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# Fayette County Memorial Hospital

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**Financial Report  
with Supplemental Information  
December 31, 2019**



OHIO AUDITOR OF STATE  
KEITH FABER



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Board of Trustees  
Fayette County Memorial Hospital  
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We have reviewed the *Independent Auditor's Report* of the Fayette County Memorial Hospital, Fayette County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2019 through December 31, 2019. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber  
Auditor of State  
Columbus, Ohio

June 22, 2020

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## **Independent Auditor's Report**

To the Board of Trustees  
Fayette County Memorial Hospital

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

We have audited the accompanying financial statements of the business-type activities of Fayette County Memorial Hospital (the "Hospital"), a component unit of Fayette County, Ohio, as of and for the years ended December 31, 2019 and 2018 and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as listed in the table of contents.

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

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

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

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

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Fayette County Memorial Hospital as of December 31, 2019 and 2018 and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Emphasis of Matter***

As discussed in Note 17 to the financial statements, during 2019, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Hospital. Our opinion is not modified with respect to this matter.

To the Board of Trustees  
Fayette County Memorial Hospital

**Required Supplemental Information**

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

**Other Information**

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2020 on our consideration of Fayette County Memorial Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fayette County Memorial Hospital's internal control over financial reporting and compliance.



May 27, 2020



# Fayette County Memorial Hospital

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## Management's Discussion and Analysis

### Management's Discussion and Analysis

The discussion and analysis of Fayette County Memorial Hospital's (the "Hospital") financial statements provides an overview of the Hospital's financial activities for the years ended December 31, 2019 and 2018. Management is responsible for the completeness and fairness of the financial statements and the related note disclosures along with the discussion and analysis.

### Hospital Highlights

Throughout the year, the Hospital experienced an overall decline in the services provided to patients. In 2019, the Hospital provided 1,524 acute patient days compared to 2,482 acute patient days in 2018, a decrease of 39 percent. Outpatient services were at 90,518 visits in 2019 compared to 94,306 in 2018. Clinic visits for 2019 were at 43,509 compared to 48,853 in 2018. Surgeries performed in 2019 were 2,198 compared to 1,989 in 2018. Emergency room visits were 16,581 in 2019 compared to 16,549 in 2018.

Despite the decline in services provided the Hospital invested approximately \$2 million in equipment and renovations in order to improve patient care and the facilities the care is provided in:

- \$519,815 in build-out costs and equipment to launch oncology services
- \$108,944 in Emergency Room renovations
- \$458,490 in medical equipment
- \$23,000 for community paramedicine vehicle
- \$289,577 in facility infrastructure updates including new HVAC systems, hospital flooring, loading/receiving dock, and other building renovations.
- \$576,740 in IT related software & hardware

The Hospital's total assets decreased by \$4,336,824 or 18.5% in 2019, compared to an increase of \$4,511,410 or 23.8% in 2018. This negative change was primarily due to a decrease in cash and cash equivalents as a result of cash provided by operating and capital related activities. In addition, assets limited as to use decreased by \$1,268,528 or 37.9% due to transferring additional cash from the State Treasury Asset Reserve of Ohio investment into the Hospital's main operating account. Due to the drop in patient volume throughout 2019 net patient accounts receivable decreased by \$463,728 compared to an increase of \$1,343,409 in 2018. A significant portion of the Hospital's assets are capital assets. For the second consecutive year the Hospital has made significant improvements to both facilities and equipment. Capital assets in total increased by \$1,976,566 or 6.3% in 2019, compared to an increase of \$966,957 in 2018.

# Fayette County Memorial Hospital

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## Management's Discussion and Analysis

The Hospital's total current liabilities decreased by \$516,391 or 6.8% in 2019 compared to an increase of \$1,944,764 in 2018. Total liabilities increased by \$19,006,500 or 43.9% in 2019 due to an increase in the net pension and net postemployment benefit (OPEB) liabilities (GASB 68 & GASB 75) of \$19,812,450 compared to an increase of \$4,354,021 in 2018.

Total net patient revenue decreased \$1,887,131 or 3.9% in 2019, compared to an increase of \$8,540,410 or 21.2% in 2018. Total operating expenses increased by \$9,171,543 or 18.5% due to a \$6,624,238 increase in pension and OPEB expense required by GASB Statements No. 68 & 75.

In 2015, the Hospital implemented GASB 68, *Accounting and Financial Reporting for Pensions* and in 2018 implemented GASB 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Both of these standards requires employers to recognize a proportionate share of the net pension and net OPEB liabilities of the plans. These liabilities to be recognized under GASB 68 and GASB 75 do not represent legal claims on the Hospital's resources and there are no cash flows related to the recognition of GASB 68 and GASB 75 liabilities, deferrals and expense, except for the required contributions that are remitted by the Hospital on a pay-as-you-go basis.

### **Using this Annual Report**

The Hospital's financial statements consist of the three statements: statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. These financial statements and related notes provide information about the activities of the Hospital as a whole, and present a snapshot of the Hospital's finances.

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

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

These two statements report the Hospital's net position and changes in net position. You can think of Hospital's net position, the difference between assets and deferred outflow of resources and liabilities and deferred inflows of resources, as a way to measure the Hospital's financial

# Fayette County Memorial Hospital

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## Management's Discussion and Analysis

health, or financial position. Over time and consideration for the change in accounting resulting from GASB 68 & 75, an increase or decrease in the Hospital's net position is an indicator of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as the trend in patient days, outpatient visits, state and federal regulatory issues, conditions of the buildings, and strength of the medical staff, to fully assess the overall health of the Hospital.

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

### **The Statement of Cash Flows**

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

### **Condensed Financial Information**

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

# Fayette County Memorial Hospital

## Management's Discussion and Analysis

### Assets, Liabilities, and Net Position

	December 31		
	2019	2018	2017
Current assets	\$ 8,636,546	\$ 12,507,168	\$ 8,710,928
Assets limited as to use	2,076,356	3,344,884	2,441,459
Capital assets	8,425,223	7,622,897	7,811,152
<b>Total assets</b>	<b>19,138,125</b>	<b>23,474,949</b>	<b>18,963,539</b>
Deferred outflow of resources	13,427,985	6,146,635	11,906,042
Current liabilities	7,052,435	7,568,826	5,624,062
Long-term liabilities	1,827,050	2,116,609	2,518,150
Net pension liability	53,426,490	33,614,040	29,260,019
<b>Total liabilities</b>	<b>62,305,975</b>	<b>43,299,475</b>	<b>37,402,231</b>
Deferred inflows of resources	766,311	6,673,173	1,859,829
Net position:			
Unrestricted	(37,924,631)	(26,526,033)	(14,142,992)
Net invested in capital asse	6,238,443	5,030,315	4,707,300
Restricted	1,180,012	1,144,654	1,043,213
<b>Total net position</b>	<b>\$ (30,506,176)</b>	<b>\$ (20,351,064)</b>	<b>\$ (8,392,479)</b>

Total assets and deferred outflow of resources amounted to \$32.6 million as of December 31, 2019 compared to \$29.6 million as of December 31, 2018. The Hospital's largest asset, capital assets, net of depreciation totaled \$8.4 million, 25.9% of total assets and deferred outflows of resources. This compares to \$7.6 million or 25.7% in 2018. Total assets and deferred outflow of resources decreased from 2017 to 2018 primarily due to the decrease in the deferred outflow of resources, which decreased by \$5.8 million from the prior year due to GASB 68 and 75 accounting standards.

