

Fayette County Memorial Hospital

**Financial Report
with Additional Information
December 31, 2014**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Fayette County Memorial Hospital, Fayette County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2014 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

October 7, 2015

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Fayette County Memorial Hospital

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Independent Auditor's Report

To the Board of Trustees
Fayette County Memorial Hospital

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Fayette County Memorial Hospital (the "Hospital"), a component unit of Fayette County, as of and for the year ended December 31, 2014 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Trustees
Fayette County Memorial Hospital

Opinion

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

Emphasis of Matter

The accompanying basic financial statements have been prepared assuming that Fayette County Memorial Hospital will continue as a going concern. As discussed in Note 13 to the basic financial statements, the Hospital has suffered recurring losses and has current liabilities due that exceed current assets available that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 13. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

The basic financial statements of Fayette County Memorial Hospital as of and for the year ended December 31, 2013 were audited by a predecessor auditor, who expressed an unmodified on the Hospital's financial statements. The predecessor auditor's report included an emphasis-of-matter paragraph regarding going concern and other information regarding the implementation of GASB 61. The predecessor auditor's report was dated June 2, 2014.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, listed 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 opinions on the financial statements that collectively comprise Fayette County Memorial Hospital's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

To the Board of Trustees
Fayette County Memorial Hospital

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2015 on our consideration of Fayette County Memorial Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fayette County Memorial Hospital's internal control over financial reporting and compliance.

Plante & Moran, PLLC

June 19, 2015

Fayette County Memorial Hospital

Management's Discussion and Analysis

Management's Discussion and Analysis

The discussion and analysis of Fayette County Memorial Hospital's (the "Hospital") financial statements provides an overview of the Hospital's financial activities for the years ended December 31, 2014 and 2013. 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

In an effort to improve operational results the Hospital experienced a reduction in force of 29 employees in March, 2014. The positions were throughout the Hospital and included the closing of Business Health Services. A pay freeze was also put in place.

In June, the Hospital board issued a request for proposal to explore opportunities for a strategic partnership/affiliation. As a result, the management agreement with Mt. Carmel was terminated in October, 2014 and the Hospital entered into an affiliation with the Ohio State University Wexner Medical Center effective in February, 2015.

The Hospital experienced a change in senior leadership when the Chief Financial Officer resigned in June, 2014 and was replaced by a part-time interim CFO. In October, the chief executive officer left as a result of terminating the Mt. Carmel management agreement and Dr. John DesMarais was named interim CEO with that appointment becoming permanent in 2015.

Financial Highlights

Cash, investments, and assets limited as to use increased approximately \$1,775,354 while accounts receivable decreased by \$969,499. In total, the Hospital's expenses exceeded revenues and other support, creating a decrease in net position of \$2,334,398 (compared to a decrease in net position of \$3,180,541 in the previous year).

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 and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purpose by contributors, grantors, or enabling legislation.

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

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 revenue and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The relationship between revenue and expenses may be thought of as the Hospital's operating results.

These two statements report the Hospital's net position and changes in net position. You can think of Hospital's net position, the difference between assets and liabilities, as a way to measure the Hospital's financial health, or financial position. Over time, an increase or decrease in the Hospital's net position is an indicator of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as the trend in patient days, outpatient visits, conditions of the buildings, and strength of the medical staff, to assess the overall health of the Hospital.

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

The Statement of Cash Flows

The final required statement is the statement of cash flows. 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?"

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following is a comparative analysis of the major components of the statement of net position of the Hospital as of December 31, 2014, 2013, and 2012:

