restricted funds are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Community health services	\$ 321,461	\$ 404,823
Capital expenditures	64,428	64,428
Foundation restricted assets	36,336	23,664
	<u>\$ 422,225</u>	<u>\$ 492,915</u>

7. ESTIMATED THIRD PARTY SETTLEMENTS

Approximately 59 percent and 61 percent of the Hospital's revenues from patient services were received from the Medicare and Medicaid programs for 2012 and 2011, 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.

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. Medicare cost reports are final settled through 2010.

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 2006.

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, 2012 and 2011, the Hospital recognized a change in estimate of approximately \$27,000 and \$381,000, respectively, due to the difference between original estimates and subsequent revisions due to final settlements and changes in allowance methodology.

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 \$249,683 and \$291,921 for 2012 and 2011 respectively.

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

2013	\$ 51,687
2014	17,861
2015	15,732
2016	11,799
	<u>\$ 97,079</u>

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

9. CAPITAL ASSETS

Capital assets activity for the years ended December 31, 2012 and 2011 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	
	2010	Additions	Retirements	2011	Depreciable Life - Years
Land	\$ 519,750	\$ -	\$ (86,525)	\$ 433,225	
Land improvements	624,690	-	-	624,690	10-20
Buildings	15,076,977	45,168	(1,750)	15,120,395	15-50
Fixed equipment	1,749,899	77,105	-	1,827,004	5-20
Major movable equipment	8,736,613	381,278	(335,433)	8,782,458	5-25
Construction in progress	7,650	279,220	-	286,870	
Total	26,715,579	782,771	(423,708)	27,074,642	
Less accumulated depreciation					
Land improvements	547,654	10,622	-	558,276	
Buildings	7,458,459	439,000	(1,750)	7,895,709	
Fixed equipment	1,336,225	62,108	-	1,398,333	
Major movable equipment	7,110,685	681,440	(327,368)	7,464,757	
Total	16,453,023	1,193,170	(329,118)	17,317,075	
Net carrying amount	\$ 10,262,556			\$ 9,757,567	

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

10. LONG-TERM DEBT

Long-term debt activity for the years ended December 31, 2012 and 2011 follows:

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
	<u>4,480,841</u>	<u>-</u>	<u>(400,745)</u>	<u>4,080,096</u>	<u>538,255</u>
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>
2011	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Leases and notes payable:					
Lease obligations	\$ 325,040	\$ 500,000	\$ (185,331)	\$ 639,709	\$ 141,321
Notes payable - 2003 series	3,420,000	-	(195,000)	3,225,000	200,000
Note payable	677,121	-	(60,989)	616,132	64,964
	<u>4,422,161</u>	<u>500,000</u>	<u>(441,320)</u>	<u>4,480,841</u>	<u>406,285</u>
Total leases and notes payable	<u>\$ 4,422,161</u>	<u>\$ 500,000</u>	<u>\$ (441,320)</u>	<u>\$ 4,480,841</u>	<u>\$ 406,285</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, 2012. The Hospital was in compliance with these covenants as of December 31, 2012.

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 0.20 percent at December 31, 2012. 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, 2012 AND 2011

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. 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, 2012, for the debt service requirements of the variable rate debt and net swap payments 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, 2012, 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	Interest Rate Swap, Net	Total Payments
2013	\$ 67,455	\$ 26,026	\$ 210,000	\$ 2,948	\$ 78,797	\$ 379,330
2014	70,907	22,575	225,000	5,515	-	312,967
2015	74,534	18,948	235,000	5,065	-	333,547
2016	78,348	15,134	245,000	4,595	-	343,077
2017	259,195	20,522	260,000	4,090	-	543,807
2018-2022	-	-	1,500,000	12,060	-	1,512,060
2023	-	-	350,000	525	-	350,525
Total Payments	<u>\$ 550,439</u>	<u>\$ 103,205</u>	<u>\$ 3,025,000</u>	<u>\$ 34,798</u>	<u>\$ 78,797</u>	<u>\$ 3,775,313</u>

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The Hospital has entered into operating lease agreements for equipment, which expire at various times through 2015. Operating lease expense totaled \$397,108 and \$348,693 in 2012 and 2011, 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 2014 and are collateralized by the equipment leased.

Minimum payments on these obligations to maturity as of December 31, 2012 are as follows:

	Capital Leases	Operating Leases	Total
2013	\$ 274,832	\$ 197,960	\$ 472,792
2014	248,310	143,809	392,119
2015	-	139,918	139,918
2016	-	127,725	127,725
2017	-	126,390	126,390
Thereafter	-	9,043	9,043
Total minimum payments	523,142	\$ 744,845	\$ 1,267,987
Less amount representing interest	18,485		
Total	\$ 504,657		
	2012	2011	
Cost of equipment under capital lease	\$ 701,857	\$ 831,107	
Less accumulated amortization	320,050	641,836	
Net carrying amount	\$ 381,807	\$ 189,271	

11. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

Contracts

The Hospital has one interest rate swap agreement in effect at December 31, 2012 for the 2003 Series Bond.