As of December 31, 2019, the Hospital's total liabilities and deferred inflows of resources were approximately \$63.1 million compared to \$49.9 million in 2018. This cause of the year over year

# Fayette County Memorial Hospital

## Management's Discussion and Analysis

increase can be attributed to a \$19.8 million increase in the Hospital's net pension liability. Current liabilities consisting of accounts payable and other accrued liabilities totaled \$7 million or 11.2% of total liabilities and deferred inflows of resources. The net pension liability totaled approximately \$53.4 million or 84.7% of total liabilities and deferred inflows of resources. This represented an increase to the net pension liability from prior year of \$19.8 million or 58.9%.

### Operating Results and Changes in Net Position

	Year Ended		
	December 31, 2019	December 31, 2018	December 31, 2017
Operating revenues:			
Net patient service revenues	\$ 46,899,706	\$ 48,786,837	\$ 40,246,427
Other	<u>1,387,069</u>	<u>1,467,705</u>	<u>1,239,922</u>
Total operating revenues	48,286,775	50,254,542	41,486,349
Operating expenses:			
Salaries and wages	21,827,685	20,515,426	19,278,345
Employee benefits and payroll taxes	13,027,519	8,842,868	8,718,492
Operating supplies and expenses	6,681,328	5,622,661	5,118,799
Professional services and consultant fees	11,408,858	9,335,815	7,579,808
Insurance	357,588	334,429	369,316
Utilities	872,387	787,026	709,820
Leases and rentals	466,124	414,851	419,561
Maintenance and repairs	1,589,982	1,379,391	1,367,968
Depreciation and amortization	1,174,240	1,206,577	1,223,107
Other expenses	<u>1,328,966</u>	<u>1,124,090</u>	<u>1,104,381</u>
Total operating expenses	<u>58,734,677</u>	<u>49,563,134</u>	<u>45,889,597</u>
Operating income (loss)	(10,447,902)	691,408	(4,403,248)
Nonoperating gain - Net	<u>292,790</u>	<u>150,918</u>	<u>283,813</u>
Changes in net position	(10,155,112)	842,326	(4,119,435)
Net position - Beginning of year	(20,351,064)	(8,392,479)	(4,273,044)
Adjustment due to change in accounting principle	<u>-</u>	<u>(12,800,911)</u>	<u>-</u>
Net position - End of year	<u>\$ (30,506,176)</u>	<u>\$ (20,351,064)</u>	<u>\$ (8,392,479)</u>

# Fayette County Memorial Hospital

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## Management's Discussion and Analysis

### 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 decreased by \$1,887,131 or 3.9%. This decrease was primarily due to:

- 39% decrease in inpatient days from 2018 to 2019
- 3% decrease in swing bed days from 2018 to 2019
- 10% decrease in physician practice visits from 2018 to 2019
- 4% decrease in outpatient visits from 2018 to 2019

Operating revenue changes from 2017 to 2018 were a result of the following factors:

Net patient service revenue increased by \$8,540,410 or 21.2%. The Hospital decided not to increase pricing in 2018 and given the Hospital mirrored industry trends of reduced inpatient volumes the majority of the revenue the Hospital generates comes from outpatient services. The Hospital's positive performance is due in part to the increased utilization of the various outpatient service lines offered. Those with significant favorable growth in 2018 include radiology, lab, orthopedics, surgery, emergency department, corporate care, respiratory therapy, and pharmacy.

### Sources of Revenue

The Hospital derives substantially all of its revenue from patient services and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, primarily Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Remaining patient service revenue comes from patient payments, insurance carriers, preferred provider organizations, and managed care programs.

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

# Fayette County Memorial Hospital

## Management's Discussion and Analysis

These provisions or contractual deductions were approximately 58.9% and 57.3% of gross patient revenue in 2019 and 2018, respectively.

### Operating Expenses

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

- Salaries and wages increased \$1,312,259 or 6.4% from 2018 to 2019 compared to a \$1,237,081 or 6.4% increase from 2017 to 2018.
- Employee Benefits and Payroll Taxes increased \$4,184,651 or 47.3% from 2018 to 2019 compared to \$124,376 or 1.4% increase from 2017 to 2018.
- Operating supplies increased \$1,058,667 or 18.8% from 2018 to 2019 compared to a \$503,862 or 9.8% increase from 2017 to 2018.
- Professional services & consultant fees increased \$2,073,043 or 22.2% from 2018 to 2019 compared to a \$1,756,007 or 23.2% increase from 2017 to 2018.

### Statement of Cash Flows

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Cash from</b>			
Operating activities	\$(1,148,425)	\$ 3,586,662	\$ 199,093
Capital and related financing activities	(2,433,755)	(1,602,604)	(969,413)
Non-capital and related financing activities	31,314	98,945	124,951
Investing activities	<u>236,284</u>	<u>168,430</u>	<u>145,639</u>
Net change in cash and cash equivalents	(3,314,582)	2,251,433	(499,730)
Cash - Beginning of year	<u>6,188,376</u>	<u>3,936,943</u>	<u>4,436,673</u>
Cash - End of year	<u>\$ 2,873,794</u>	<u>\$ 6,188,376</u>	<u>\$ 3,936,943</u>

# Fayette County Memorial Hospital

## Management's Discussion and Analysis

### Capital Assets and Debt Administration

#### Capital Assets

At December 31, 2019, the Hospital had approximately \$33.1 million invested in capital assets, with an accumulated depreciation of approximately \$24.7 million. Depreciation and amortization approximated \$1.2 million for the current year consistent with the prior year. Details of these gross capital assets for the past three years are shown below:

#### Capital Assets

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Land	\$ 433,225	\$ 433,225	\$ 433,225
Land improvements	683,659	683,659	624,690
Buildings	16,787,765	16,152,327	16,105,083
Fixed equipment	2,223,571	2,075,990	1,985,017
Major moveable equipment	12,806,032	11,614,865	11,004,171
Construction in progress	<u>189,385</u>	<u>187,005</u>	<u>27,928</u>
Total	<u>33,123,637</u>	<u>31,147,071</u>	<u>30,180,114</u>

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

#### Debt

At year end, the Hospital had \$2,186,780 in debt outstanding compared to \$2,592,582 in 2018. The table below summarizes these amounts by type of debt instrument:

#### Debt

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Notes payable - County	\$ 1,578,535	\$ 1,720,424	\$ 1,860,908
Notes payable		89,495	176,252
Lease Obligations	<u>608,245</u>	<u>782,663</u>	<u>1,066,692</u>
Total notes and leases	<u>\$ 2,186,780</u>	<u>\$ 2,592,582</u>	<u>\$ 3,103,852</u>

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



# Fayette County Memorial Hospital

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## Management's Discussion and Analysis

The Hospital is bound by the terms of the Hospital Assistance Agreement with the Board of County Commissioners, the Auditor, the Treasurer, and the Prosecuting Attorney of the County to various operations and financial covenants. For the period ended December 31, 2019, these covenants include maintaining a minimum reserve of cash on hand of \$1,216,702. The Hospital was in compliance with the covenants as of December 31, 2019.

### **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.

Heading into 2020 the Hospital is prepared for another year of celebrating the tradition of providing compassionate care as this year marks the 70<sup>th</sup> year of existence for Fayette County Memorial Hospital. Shortly into 2020 the hospital was faced with the unprecedented COVID-19 pandemic and an entirely new set of operational challenges. Fortunately the hospital is made up of a team of over 300 skilled, compassionate, healthcare professionals who are equipped and confident to handle healthcare's greatest challenges including COVID-19.

Due to the decline in patient volume in the midst of the COVID-19 pandemic the Hospital made the decision to furlough approximately 76 full and part time employees beginning April 1. The Hospital experienced a 46% drop in daily outpatient revenue in March and this number climbed to 56% through the first week in April but came back down to 45% by month-end. The hospital also experienced decline in patient volume within the Medical and Surgical Associates practices which includes family practice and same day care clinic.