Assets, Liabilities, and Net Position

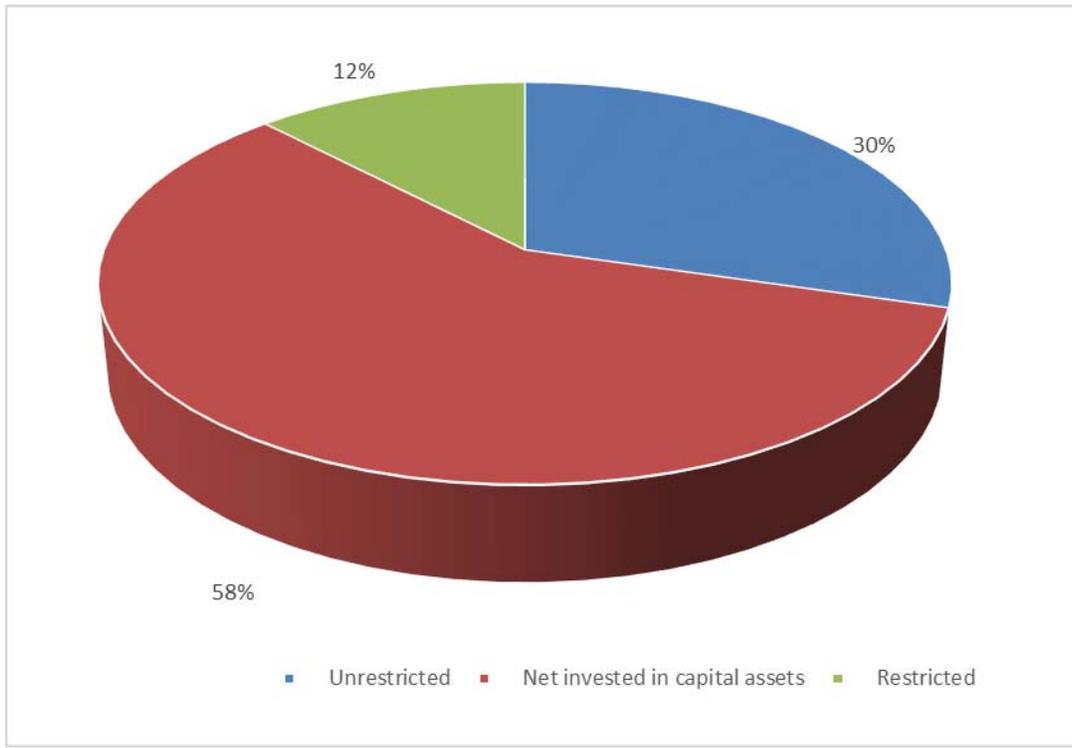
	December 31		
	2014	2013	2012
Current assets	\$ 9,203,728	\$ 7,927,932	\$ 10,446,332
Noncurrent assets	3,354,523	4,674,915	5,447,685
Capital assets	8,845,701	10,117,624	10,379,752
Total assets	\$ 21,403,952	\$ 22,720,471	\$ 26,273,769
Current liabilities	\$ 9,650,928	\$ 10,273,969	\$ 7,938,491
Long-term liabilities	2,563,598	922,678	3,630,913
Total liabilities	\$ 12,214,526	\$ 11,196,647	\$ 11,569,404
Net position:			
Unrestricted	\$ 2,717,139	\$ 4,666,735	\$ 7,470,977
Net invested in capital assets	5,354,993	5,807,120	6,299,656
Restricted	1,117,294	1,049,969	933,732
Total net position	\$ 9,189,426	\$ 11,523,824	\$ 14,704,365

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

The primary changes in the assets, liabilities and net position relates to a increase in cash and cash equivalents of \$1,428,608, a decrease in net patient accounts receivable of \$969,499, a decrease in long-term investments of \$1,330,073, and a decrease in net position of \$2,334,398.

The following chart provides a breakdown of net position by category for the year ended December 31, 2014:



Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

Operating Results and Changes in Net Position

	Year Ended		
	2014	2013	2012
Operating revenues:			
Net patient service revenues	\$ 39,562,879	\$ 42,589,717	\$ 41,487,596
Other	1,448,140	1,316,943	2,104,493
Total operating revenues	41,011,019	43,906,660	43,592,089
Operating expenses:			
Salaries and wages	21,667,444	23,314,906	20,841,165
Employee benefits and payroll taxes	6,360,524	6,996,501	6,270,085
Operating supplies and expenses	4,344,681	5,574,480	5,388,328
Professional services and consultant fees	5,677,030	5,347,131	5,130,900
Insurance	495,394	419,904	500,898
Utilities	782,215	853,166	822,942
Leases and rentals	602,545	475,646	397,108
Maintenance and repairs	1,421,200	1,752,808	1,639,699
Depreciation and amortization	1,339,375	1,311,031	1,103,444
Other expenses	1,143,461	1,326,323	1,170,735
Total operating expenses	43,833,869	47,371,896	43,265,304
Operating (loss) income	(2,822,850)	(3,465,236)	326,785
Nonoperating gains - Net	488,452	284,695	436,964
Changes in net position	(2,334,398)	(3,180,541)	763,749
Net position - Beginning of year	11,523,824	14,704,365	13,940,616
Net position - End of year	\$ 9,189,426	\$ 11,523,824	\$ 14,704,365