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, 2012 AND 2011

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 December 31, 2012 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.

<u>Associated Bond Issue</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Fixed Rate</u>	<u>Variable Rate</u>	<u>Fair Value</u>	<u>Termination Date</u>	<u>Counterparty Credit Rating</u>
2003 Series							
Bond	\$ 1,530,000	8/1/2003	5.24%	LIBOR	\$ (43,325)	August 1, 2013	Baa1/BBB+/A

As of December 31, 2012, the negative fair values of the agreements may be countered by reductions in total interest payments under the swap agreement should the variable rate on the bonds increase. The variable rate on the swap is based on the London Interbank Offered Rate (LIBOR).

The counterparty carries a guarantee by an entity ("counterparty guarantor") rated Baa1 by Moody's Investors Service (Moody's), BBB+ by Standard and Poor's (S&P), and A by Fitch Ratings (Fitch). To mitigate the potential for credit risk, the fair value of the swap must be collateralized based on a schedule of the counterparty guarantor credit ratings classifications and exposure thresholds as provided in the agreements.

Basis Risk

The swap exposes the Hospital to basis risk should the LIBOR and variable rate on the 2003 Notes converge. The variable rates on the swap were .20 percent and .22 percent at December 31, 2012 and 2011, respectively.

Termination Risk

The Hospital or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the Hospital would be liable to the counterparty for a payment equal to the swap's fair value.

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Tabular Disclosures

The liability derivative is reported as interest rate swap on the balance sheet. The fair value of the derivative recorded on the balance sheet is as follows:

	Liabilities	
	2012	2011
Interest rate swap	\$ 43,325	\$ 114,311

During 2012 and 2011, the amounts of gain recognized in the statements of operations and changes in net position are as follows:

Financial Instrument	2012	2011	Location
Interest rate swap agreement	\$ 70,986	\$ 59,133	Non-operating gains
Total gain	\$ 70,986	\$ 59,133	

12. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	2012	2011
Revenue		
Inpatient service		
Routine service	\$ 6,861,120	\$ 5,195,077
Ancillary services	12,442,125	10,383,717
Outpatient ancillary services	83,315,567	73,367,133
Total patient revenue	102,618,812	88,945,927
Revenue deductions		
Provision for contractual allowances	49,807,282	41,761,997
Provision for charity care	3,599,795	3,593,561
Bad debts	6,303,087	5,479,726
Other allowances	1,421,052	1,101,114
Total revenue deductions	61,131,216	51,936,398
Total net patient service revenue	\$ 41,487,596	\$ 37,009,529

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

13. NON-OPERATING GAINS

Non-operating gains consist of the following:

	<u>2012</u>	<u>2011</u>
Donations, gifts and grants	\$ 326,351	\$ 130,219
Investment income	190,384	193,012
Interest expense	(177,107)	(180,033)
Change in fair value of interest rate swap	70,986	59,133
Other gains	<u>26,350</u>	<u>178,866</u>
Non-operating gains - net	<u>\$ 436,964</u>	<u>\$ 381,197</u>

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.

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, 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.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012 and 2011, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% 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 4.0% during calendar year 2012 and 2011. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered by 1%, 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>
2012	\$ 2,754,089
2011	\$ 2,272,640
2010	\$ 2,154,137

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The portion of the Hospital's contribution in the above table was made to fund post-employment health care benefits approximated \$787,000, \$649,000, and \$782,000 for 2012, 2011, and 2010, 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.

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 \$2,773,446 and \$2,109,592 in 2012 and 2011, respectively.

FAYETTE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

17. 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. 65, "*Items Previously Reported as Assets and Liabilities*," issued March 2012, is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*," issued June 2012, is effective for periods beginning after June 15, 2014. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. A cost-sharing employer that does not have a special funding situation, is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability.

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental non-employer 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.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
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, 2012 and 2011, 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 5, 2013.

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, 2012, 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. 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 is not modified with respect to this matter.

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.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
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. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and responses that we consider to be a material weakness. We consider 2012-1 to be a material weakness.

Compliance and Other Matters

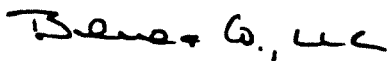
As part of reasonably assuring whether the Hospital's consolidated financial statements are free from material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2012-1.

Managements Response to Findings

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

Purpose of this Report

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.



Columbus, Ohio
June 5, 2013

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

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.

Criteria: Segregation of duties is an internal control intended to prevent fraud and error.

Cause: The Hospital did not have proper segregation of duties. One employee should not have access to the authorization function, recording function and custody of an asset.

Effect: An employee was able to steal Hospital funds.

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.

Management's Response: We will consider the feasibility of adding additional staff to ensure proper segregation of duties and/or implement other mitigating controls going forward.

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Dave Yost • Auditor of State

FAYETTE COUNTY MEMORIAL HOSPITAL

FAYETTE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 23, 2013**