Prior to furloughing staff the Hospital reduced operating expenses and managed to cut monthly average CME, travel, education related expenses by 38%, put on hold all major renovation and construction related projects, monitored routine repairs and maintenance leading to a 19% reduction in average monthly spend, and had an additional 87 employees volunteer to take COVID low census and/or unpaid time off to help reduce salaries and benefit costs. To further stabilize cash flow during the COVID-19 crisis, the Hospital took advantage of the Medicare advanced funding program, the SBA Paycheck Protection Program, and received CARES Act funds to replenish lost volume in the months of April and May. Additional information can be found in the subsequent event disclosure in the footnotes.

Trent J. Lemle  
Chief Financial Officer

# Fayette County Memorial Hospital

## Statement of Net Position

	<b>December 31, 2019 and 2018</b>	
	2019	2018
<b>Current Assets</b>		
Cash and cash equivalents (Note 3)	\$ 1,386,923	\$ 3,356,398
Accounts receivable - Net (Note 4)	5,771,896	6,235,624
Inventory	767,683	787,137
Notes receivable	193,064	1,224,252
Estimated third-party payor settlements	481,321	-
Other current assets	35,659	903,757
Total current assets	8,636,546	12,507,168
<b>Assets Limited as to Use</b> (Notes 3 and 5)	2,076,356	3,344,884
<b>Capital Assets</b> (Note 6)		
Nondepreciable capital assets	622,610	620,230
Depreciable capital assets	32,501,027	30,526,841
Total capital assets	33,123,637	31,147,071
Less accumulated depreciation	24,698,414	23,524,174
Net capital assets	8,425,223	7,622,897
Total assets	19,138,125	23,474,949
<b>Deferred Outflows of Resources Related to Pension and Other Postemployment Benefits</b> (Notes 11 and 12)	13,427,985	6,146,635
Total assets and deferred outflows of resources	<b>\$ 32,566,110</b>	<b>\$ 29,621,584</b>
<b>Current Liabilities</b>		
Accounts payable	\$ 3,136,494	\$ 2,990,023
Current portion of long-term debt (Note 8)	359,730	475,973
Estimated third-party payor settlements (Note 7)	-	1,276,665
Accrued liabilities and other:		
Accrued compensation and other accrued liabilities	1,969,982	1,473,381
Accrued compensated absences (Note 8)	1,586,229	1,352,784
Total current liabilities	7,052,435	7,568,826
<b>Noncurrent Liabilities</b>		
Long-term debt - Net of current portion (Note 8)	1,827,050	2,116,609
Net pension and other postemployment benefits liability (Notes 11 and 12)	53,426,490	33,614,040
Total liabilities	62,305,975	43,299,475
<b>Deferred Inflows of Resources Related to Pension and Other Postemployment Benefits</b> (Notes 11 and 12)	766,311	6,673,173
<b>Net Position</b>		
Net investment in capital assets	6,238,443	5,030,315
Restricted - Expendable for capital improvements and other purposes	1,180,012	1,144,654
Unrestricted	(37,924,631)	(26,526,033)
Total net position	(30,506,176)	(20,351,064)
Total liabilities, deferred inflows of resources, and net position	<b>\$ 32,566,110</b>	<b>\$ 29,621,584</b>

## Fayette County Memorial Hospital

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

Years Ended December 31, 2019 and 2018

	2019	2018
<b>Operating Revenue</b>		
Net patient service revenue (Note 2)	\$ 46,899,706	\$ 48,786,837
Other	1,387,069	1,467,705
Total operating revenue	48,286,775	50,254,542
<b>Operating Expenses</b>		
Salaries and wages	21,827,685	20,515,426
Employee benefits and payroll taxes	13,027,519	8,842,868
Operating supplies and expenses	6,681,328	5,622,661
Professional services and consultant fees	11,408,858	9,335,815
Insurance	357,588	334,429
Utilities	872,387	787,026
Leases and rentals	466,124	414,851
Maintenance and repairs	1,589,982	1,379,391
Depreciation	1,174,240	1,206,577
Other	1,328,966	1,124,090
Total operating expenses	58,734,677	49,563,134
<b>Operating (Loss) Income</b>	(10,447,902)	691,408
<b>Other Income (Expense)</b>		
Contributions	188,903	167,843
Realized gain on sale of investments (Note 5)	78,936	60,550
Other income	160,710	110,332
Change in unrealized investment gain (loss) (Note 5)	73,217	(54,452)
Interest expense	(51,387)	(64,457)
Other expense	(157,589)	(68,898)
Total other income	292,790	150,918
<b>(Loss) Income - Before cumulative effect of accounting change</b>	(10,155,112)	842,326
<b>Adjustment for Change in Accounting Principle</b>	-	(12,800,911)
<b>Decrease in Net Position</b>	(10,155,112)	(11,958,585)
<b>Net Position - Beginning of year</b>	(20,351,064)	(8,392,479)
<b>Net Position - End of year</b>	<u>\$ (30,506,176)</u>	<u>\$ (20,351,064)</u>

## Fayette County Memorial Hospital

## Statement of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
<b>Cash Flows from Operating Activities</b>		
Cash received from patients and third-party payors	\$ 47,265,933	\$ 49,455,904
Cash payments to suppliers for services and goods	(22,300,507)	(20,327,195)
Cash payments to employees	(27,500,920)	(27,009,752)
Other operating revenue received	1,387,069	1,467,705
Net cash (used in) provided by operating activities	(1,148,425)	3,586,662
<b>Cash Flows Provided by Noncapital Financing Activities - Donations and other</b>	31,314	98,945
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(1,976,566)	(1,026,877)
Proceeds from long-term debt	87,238	81,235
Interest paid on long-term debt	(51,387)	(64,457)
Principal payments on notes payable	(493,040)	(592,505)
Net cash used in capital and related financing activities	(2,433,755)	(1,602,604)
<b>Cash Flows from Investing Activities</b>		
Investment income	152,153	6,098
Change in assets limited as to use - Net	(76,579)	52,000
Rental receipts - Net of expenses paid	160,710	110,332
Net cash provided by investing activities	236,284	168,430
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(3,314,582)	2,251,433
<b>Cash and Cash Equivalents - Beginning of year</b>	6,188,376	3,936,943
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 2,873,794</b>	<b>\$ 6,188,376</b>
<b>Statement of Net Position Classification of Cash</b>		
Cash and cash equivalents (Note 3)	\$ 1,386,923	\$ 3,356,398
Assets limited as to use (Note 3)	1,486,871	2,831,978
Total cash and cash equivalents	<b>\$ 2,873,794</b>	<b>\$ 6,188,376</b>

## Fayette County Memorial Hospital

### Statement of Cash Flows (Continued)

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
A reconciliation of operating (loss) income to net cash from operating activities is as follows:		
<b>Cash Flows from Operating Activities</b>		
Operating (loss) income	\$ (10,447,902)	\$ 691,408
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation	1,174,240	1,206,577
Provision for bad debts	5,675,177	4,989,831
Loss on disposal of capital assets	-	8,555
Changes in assets and deferred outflows of resources and liabilities and deferred inflows of resources:		
Accounts receivable	(5,211,449)	(6,333,240)
Estimated third-party settlements	(1,757,986)	968,749
Inventory	19,454	(89,400)
Other assets	1,899,286	(1,067,423)
Accounts payable	146,471	863,063
Other accrued liabilities	730,046	222,681
Net pension and other postemployment liability	19,812,450	(8,446,890)
Deferred outflows and inflows of resources	<u>(13,188,212)</u>	<u>10,572,751</u>
Net cash (used in) provided by operating activities	<u><u>\$ (1,148,425)</u></u>	<u><u>\$ 3,586,662</u></u>

**Note 1 - Nature of Business**

***Organization and Reporting Entity***

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

The financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital. They do not purport to, and do not, present the financial position of the County and the changes in the County's financial position and cash flows for the years ended December 31, 2019 and 2018 in conformity with accounting principles generally accepted in the United States of America.