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

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 \$3,026,838. A decrease in inpatient admissions of 16 percent along with a decrease in inpatient days of 25 percent in conjunction with increased revenue deductions stemming from reduced costs were the leading contributors. Revenue deductions are the amounts that are not paid to the Hospital under contractual arrangements with Medicare, Medicaid, and various other commercial payers. Medicare pays critical access hospitals under a cost basis while Medicaid pays primarily on a prospective basis and other payors as a percent of charges. Revenue deductions were approximately 64 and 61 percent of gross revenue in 2014 and 2013, respectively.

Operating Expenses

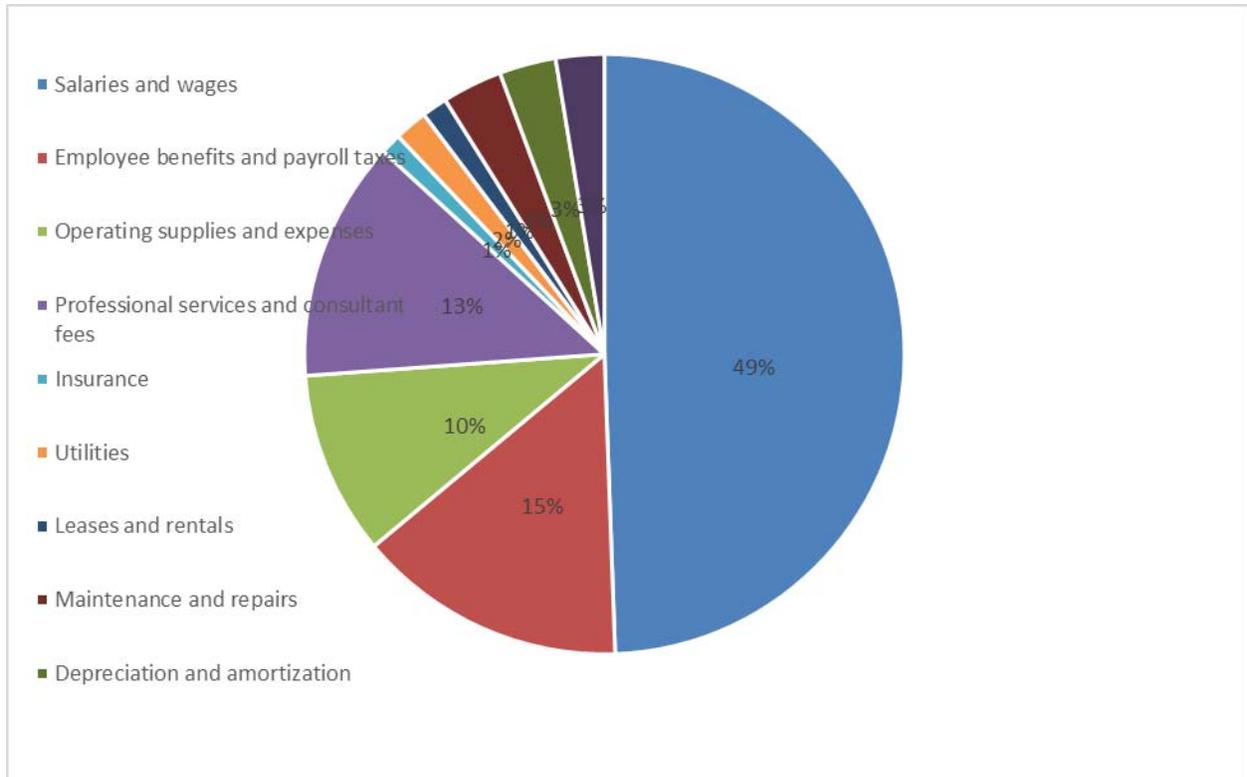
Operating expenses are all the costs necessary to perform and conduct the services of the Hospital. Operating expense changes were a result of the following factors:

- Salaries and wages decreased approximately \$1,647,000 and employee benefits and payroll taxes decreased approximately \$636,000. This was attributable to a reduction in force in March, 2014 and a wage freeze.