**Note 2 - Significant Accounting Policies**

***Blended Component Unit***

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

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

***Basis of Presentation***

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

***Cash and Cash Equivalents***

Cash and cash equivalents include cash, money markets, certificates of deposit, and investments in highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use. Cash balances held in the bank exceed the federal depository insurance limit. The Hospital's cash is only insured up to the federal depository insurance limit.

***Patient Accounts Receivable***

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

**Note 2 - Significant Accounting Policies (Continued)**

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

***Inventories***

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

***Assets Limited as to Use***

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

***Investments***

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

***Capital Assets***

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

***Compensated Absences***

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

There is no limit on the number of sick leave hours that an employee may accumulate; however, employees are eligible to receive termination payments on only one-fourth of the accumulated sick leave balance up to a maximum of 240 hours at the employee's base pay rate as of the retirement date.

Employees accumulate holiday benefits at a hospital-determined rate.

***Restricted Resources***

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

**Note 2 - Significant Accounting Policies (Continued)**

***Classification of Net Position***

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

***Use of Estimates***

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

***Net Patient Service Revenue***

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

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

Net patient service revenue is \$46,899,706 and \$48,786,837 as of December 31, 2019 and 2018, respectively. Net patient service revenue is net of provision for contractual adjustments of \$75,256,495 and bad debt of \$5,675,177 in 2019 and contractual adjustments of \$72,140,524 and bad debt of \$4,989,831 in 2018.

***Revenue from County for Emergency Medical Services***

The County has approved the use of certain sales tax income to be used to assist the Hospital in funding expenses for emergency medical services provided by the Hospital. The Hospital has recognized income in other operating revenue of \$756,000 and \$950,000 in 2019 and 2018, respectively, related to this assistance.

***Operating (Loss) Income***

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

***Income Taxes***

The Hospital, as a political subdivision, is exempt from federal income taxes under Section 115 of the Internal Revenue Code. The Foundation, as a blended component unit, is a tax-exempt organization, as defined under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes has been included in the financial statements.



**Note 2 - Significant Accounting Policies (Continued)**

***Charity Care***

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation that applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue. The Hospital estimates that it provided \$1,887,000 and \$582,000 of services to indigent patients during 2019 and 2018, respectively.

The Hospital participates in the Hospital Care Assurance Program (HCAP), which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately \$344,000 and \$272,000 for 2019 and 2018, respectively, and are reported as net patient service revenue in the financial statements.

***Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Hospital had deferred outflows of resources related to the net pension liability and net OPEB liability (see Notes 11 and 12).

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Hospital had deferred inflows of resources related to the net pension liability and net OPEB liability (see Notes 11 and 12).

***Pension and Other Postemployment Benefit Costs***

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

For purposes of measuring the net other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPERS pension plan and additions to/deductions from OPERS' fiduciary net position have been determined on the same basis as they are reported by OPERS. OPERS uses the economic resources measurement focus and the full accrual basis of accounting. For this purpose, OPERS recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Note 2 - Significant Accounting Policies (Continued)**

**Contributions**

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

**Note 3 - Deposits and Investments**

Deposits and investments are reported in the financial statements as follows as of December 31, 2019:

	Cash and Cash Equivalents	Assets Limited as to Use	Total
Deposits	\$ 1,386,923	\$ 1,486,871	\$ 2,873,794
Mutual funds	-	322,957	322,957
Equities	-	266,528	266,528
Total	<u>\$ 1,386,923</u>	<u>\$ 2,076,356</u>	<u>\$ 3,463,279</u>

Deposits and investments are reported in the financial statements as follows as of December 31, 2018:

	Cash and Cash Equivalents	Assets Limited as to Use	Total
Deposits	\$ 3,356,398	\$ 2,831,978	\$ 6,188,376
Corporate bond	-	3,600	3,600
Mutual funds	-	289,344	289,344
Equities	-	219,962	219,962
Total	<u>\$ 3,356,398</u>	<u>\$ 3,344,884</u>	<u>\$ 6,701,282</u>

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

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

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

**Active Funds**

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

**Note 3 - Deposits and Investments (Continued)**

***Inactive Funds***

Inactive funds are those funds not required for use within the current five-year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit, maturing no later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to, passbook accounts.

***Interim Funds***

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

Protection of the Hospital's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer, by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public funds deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling is also prohibited. An investment must mature within five years from the date of purchase unless it is matched to a specific obligation or debt of the Hospital, and must be purchased with the expectation that it will be held to maturity.

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

***Custodial Credit Risk of Bank Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. At December 31, 2019 and 2018, the Hospital had bank deposits (certificates of deposit and checking and savings accounts) at one financial institution that exceeded the insured amount that were uninsured but are collateralized with securities held by the pledging financial institution. The Hospital believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

***Custodial Credit Risk of Investments***

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Hospital does not have a policy for custodial credit risk. At year end, there were no investment securities that were collateralized with securities held by the counterparty or by its trust department or agent.

***Interest Rate Risk***

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Hospital does not have an investment policy that addresses interest rate risk.

There were no investments subject to this risk as of December 31, 2019.

December 31, 2019 and 2018

**Note 3 - Deposits and Investments (Continued)**

As of December 31, 2018, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted- average Maturity (Years)
Corporate bond	\$ 3,600	0

**Credit Risk**

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Hospital does not have an investment policy that addresses credit risk. As of December 31, 2019 and 2018, the credit quality ratings of debt securities (other than the corporate bond CCC rating) are appropriate. There were no investments subject to this risk as of December 31, 2019.

As of December 31, 2018, the rating of debt securities is as follows:

Investment Type	Fair Value	Rating	Rating Organization
Corporate bond	\$ 3,600	CCC	S&P

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

**Note 4 - Accounts Receivable**

The details of patient accounts receivable are set forth below:

	2019	2018
Patient accounts receivable	\$ 18,876,577	\$ 19,047,028
Less:		
Allowance for uncollectible accounts	3,332,185	3,987,683
Allowance for contractual adjustments	9,772,496	8,823,721
Net patient accounts receivable	<u>\$ 5,771,896</u>	<u>\$ 6,235,624</u>

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

	2019	2018
Medicare (includes HMOs)	27 %	25 %
Medicaid (includes HMOs)	18	21
Commercial insurance	29	28
Self-pay	26	26
Total	<u>100 %</u>	<u>100 %</u>

December 31, 2019 and 2018

**Note 5 - Assets Limited as to Use**

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

	<u>2019</u>	<u>2018</u>
Board designated	\$ 807,707	\$ 2,159,185
Donor restricted:		
Community health services	887,805	810,627
Capital expenditures	64,424	64,424
Foundation-restricted assets	<u>316,420</u>	<u>310,648</u>
Total assets limited as to use	<u>\$ 2,076,356</u>	<u>\$ 3,344,884</u>

The Hospital had net unrealized gains (losses) of \$73,217 and \$(54,452) in its investment portfolio as of December 31, 2019 and 2018, respectively. Interest, dividends, and realized gains and losses amounted to \$78,936 and \$60,550 for the years ended December 31, 2019 and 2018, respectively.

**Note 6 - Capital Assets**

The cost of capital assets and related depreciable lives for December 31, 2019 are summarized below:

	2018	Additions	Transfers	Retirements	2019	Depreciable Life - Years
Capital assets not being depreciated:						
Land	\$ 433,225	\$ -	\$ -	\$ -	\$ 433,225	
Construction in progress	187,005	1,003,220	(1,000,840)	-	189,385	
Total capital assets not being depreciated	620,230	1,003,220	(1,000,840)	-	622,610	
Capital assets being depreciated:						
Land improvements	683,659	-	-	-	683,659	10-20
Buildings	16,152,327	48,852	586,586	-	16,787,765	15-50
Fixed equipment	2,075,990	85,238	62,343	-	2,223,571	5-20
Major movable equipment	11,614,865	839,256	351,911	-	12,806,032	5-25
Total capital assets being depreciated	30,526,841	973,346	1,000,840	-	32,501,027	
Less accumulated depreciation:						
Land improvements	626,299	7,536	-	-	633,835	
Buildings	11,287,966	439,176	-	-	11,727,142	
Fixed equipment	1,734,026	55,169	-	-	1,789,195	
Major movable equipment	9,875,883	672,359	-	-	10,548,242	
Total accumulated depreciation	23,524,174	1,174,240	-	-	24,698,414	
Total capital assets being depreciated - Net	7,002,667	(200,894)	1,000,840	-	7,802,613	
Total capital assets - Net	<u>\$ 7,622,897</u>	<u>\$ 802,326</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,425,223</u>	

**December 31, 2019 and 2018**

**Note 6 - Capital Assets (Continued)**

The cost of capital assets and related depreciable lives for December 31, 2018 are summarized below:

	2017	Additions	Transfers	Retirements	2018	Depreciable Life - Years
Capital assets not being depreciated:						
Land	\$ 433,225	\$ -	\$ -	\$ -	\$ 433,225	
Construction in progress	27,928	159,077	-	-	187,005	
Total capital assets not being depreciated	461,153	159,077	-	-	620,230	
Capital assets being depreciated:						
Land improvements	624,690	58,969	-	-	683,659	10-20
Buildings	16,105,083	47,244	-	-	16,152,327	15-50
Fixed equipment	1,985,017	90,973	-	-	2,075,990	5-20
Major movable equipment	11,004,171	670,615	-	(59,921)	11,614,865	5-25
Total capital assets being depreciated	29,718,961	867,801	-	(59,921)	30,526,841	
Less accumulated depreciation:						
Land improvements	618,173	8,126	-	-	626,299	
Buildings	10,811,930	476,036	-	-	11,287,966	
Fixed equipment	1,692,379	41,647	-	-	1,734,026	
Major movable equipment	9,246,480	680,768	-	(51,365)	9,875,883	
Total accumulated depreciation	22,368,962	1,206,577	-	(51,365)	23,524,174	
Total capital assets being depreciated - Net	7,349,999	(338,776)	-	(8,556)	7,002,667	
Total capital assets - Net	<u>\$ 7,811,152</u>	<u>\$ (179,699)</u>	<u>\$ -</u>	<u>\$ (8,556)</u>	<u>\$ 7,622,897</u>	

**Note 7 - Estimated Third-party Settlements**

Approximately 62 and 63 percent of the Hospital's revenue from patient services is received from Medicare and Medicaid programs for 2019 and 2018, respectively. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. A summary of the basis of reimbursement with these third-party payors is as follows:

**Medicare**

In December 2005, the Hospital was designated as a critical access hospital. As a result, the Hospital is reimbursed based on cost for all acute-care inpatient and outpatient services. Medicare cost reports settled through 2017, with the exception of 2016, are final.

**December 31, 2019 and 2018**

**Note 7 - Estimated Third-party Settlements (Continued)**

***Medicaid***

Inpatient acute-care services are reimbursed on a prospective basis using the All Patient Refined Diagnosis Related Group (APR-DRG) system. Outpatient acute-care services are reimbursements on a prospective basis using the Enhanced Ambulatory Patient Groups (EAPG) system.

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

***Cost Report Settlements***

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, 2019 and 2018, the Hospital recognized a change in estimate of approximately \$(1,758,000) and \$969,000, respectively, due to the difference between original estimates and subsequent revisions due to final settlements and changes in allowance methodology. The change in estimate is included in net patient service revenue in the statement of revenue, expenses, and changes in net position.

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

**Note 8 - Long-term Debt**

In April 2015, the Hospital signed an assistance agreement with the county commissioners of Fayette County, Ohio (the "County"), whereby the County assisted the Hospital with terminating the 2003 notes. Under this agreement, the County contributed \$2,000,000, and the Hospital contributed \$481,160 toward the payoff of the notes, and the Hospital will repay the County the principal plus annual interest of 1.0 percent through 2023. Per the agreement with the County, interest payments are quarterly and principal payments are semiannual, starting in April 2017.

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

The Hospital has entered into various noncancelable capital lease agreements for equipment. As of December 31, 2019, capital leases have imputed interest rates of 3.30 to 6.89 percent. They expire at various times through 2023 and are collateralized by the equipment leased. The cost of leased equipment was \$1,898,889 and \$1,811,651 for the years ended December 31, 2019 and 2018, respectively. Accumulated depreciation on the property under capital lease was \$1,041,448 and \$850,461 for the years ended December 31, 2019 and 2018, respectively. Depreciation expense of \$190,987 and \$274,476 for the years ended December 31, 2019 and 2018, respectively, is included in the depreciation amount disclosed in Note 6.



December 31, 2019 and 2018

**Note 8 - Long-term Debt (Continued)**

Long-term debt activity at December 31, 2019 and 2018 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
<b>2019</b>					
Leases and notes payable:					
Lease obligations	\$ 782,663	\$ 87,238	\$ (261,656)	\$ 608,245	\$ 216,371
Notes payable - Fayette County, Ohio	1,720,424	-	(141,889)	1,578,535	143,359
Notes payable	89,495	-	(89,495)	-	-
Total lease and notes payable	2,592,582	87,238	(493,040)	2,186,780	359,730
Other liabilities - Compensated absences	1,352,784	1,975,381	(1,741,936)	1,586,229	1,586,229
Total long-term and other liabilities	<u>\$ 3,945,366</u>	<u>\$ 2,062,619</u>	<u>\$ (2,234,976)</u>	<u>\$ 3,773,009</u>	<u>\$ 1,945,959</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
<b>2018</b>					
Leases and notes payable:					
Lease obligations	\$ 1,066,692	\$ 81,235	\$ (365,264)	\$ 782,663	\$ 244,747
Notes payable - Fayette County, Ohio	1,860,908	-	(140,484)	1,720,424	141,936
Notes payable	176,252	-	(86,757)	89,495	89,290
Total lease and notes payable	3,103,852	81,235	(592,505)	2,592,582	475,973
Other liabilities - Compensated absences	1,185,048	1,750,477	(1,582,741)	1,352,784	1,352,784
Total long-term and other liabilities	<u>\$ 4,288,900</u>	<u>\$ 1,831,712</u>	<u>\$ (2,175,246)</u>	<u>\$ 3,945,366</u>	<u>\$ 1,828,757</u>

Total interest expense for the years ended December 31, 2019 and 2018 was approximately \$51,000 and \$64,000, respectively. Annual debt service requirements to maturity for the above obligations are as follows:

Years Ending December 31	Long-term Debt			Capital Lease Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 143,359	\$ 15,428	\$ 158,787	\$ 216,371	\$ 22,365	\$ 238,736
2021	144,751	13,991	158,742	216,501	13,005	229,506
2022	146,202	12,540	158,742	146,932	4,076	151,008
2023	1,144,223	5,721	1,149,944	28,441	652	29,093
Total	<u>\$ 1,578,535</u>	<u>\$ 47,680</u>	<u>\$ 1,626,215</u>	<u>\$ 608,245</u>	<u>\$ 40,098</u>	<u>\$ 648,343</u>

**Note 9 - Operating Leases**

The Hospital has entered into operating lease agreements for equipment, which expire at various times through 2024. Operating lease expense totaled approximately \$466,000 and \$415,000 in 2019 and 2018, respectively.