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

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



Nonoperating Gains - Net

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

Significant changes were the result of the following factors:

- Donations, gifts, and grants increased \$183,248.
- Investment income decreased \$39,668.

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

Statement of Cash Flows

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

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

Statement of Cash Flows

	2014	2013	2012
Cash from:			
Operating activities	\$ 718,569	\$ (1,659,488)	\$ 1,298,874
Capital and related financing activities	(1,064,164)	(951,535)	(2,303,481)
Noncapital and related financing activities	435,204	302,150	352,701
Investing activities	1,685,745	1,313,720	327,612
Net change in cash and cash equivalents	1,775,354	(995,153)	(324,294)
Cash - Beginning of year	1,669,897	2,665,050	2,989,344
Cash - End of year	<u>\$ 3,445,251</u>	<u>\$ 1,669,897</u>	<u>\$ 2,665,050</u>

Cash generated from operating activities was \$718,569 in 2014 compared to cash used in operating activity of (\$1,659,488) in 2013. Capital purchases were \$140,353 in 2014 compared to \$270,382 in 2013. Cash provided by investing activities increased due to the sale of investments.

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

At December 31, 2014, the Hospital had approximately \$27.8 million invested in capital assets, with an accumulated depreciation of approximately \$18.9 million. Depreciation and amortization approximated \$1.3 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	2014	2013	2012
Land	\$ 433,225	\$ 433,225	\$ 433,225
Land improvements	624,690	624,690	624,690
Buildings	15,761,850	15,761,850	15,370,327
Fixed equipment	1,837,916	1,837,916	1,817,598
Major moveable equipment	9,091,718	9,652,101	9,609,188
Construction in progress	27,025	560,441	548,871
Total	<u>\$27,776,424</u>	<u>\$ 28,870,223</u>	<u>\$ 28,403,899</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 \$3,490,708 in debt outstanding, as compared to \$4,310,504 in 2013. The table below summarizes these amounts by type of debt instrument:

Debt	2014	2013	2012
Notes payable - 2003 Series	\$ 2,590,000	\$ 2,815,000	\$ 3,025,000
Note payable	412,115	483,179	550,439
Lease obligation	488,593	1,012,325	504,657
Total notes and leases	<u>\$ 3,490,708</u>	<u>\$ 4,310,504</u>	<u>\$ 4,080,096</u>

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

Fayette County Memorial Hospital

Management's Discussion and Analysis (Continued)

The Hospital is bound by the terms of the trust indenture and reimbursement agreement to various operations and financial covenants. For quarter ended December 31, 2014, these covenants include maintaining a minimum debt service ratio of 1.25 to 1.00 and minimum days cash on hand of 50. The Hospital was not in compliance with the covenants as of December 31, 2014. In April, 2015, the Hospital entered into an agreement with the County for the funds to retire the bonds and establish a debt with the County.

Other Economic Factors

There are many outside factors that may affect the Hospital in 2015 and future years, including:

- The 2013 budget sequestration will continue into 2015 and will result in reduced reimbursements from Medicare. The federal and state governments are under continued pressure to decrease funding for Medicare and Medicaid.
- While the overall financial impact is still being fully determined, there have been policy changes due to the passing of the Patient Protection Affordable Care Act (PPACA or ACA) signed by President Obama in 2010.
- The local and state economies are struggling. This climate may continue to lead to more bad debt expense, charity care, and Medicaid utilization.
- Medicaid expansion, Health Insurance Marketplace, and presumptive eligibility resulted in a decrease in self-pay patients and bad debt expense.
- Another risk relates to the recent issuance of GASB Statements No. 67 and No. 68 (also see notes to the financial statements). These new standards will change the recognition and reporting requirements for public pensions (OPERS). The Hospital will now be required to report a portion of the unfunded liability on our financial statements. While the overall structure of the Hospital remains unchanged, we will now be required to recognize any shifts in the total net unfunded liability of OPERS.

Contacting the Hospital's Management

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

Fayette County Memorial Hospital

Statement of Net Position

	December 31, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 1,898,651	\$ 470,043
Accounts receivable (Note 3)	4,109,482	5,078,981
Notes receivable	468,126	326,716
Estimated third-party payor settlements	184,741	237,646
Inventory	597,985	712,535
Other current assets	1,944,743	1,102,011
Total current assets	9,203,728	7,927,932
Assets Limited as to Use (Notes 2 and 4)	1,907,070	1,724,827
Long-term Investments (Note 2)	1,447,453	2,777,526
Capital Assets (Note 5)	8,845,701	10,117,624
Other Assets	-	172,562
Total assets	<u>\$ 21,403,952</u>	<u>\$ 22,720,471</u>

Fayette County Memorial Hospital

Statement of Net Position (Continued)

	December 31, 2014	December 31, 2013
Liabilities and Net Position		
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 927,110	\$ 3,387,826
Accounts payable	2,873,700	3,849,924
Estimated third-party payor settlements	2,631,164	-
Accrued liabilities and other:		
Accrued compensation	1,827,514	1,585,661
Accrued compensated absences (Note 7)	1,327,355	1,347,478
Other accrued liabilities	64,085	103,080
Total current liabilities	9,650,928	10,273,969
Long-term Debt - Net of current portion (Note 7)	2,563,598	922,678
Total liabilities	12,214,526	11,196,647
Net Position		
Net investment in capital assets	5,354,993	5,807,120
Restricted - Expendable for capital improvements and other purposes	1,117,294	1,049,969
Unrestricted	2,717,139	4,666,735
Total net position	9,189,426	11,523,824
Total liabilities and net position	<u>\$ 21,403,952</u>	<u>\$ 22,720,471</u>

Fayette County Memorial Hospital

Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended	
	December 31, 2014	December 31, 2013
Operating Revenues		
Net patient service revenue (net of provision for contractual adjustments of \$65,601,000 and bad debt of \$4,739,000 in 2014 and contractual adjustments of \$60,091,000 and bad debt of \$7,070,000 in 2013)	\$ 39,562,879	\$ 42,589,717
Other	1,448,140	1,316,943
Total operating revenues	41,011,019	43,906,660
Operating Expenses		
Salaries and wages	21,667,444	23,314,906
Employee benefits and payroll taxes	6,360,524	6,996,501
Operating supplies and expenses	4,344,681	5,574,480
Professional services and consultant fees	5,677,030	5,347,131
Insurance	495,394	419,904
Utilities	782,215	853,166
Leases and rentals	602,545	475,646
Maintenance and repairs	1,421,200	1,752,808
Depreciation and amortization	1,339,375	1,311,031
Other	1,143,461	1,326,323
Total operating expenses	43,833,869	47,371,896
Operating Loss	(2,822,850)	(3,465,236)
Other Income (Expense)		
Contributions	477,422	294,174
Realized gain on sale of investments	46,344	86,012
Other income	93,396	208,820
Change in unrealized investment gain (loss)	17,523	(78,554)
Interest expense	(104,015)	(133,040)
Other expense	(42,218)	(92,717)
Total other income	488,452	284,695
Excess of Expenses Over Revenues	(2,334,398)	(3,180,541)
Net Position - Beginning of year	11,523,824	14,704,365
Net Position - End of year	\$ 9,189,426	\$ 11,523,824