**Note 9 - Operating Leases (Continued)**

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

Years Ending December 31	Amount
2020	\$ 452,929
2021	366,036
2022	366,036
2023	179,507
2024	149,371
Total	<u>\$ 1,513,879</u>

**Note 10 - Risk Management**

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

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

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

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

The Hospital is exposed to various risks of loss related to property and general losses, as well as coverage for medical benefits provided to employees. The Hospital has purchased commercial insurance for malpractice, general liability, employee medical stop-loss, and workers' compensation claims. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in negotiation. Some of these allegations are in areas not covered by commercial insurance, for example, allegations regarding performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each claim. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Note 11 - Defined Benefit Pension Plan**

***Plan Description***

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

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

***Benefits Provided***

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

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

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

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

***Contributions***

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

Member contributions are 10 percent of gross wages for all plans, set at the maximums authorized by the ORC. The plans' 2019 and 2018 contribution rates on covered payroll are as follows:

	Pension	Postretirement Health Care	Death Benefits	Total
OPERS - 2019	14.00 %	- %	- %	14.00 %

December 31, 2019 and 2018

**Note 11 - Defined Benefit Pension Plan (Continued)**

	Pension	Postretirement Health Care	Death Benefits	Total
OPERS - 2018	14.00 %	- %	- %	14.00 %

The Hospital's required and actual pension contributions to the plan for the years ended December 31, 2019 and 2018 were approximately \$2,892,000 and \$2,684,000, respectively.

**Net Pension Liability, Deferrals, and Pension Expense**

At December 31, 2019 and 2018, the Hospital reported as a liability its proportionate share of the net pension liability of OPERS. At December 31, 2019, the net pension liability was measured as of December 31, 2018. At December 31, 2018, the net pension liability was measured as of December 31, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Hospital's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At December 31, 2019 and 2018, the Hospital's proportion was 0.13 percent.

For the years ended December 31, 2019 and 2018, the Hospital recognized pension expense of \$7,875,000 and \$3,715,000, respectively.

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

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 18,588	\$ 498,706
Changes of assumptions	3,172,850	-
Differences between actual and proportionate share of contributions	816,101	220,962
Net difference between projected and actual earnings on pension plan investments	4,939,136	-
Employer contributions to the plan subsequent to the measurement date	2,891,727	-
Total	<u>\$ 11,838,402</u>	<u>\$ 719,668</u>

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 37,769	\$ 405,536
Change of assumptions	2,362,857	-
Differences between actual and proportionate share of contributions	34,847	982,420
Net difference between projected and actual earnings on pension plan investments	-	4,245,402
Employer contributions to the plan subsequent to the measurement date	2,683,961	-
Total	<u>\$ 5,119,434</u>	<u>\$ 5,633,358</u>

**Note 11 - Defined Benefit Pension Plan (Continued)**

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

Years Ending	OPERS
2020	\$ 3,478,840
2021	1,963,262
2022	464,000
2023	2,302,203
2024	5,583
Thereafter	13,119

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the year ended December 31, 2019.

**Actuarial Assumptions**

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

	2019	2018
Valuation date	December 31, 2018	December 31, 2017
Actuarial cost method	Individual entry age	Individual entry age
Cost of living	3.0 percent	3.0 percent
Salary increases, including inflation	3.25 percent to 10.75 percent	3.25 percent to 10.75 percent
Inflation	3.25 percent	3.25 percent
Investment rate of return	7.20 percent, net of pension plan investment expense	7.50 percent, net of pension plan investment expense
Mortality rates	RP-2014 mortality table	RP-2014 mortality table

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study for the period of five years ended December 31, 2015.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.20 percent for the year ended December 31, 2019 and 7.50 percent for the year ended December 31, 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates for all plans. Based on those assumptions, each pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Note 11 - Defined Benefit Pension Plan (Continued)**

**Projected Cash Flows**

The long-term expected rate of return on pension plan investments was determined using a building-block method, in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized for the year ended December 31, 2019 in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed income	23.00 %	2.79 %
Domestic equities	19.00	6.21
Real estate	10.00	4.90
Private equity	10.00	10.81
International equity	20.00	7.83
Other investments	18.00	5.50

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized for the year ended December 31, 2018 in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed income	23.00 %	2.20 %
Domestic equities	19.00	6.37
Real estate	10.00	5.26
Private equity	10.00	8.97
International equity	20.00	7.88
Other investments	18.00	5.26

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Hospital, calculated using the discount rate of 7.2 percent for the year ended December 31, 2019 and 7.5 percent for the year ended December 31, 2018, as well as what the Hospital's net pension liability would be if it were calculated using a discount rate that is 1.0 percentage point lower or 1.0 percentage point higher than the current rate:

	1 Percent Decrease (6.2%)	Current Discount Rate (7.2%)	1 Percent Increase (8.2%)
Net pension liability - 2019	\$ 53,597,059	\$ 36,235,711	\$ 21,810,977
	1 Percent Decrease (6.5%)	Current Discount Rate (7.5%)	1 Percent Increase (8.5%)
Net pension liability - 2018	\$ 34,983,999	\$ 19,655,543	\$ 6,897,256

**Pension Plan Fiduciary Net Position**

Detailed information about the plan's fiduciary net position is available in a separately issued OPERS financial report.

**Note 11 - Defined Benefit Pension Plan (Continued)**

***Payable to the Pension Plan***

The Hospital reported a payable of \$773,700 and \$349,900 for the outstanding amount of contributions to the pension plan required for the years ended December 31, 2019 and 2018, respectively.

**Note 12 - Other Postemployment Benefits**

***Plan Description***

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

In order to qualify for postretirement healthcare coverage, age and service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of another postemployment benefit (OPEB), as described in GASB Statement No. 75.

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

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

***Funding Policy***

The Ohio Revised Code provides statutory authority, requiring public employers to fund postretirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement healthcare benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2019 and 2018, state and local employers contributed at a rate of 14 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employers. Active members do not make contributions to the OPEB plan.

OPERS' postemployment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS board of trustees determines the portion of the employer contribution rate that will be set aside for funding of the postemployment healthcare benefits. The portion of employer contributions allocated to health care was 0 percent during 2019 and 2018. The OPERS board of trustees is also authorized to establish rules for the payment of a portion of the healthcare benefits provided by the retiree or his or her surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The portion of the Hospital's contribution used to fund postemployment benefits for 2019 and 2018 was \$0.

**Note 12 - Other Postemployment Benefits (Continued)**

**Net OPEB Liability**

At December 31, 2019 and 2018, the Hospital reported as a liability its proportionate share of the net OPEB liability. At December 31, 2019, the net OPEB liability was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018. At December 31, 2018, the net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. The Hospital's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At December 31, 2019 and 2018, the Hospital's proportion was 0.13 percent.

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the years ended December 31, 2019 and 2018, the Hospital recognized OPEB expense of \$1,676,728 and \$1,170,201, respectively. At December 31, 2019 and 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 5,821	\$ 46,643
Changes of assumptions	554,251	-
Net difference between projected and actual earnings on OPEB plan investments	788,096	-
Changes in proportion and differences between reporting unit contributions and proportionate share of contributions	241,415	-
Total	<u>\$ 1,589,583</u>	<u>\$ 46,643</u>

  

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 10,874	\$ -
Changes of assumptions	1,016,327	-
Net difference between projected and actual earnings on OPEB plan investments	-	1,039,815
Total	<u>\$ 1,027,201</u>	<u>\$ 1,039,815</u>

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

Years Ending	OPEB
2020	\$ 735,057
2021	277,429
2022	133,436
2023	397,017



**Note 12 - Other Postemployment Benefits (Continued)**

**Actuarial Assumptions**

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

	2019	2018
Valuation date	December 31, 2017	December 31, 2016
Actuarial cost method	Individual entry age	Individual entry age
Cost of living	3.0 percent	3.0 percent
Salary increases, including inflation	3.25 percent to 10.75 percent	3.25 percent to 10.75 percent
Inflation	3.25 percent	3.25 percent
Investment rate of return	6.50 percent, net of pension plan investment expenses	6.50 percent, net of pension plan investment expense
Mortality rates	RP-2014 mortality table	RP-2014 mortality table

**Discount Rate**

The discount rate used to measure the total OPEB liability was 3.96 and 3.85 percent for the years ended December 31, 2019 and 2018, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates for all plans. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Projected Cash Flows**

The long-term expected rate of return on pension plan investments was determined using a building-block method, in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized for the year ended December 31, 2019 in the following table:

	Target Allocation	Long-term Expected Real Rate of Return
Fixed income	34.00 %	2.42 %
Domestic equities	21.00	6.21
Real estate	6.00	5.98
International equities	22.00	7.83
Other investments	17.00	5.57

December 31, 2019 and 2018

**Note 12 - Other Postemployment Benefits (Continued)**

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized for the year ended December 31, 2018 in the following table:

	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed income	34.00 %	1.88 %
Domestic equities	21.00	6.37
Real estate	6.00	5.91
International equities	22.00	7.88
Other investments	17.00	5.39

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of the Hospital, calculated using the discount rate of 3.96 percent for the year ended December 31, 2019, as well as what the Hospital's net OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate:

	<u>1 Percent Decrease (2.96%)</u>	<u>Current Discount Rate (3.96%)</u>	<u>1 Percent Increase (4.96%)</u>
Net OPEB liability - 2019	\$ 21,993,414	\$ 17,190,779	\$ 13,371,416

Changes in the healthcare cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates and the expected net OPEB liability if it were calculated using a healthcare cost trend rate that is 1.0 percentage point lower or 1.0 percentage point higher than the current rate:

	<u>1 Percent Decrease</u>	<u>Current Discount Rate</u>	<u>1 Percent Increase</u>
Net OPEB liability - 2018	\$ 18,544,466	\$ 13,958,497	\$ 10,248,494

**Note 13 - Self-insured Benefits**

As of January 1, 2018, the Hospital entered into an agreement with United Medical Resources Inc. to be self-insured for health claims. A liability for claims incurred but not reported, in the amounts of \$299,242 and \$346,597 as of December 31, 2019 and 2018, respectively, is included within accounts payable. A summary of the changes in this accrual is as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 346,597	\$ -
Payments	(2,809,674)	(3,137,510)
Claims	2,762,319	3,484,107
Ending balance	<u>\$ 299,242</u>	<u>\$ 346,597</u>

December 31, 2019 and 2018

**Note 14 - Blended Component Unit**

The financial statements include the Foundation, a separate entity organized to support the operations of the Hospital as a blended component unit. The following is a summary of the financial position and activities of the entity as of and for the years ended December 31, 2019 and 2018:

	2019	2018
<b>Assets Limited as to Use</b>	<b>\$ 316,420</b>	<b>\$ 310,648</b>
<b>Net Position</b>		
Restricted - Expendable for capital improvements and other purposes	\$ 219,301	\$ 250,544
Unrestricted	97,119	60,104
Total net position	\$ 316,420	\$ 310,648
<b>Other Income (Expense)</b>		
Contributions	\$ 163,361	\$ 145,420
Other expense	(157,589)	(68,898)
Total other expense	\$ 5,772	\$ 76,522
<b>Net Cash Provided by Financing Activities</b>	\$ 5,772	\$ 76,522
<b>Cash and Cash Equivalents - Beginning of year</b>	310,648	234,126
<b>Cash and Cash Equivalents - End of year</b>	\$ 316,420	\$ 310,648

**Note 15 - Fair Value Measurements**

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

The following tables present information about the Hospital's assets measured at fair value on a recurring basis at December 31, 2019 and 2018 and the valuation techniques used by the Hospital to determine those fair values.

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

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

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

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

**Note 15 - Fair Value Measurements (Continued)**

The Hospital has the following recurring fair value measurements as of December 31, 2019 and 2018:

Assets Measured at Fair Value on a Recurring Basis at December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Assets:				
Mutual funds	\$ 322,957	\$ -	\$ -	\$ 322,957
Equities	266,528	-	-	266,528
Total assets	<u>\$ 589,485</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 589,485</u>

Assets Measured at Fair Value on a Recurring Basis at December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Assets:				
Mutual funds	\$ 289,344	\$ -	\$ -	\$ 289,344
Equities	219,962	-	-	219,962
Corporate bonds	-	3,600	-	3,600
Total assets	<u>\$ 509,306</u>	<u>\$ 3,600</u>	<u>\$ -</u>	<u>\$ 512,906</u>

The fair value of Level 2 securities as of December 31, 2019 and 2018 was determined primarily on quoted prices from the Hospital's custodian bank.

**Note 16 - Upcoming Accounting Pronouncements**

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principal that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Hospital is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the Hospital's financial statements for the year ending December 31, 2020 but were extended to December 31, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

**Note 16 - Upcoming Accounting Pronouncements (Continued)**

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Hospital is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the Hospital's financial statements for the year ended December 31, 2019 but were extended to December 31, 2020 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

**Note 17 - Subsequent Events**

The Hospital has evaluated and disclosed any subsequent events through May 27, 2020, which is the date the financial statements were available to be issued.

In January 2020, the Hospital approved a nonbinding letter of intent to enter into an affiliation agreement with a hospital in the geographic footprint of the Hospital.

The large-scale COVID-19 pandemic has had adverse effects on patient volumes beginning in mid-March 2020 due to government mandates on elective procedures and will likely have an adverse effect on the Hospital's revenue, liquidity, and operating results. The Hospital has taken steps to reduce expenses throughout the Hospital, including employee furloughs, and has received funds from the Medicare accelerated payment program and amounts related to the stimulus program outlined in the Coronavirus Aid, Relief, and Economic Security Act. No impairments were recorded as of the statement of net position date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Hospital's results of operations, cash flows, and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

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## Required Supplemental Information

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**Fayette County Memorial Hospital**

Required Supplemental Information  
Schedule of Hospital OPERS Contributions  
Fayette County Memorial Hospital

	<b>Last Five Fiscal Years Years Ended December 31</b>				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,891,727	\$ 2,683,961	\$ 2,548,919	\$ 2,590,631	\$ 2,753,872
Contributions in relation to the contractually required contribution	<u>2,891,727</u>	<u>2,683,961</u>	<u>2,548,919</u>	<u>2,590,631</u>	<u>2,753,872</u>
<b>Contribution Deficiency</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
<b>Hospital's Covered Payroll</b>	\$ 20,923,101	\$ 19,169,352	\$ 18,195,949	\$ 19,231,676	\$ 20,402,903
<b>Contributions as a Percentage of Covered Payroll</b>	14.0 %	14.0 %	14.0 %	14.0 %	14.0 %



## Fayette County Memorial Hospital

### Required Supplemental Information Schedule of Hospital OPEB Contributions Fayette County Memorial Hospital

	Last Two Fiscal Years	
	Year Ended December 31	
	2019	2018
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-
<b>Contribution Deficiency</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Hospital's Covered Payroll</b>	<b>\$ 20,923,101</b>	<b>\$ 16,169,352</b>
<b>Contributions as a Percentage of Covered Payroll</b>	<b>- %</b>	<b>- %</b>

\* OPERS allocated 0 percent of pension contributions to OPEB in 2019 and 2018.