Fayette County Memorial Hospital

Statement of Cash Flows

	Year Ended	
	December 31, 2014	December 31, 2013
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 42,546,277	\$ 43,639,344
Cash payments to suppliers for services and goods	(15,469,610)	(16,565,185)
Cash payments to employees	(27,806,238)	(30,050,590)
Other operating revenue received	1,448,140	1,316,943
Net cash provided by (used in) operating activities	718,569	(1,659,488)
Cash Flows from Noncapital Financing Activities -		
Donations and other	435,204	302,150
Cash Flows from Investing Activities		
Investment income	63,867	72,260
Change in investments - Net	1,494,577	992,837
Rental receipts - Net of expenses paid	93,396	-
Changes in advances to physicians	(38,995)	248,623
Other	72,900	-
Net cash provided by investing activities	1,685,745	1,313,720
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(140,353)	(270,382)
Proceeds from sale of capital assets	-	4,420
Interest paid on long-term debt	(104,015)	(133,040)
Principal payments on notes payable	(819,796)	(552,533)
Net cash used in capital and related financing activities	(1,064,164)	(951,535)
Net Increase (Decrease) in Cash and Cash Equivalents	1,775,354	(995,153)
Cash and Cash Equivalents - Beginning of year	1,669,897	2,665,050
Cash and Cash Equivalents - End of year	\$ 3,445,251	\$ 1,669,897
Balance Sheet Classification of Cash		
Cash and cash equivalents (Note 2)	\$ 1,898,651	\$ 470,043
Investments and assets limited as to use (Note 2)	1,546,600	1,199,854
Total cash	\$ 3,445,251	\$ 1,669,897

Fayette County Memorial Hospital

Statement of Cash Flows (Continued)

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

	Year Ended	
	December 31, 2014	December 31, 2013
Cash Flows from Operating Activities		
Operating loss	\$ (2,822,850)	\$ (3,465,236)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	1,339,375	1,311,031
Provision for bad debts	4,738,661	7,069,983
Changes in assets and liabilities:		
Accounts receivable	(3,769,162)	(6,060,770)
Estimated third-party settlements	2,684,069	40,414
Inventory	114,550	49,806
Other assets	(811,580)	(249,728)
Accounts payable	(976,224)	(802,299)
Other accrued liabilities	221,730	447,311
Net cash provided by (used in) operating activities	<u>\$ 718,569</u>	<u>\$ (1,659,488)</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

Note I - Nature of Business and Significant Accounting Policies

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

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

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

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

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

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

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

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

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

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

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

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

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

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

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

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

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

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

Employees accumulate holiday benefits at a Hospital-determined rate.

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

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

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

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

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. During 2014, the Hospital identified a potential overpayment for discounts on pharmacy purchases through the Medicare 340B program. The Hospital has estimated the maximum overpayments at \$475,000. The Hospital is in the process of resolving this issue with the assistance of its legal counsel. The Hospital will be contacting the Office of Pharmacy Affairs to disclose the issue and take necessary steps to correct the error. No amounts have been accrued as of December 31, 2014 related to this matter as the Hospital has not determined a loss to be probable.

The Medicare program has initiated a recovery audit contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program began for Ohio hospitals in 2010. The Hospital has been audited during 2014 and 2013 and the net outcome was not significant to the financial statements. If selected for further audits, the potential exists for significant overpayment or underpayment of claims.

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

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

Incentive payments were recognized as income within other operating revenue in the amount of approximately \$638,000 and \$446,000 for the years ended December 31, 2014 and 2013, respectively.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

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

Revenue from County for Emergency Medical Services - The County has approved the use of certain sales tax income to be used to assist the Hospital in funding expenses for emergency medical services provided by the Hospital. The Hospital has recognized income in other operating revenue of \$600,000 and \$681,000 in 2014 and 2013, respectively, related to this assistance.

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

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

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenues received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation which applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue. The Hospital estimates that it provided \$216,000 and \$1,567,000 of services to indigent patients during 2014 and 2013, 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 \$680,000 and \$454,000 for 2014 and 2013, respectively, and are reported as net patient service revenue in the financial statements.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

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

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

Physician Recruitment Agreements and Physician Advances Receivable - Consistent with the Hospital's policy on physician relocations and recruitment, the Hospital provides income guarantees to certain physicians who agree to relocate to the community to fill a need in the Hospital's service area and commit to remain in practice for a specified term. Under such agreements, the Hospital is required to make payments to the physicians in excess of amounts earned in their respective practices up to the amount of the income guarantee. Income guarantee periods are generally two years. Such payments are recoverable from the physician in the event that their commitment period is not met, which is typically three years. The Hospital also advances monies to physicians under various loan agreements. These loans are unsecured and are forgiven systematically in accordance with the loan agreements. An allowance for physician advances has been recorded at approximately \$42,000 at December 31, 2014 and 2013, respectively.

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

The Hospital recorded a liability of approximately \$64,000 and \$103,000 at December 31, 2014 and 2013, respectively, for the estimated obligation to the Hospital under these agreements with an offsetting asset recorded within the accompanying statement of net position.

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

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

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

Upcoming Accounting Changes - In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Hospital is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending December 31, 2015.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including June 19, 2015, which is the date the financial statements were available to be issued.

Note 2 - Deposits and Investments

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

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

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

Note 2 - Deposits and Investments (Continued)

Deposits and investments are reported in the financial statements as follows as of December 31, 2013:

	Cash and Cash Equivalents	Investments	Assets Limited as to Use	Total
Deposits	\$ 470,043	\$ 29,646	\$ 1,170,208	\$ 1,669,897
Corporate bond	-	-	17,000	17,000
Mutual funds	-	-	149,343	149,343
Equities	-	-	170,390	170,390
United States government and agency obligations	-	2,747,880	217,886	2,965,766
Total	<u>\$ 470,043</u>	<u>\$ 2,777,526</u>	<u>\$ 1,724,827</u>	<u>\$ 4,972,396</u>

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

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

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

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

Inactive Funds - Inactive funds are those funds not required for use within the current five-year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit, maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to, passbook accounts.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

Note 2 - Deposits and Investments (Continued)

Interim Funds - Interim funds are those funds which are not needed for immediate use but will be needed before the end of the current period of designation of deposit. Ohio law permits interim funds to be invested or deposited in the following securities:

1. Bonds, notes, or other obligations guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest
2. Bonds, note debentures, or other obligations or securities issued by any federal governmental agency
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions
4. Interim deposits in the eligible institutions applying for interim funds to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but not limited to, passbook accounts
5. Bonds and other obligations of the State of Ohio
6. The Ohio State Treasurer's investment pool (STAR Ohio)
7. Commercial paper and bankers' acceptances which meet the requirements established by Ohio Revised Code, SEC 135.142
8. Under limited circumstances, corporate debt interest in either of the two highest rating classifications by at least two nationally recognized rating agencies

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

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

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

Note 2 - Deposits and Investments (Continued)

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, 2014 and 2013, 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. A year end, the following approximates the investment securities that were collateralized with securities held by the counterparty or by its trust department or agent:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Held By</u>
At December 31, 2014		
United States government and agency obligations	<u>\$ 1,530,336</u>	Counterparty
At December 31, 2013		
United States government and agency obligations	<u>\$ 2,965,766</u>	Counterparty

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Hospital does not have an investment policy that addresses interest rate risk. As of December 31, 2014 and 2013, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (years)
At December 31, 2014		
United States government and agency obligations	\$ 1,530,336	1.62
Corporate bond	18,200	3.46
Total	<u>\$ 1,548,536</u>	
At December 31, 2013		
United States government and agency obligations	\$ 2,965,766	2.87
Corporate bond	17,000	4.46
Total	<u>\$ 2,982,766</u>	

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, 2014 and 2013, the credit quality ratings of debt securities (other than the U.S. government) are appropriate.

Investment	Fair Value	Rating	Rating Organization
At December 31, 2014			
United States government and agency obligations	\$ 1,530,336	AA+	S&P
Corporate bond	18,200	CCC	S&P
Total	<u>\$ 1,548,536</u>		
At December 31, 2013			
United States government and agency obligations	\$ 2,965,766	AA+	S&P
Corporate bond	17,000	CCC	S&P
Total	<u>\$ 2,982,766</u>		

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

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	<u>2014</u>	<u>2013</u>
Patient accounts receivable	\$ 11,633,165	\$ 13,737,807
Less:		
Allowance of uncollectible accounts	(1,955,053)	(2,844,467)
Allowance for contractual adjustments	<u>(5,568,630)</u>	<u>(5,814,359)</u>
Net patient accounts receivable	<u>\$ 4,109,482</u>	<u>\$ 5,078,981</u>