## Fayette County Memorial Hospital

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

	Last Five Fiscal Years				
	Plan Years Ended December 31				
	2018	2017	2016	2015	2014
Hospital's proportion of the net pension liability	0.13000 %	0.13000 %	0.13000 %	0.14000 %	0.15000 %
Hospital's proportionate share of the net pension liability	\$ 36,235,711	\$ 19,655,543	\$ 29,260,019	\$ 24,572,394	\$ 18,131,058
Hospital's covered payroll	\$ 19,169,363	\$ 18,195,949	\$ 19,231,676	\$ 20,402,903	\$ 20,549,680
Hospital's proportionate share of the net pension liability as a percentage of its covered payroll	189.03 %	108.02 %	152.14 %	120.44 %	88.23 %
Plan fiduciary net position as a percentage of total pension liability	74.70 %	84.85 %	77.39 %	81.20 %	86.53 %

## Fayette County Memorial Hospital

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### Required Supplemental Information Schedule of Hospital's Proportionate Share of Net OPEB Liability Fayette County Memorial Hospital

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	Last Two Fiscal Years	
	Plan Year Ended December 31	
	2018	2017
Hospital's proportion of the net OPEB liability	0.13000 %	0.13000 %
Hospital's proportionate share of the net OPEB liability	\$ 17,190,780	\$ 13,958,497
Hospital's covered payroll	\$ 20,923,101	\$ 19,169,352
Hospital's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.16 %	72.82 %
Plan fiduciary net position as a percentage of total OPEB liability	46.33 %	54.14 %

# Fayette County Memorial Hospital

## Notes to Pension and OPEB Required Supplemental Information Schedules

December 31, 2019 and 2018

### *Pension Information*

#### **Benefit Changes**

There were no changes of benefit terms in 2019 and 2018.

#### **Changes in Assumptions**

There were no changes in methods and assumptions used in the calculation of actuarially determined contributions for 2015-2016. For 2017, the most significant changes of assumptions that affected the net pension liability included a reduction in the investment rate of return from 8.0 percent to 7.5 percent, a decrease in the wage inflation from 3.75 percent to 3.25 percent, and a change in the future salary increase from a range of 4.25 percent to 10.05 percent to a range of 3.25 percent to 10.75 percent. For 2018, the most significant change of assumption that affected the net pension liability included an increase in inflation from 2.5 percent to 3.25 percent. For 2019, the most significant change included an decrease in the investment rate of return from 7.50 percent to 7.20 percent.

### *OPEB Information*

#### **Benefit Changes**

There were no changes of benefit terms in 2019 and 2018.

#### **Changes in Assumptions**

There were no changes of benefit assumptions in 2019 and 2018.

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## Other Supplemental Information

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## Fayette County Memorial Hospital

# Combining Statement of Net Position

December 31, 2019

	Fayette County Memorial Hospital	Fayette County Memorial Hospital Foundation	Total
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,386,923	\$ -	\$ 1,386,923
Accounts receivable	5,771,896	-	5,771,896
Notes receivable	193,064	-	193,064
Estimated third-party payor settlements	481,321	-	481,321
Inventory	767,683	-	767,683
Other current assets	35,659	-	35,659
Total current assets	8,636,546	-	8,636,546
<b>Assets Limited as to Use</b>	1,759,936	316,420	2,076,356
<b>Capital Assets</b>			
Nondepreciable capital assets	622,610	-	622,610
Depreciable capital assets	32,501,027	-	32,501,027
Total capital assets	33,123,637	-	33,123,637
Less accumulated depreciation	24,698,414	-	24,698,414
Net capital assets	8,425,223	-	8,425,223
Total assets	18,821,705	316,420	19,138,125
<b>Deferred Outflows of Resources Related to Pension and Other Postemployment Benefits</b>	13,427,985	-	13,427,985
Total assets and deferred outflows of resources	<b>\$ 32,249,690</b>	<b>\$ 316,420</b>	<b>\$ 32,566,110</b>

**Fayette County Memorial Hospital**

**Combining Statement of Net Position (Continued)**

**December 31, 2019**

	Fayette County Memorial Hospital	Fayette County Memorial Hospital Foundation	Total
<b>Current Liabilities</b>			
Accounts payable	\$ 3,136,494	\$ -	\$ 3,136,494
Current portion of long-term debt	359,730	-	359,730
Accrued liabilities and other:			
Accrued compensation and other accrued liabilities	1,969,982	-	1,969,982
Accrued compensated absences	1,586,229	-	1,586,229
Total current liabilities	7,052,435	-	7,052,435
<b>Noncurrent Liabilities</b>			
Long-term debt - Net of current portion	1,827,050	-	1,827,050
Net pension and other postemployment benefits liability	53,426,490	-	53,426,490
Total liabilities	62,305,975	-	62,305,975
<b>Deferred Inflows of Resources Related to Pension and Other Postemployment Benefits</b>	766,311	-	766,311
<b>Net Position</b>			
Net investment in capital assets	6,238,443	-	6,238,443
Restricted - Expendable for capital improvements and other purposes	960,711	219,301	1,180,012
Unrestricted	(38,021,750)	97,119	(37,924,631)
Total net position	(30,822,596)	316,420	(30,506,176)
Total liabilities, deferred inflows of resources, and net position	<b>\$ 32,249,690</b>	<b>\$ 316,420</b>	<b>\$ 32,566,110</b>

## Fayette County Memorial Hospital

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

Year Ended December 31, 2019

	Fayette County Memorial Hospital	Fayette County Memorial Hospital Foundation	Total
<b>Operating Revenue</b>			
Net patient service revenue	\$ 46,899,706	\$ -	\$ 46,899,706
Other	1,387,069	-	1,387,069
Total operating revenue	48,286,775	-	48,286,775
<b>Operating Expenses</b>			
Salaries and wages	21,827,685	-	21,827,685
Employee benefits and payroll taxes	13,027,519	-	13,027,519
Operating supplies and expenses	6,681,328	-	6,681,328
Professional services and consultant fees	11,408,858	-	11,408,858
Insurance	357,588	-	357,588
Utilities	872,387	-	872,387
Leases and rentals	466,124	-	466,124
Maintenance and repairs	1,589,982	-	1,589,982
Depreciation	1,174,240	-	1,174,240
Other	1,328,966	-	1,328,966
Total operating expenses	58,734,677	-	58,734,677
<b>Operating Loss</b>	(10,447,902)	-	(10,447,902)
<b>Other Income (Expense)</b>			
Contributions	25,542	163,361	188,903
Realized gain on sale of investments	78,936	-	78,936
Other income	160,710	-	160,710
Change in unrealized investment gain	73,217	-	73,217
Interest expense	(51,387)	-	(51,387)
Other expense	-	(157,589)	(157,589)
Total other income	287,018	5,772	292,790
<b>Excess of Revenue (Under) Over Expenses</b>	(10,160,884)	5,772	(10,155,112)
<b>Net Position - Beginning of year</b>	(20,661,712)	310,648	(20,351,064)
<b>Net Position - End of year</b>	<b>\$ (30,822,596)</b>	<b>\$ 316,420</b>	<b>\$ (30,506,176)</b>



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

**Independent Auditor's Report**

To Management and the Board of Trustees  
Fayette County Memorial Hospital

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Fayette County Memorial Hospital (the "Hospital"), which comprise the statement of net position as of December 31, 2019 and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated May 27, 2020.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

To Management and the Board of Trustees  
Fayette County Memorial Hospital

**Purpose of This Report**

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

*Plante & Moreau, PLLC*

May 27, 2020

# OHIO AUDITOR OF STATE KEITH FABER



**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 2, 2020**