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

	<u>2014</u>	<u>2013</u>
Medicare (includes HMOs)	34 %	28 %
Medicaid (includes HMOs)	22	16
Commercial insurance	26	31
Self pay	<u>18</u>	<u>25</u>
Total	<u>100 %</u>	<u>100 %</u>

Note 4 - Assets Limited as to Use

Assets limited as to use consist of the following:

	<u>2014</u>	<u>2013</u>
Board designated	\$ 789,776	\$ 674,858
Donor restricted:		
Community health services	848,506	831,527
Capital expenditures	64,424	64,428
Foundation-restricted assets	<u>204,364</u>	<u>154,014</u>
Total assets limited as to use	<u>\$ 1,907,070</u>	<u>\$ 1,724,827</u>

The Hospital had net unrealized gains of \$17,523 and net unrealized losses of \$78,554, in its investment portfolio as of December 31, 2014 and 2013, respectively. Interest, dividends, and realized gains and losses amounted to \$46,344 and \$86,012 for the years ended December 31, 2014 and 2013, respectively.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

Note 5 - Capital Assets

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

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

Cost of capital assets and related depreciable lives for December 31, 2013 are summarized below:

	2012	Additions	Transfers	Retirements	2013	Depreciable Life - Years
Capital assets not being depreciated:						
Land	\$ 433,225	\$ -	\$ -	\$ -	\$ 433,225	-
Construction in progress	548,871	11,570	-	-	560,441	-
Total capital assets not being depreciated	982,096	11,570	-	-	993,666	-
Capital assets being depreciated:						
Land improvements	624,690	-	-	-	624,690	10-20
Buildings	15,370,327	391,523	-	-	15,761,850	15-50
Fixed equipment	1,817,598	44,278	-	(23,960)	1,837,916	5-20
Major movable equipment	9,609,188	605,952	-	(563,039)	9,652,101	5-25
Total capital assets being depreciated	27,421,803	1,041,753	-	(586,999)	27,876,557	-
Less accumulated depreciation	18,024,147	1,311,031	-	(582,579)	18,752,599	-
Total capital assets being depreciated - Net	9,397,656	(269,278)	-	(4,420)	9,123,958	-
Total capital assets - Net	\$ 10,379,752	\$ (257,708)	\$ -	\$ (4,420)	\$ 10,117,624	-

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

Note 6 - Estimated Third-party Settlements

Approximately 70 percent and 62 percent of the Hospital's revenue from patient services was received from Medicare and Medicaid for 2014 and 2013, respectively. The Hospital has agreements with third-party payors that provide for reimbursement at amounts different from established rates. A summary of the basis of reimbursement with these third-party payors is as follows:

- **Medicare** - In December 2005, the Hospital was designated as a critical access hospital. As a result, the Hospital is reimbursed based on cost for all acute-care inpatient and outpatient services. Medicare cost reports are final settled through 2011.
- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost reimbursement method. Outpatient and physician services are reimbursed on an established fee-for-service methodology.

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

Cost report settlements 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, 2014 and 2013, the Hospital recognized a change in estimate of approximately \$94,000 and \$183,000, 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 statements of revenues, expenses and changes in net position.

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

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

Note 7 - Long-term Debt

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

The Notes are payable semiannually with principal payments ranging from \$210,000 to \$350,000, in the aggregate, maturing on August 1, 2023. The Notes are secured by an irrevocable letter of credit with the trustee bank.

The Hospital is bound by the terms of the trust indenture and reimbursement agreement to various operations and financial covenants. These covenants include maintaining a minimum debt service ratio of 1.25 to 1.00, and minimum days cash on hand of 50 for the quarter ended December 31, 2014. The Hospital was not in compliance with these covenants as of December 31, 2014.

In April 2015, the Hospital signed an assistance agreement with the county commissioners of Fayette County (the "County") whereby the County will assist the Hospital with terminating the 2003 Notes. Under this agreement, the County will contribute \$2,000,000 and the Hospital will contribute \$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. The Hospital submitted notice to optionally redeem the 2003 Notes effective May 15, 2015.

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

The Hospital has entered into various noncancelable capital lease agreements for equipment. Capital leases have imputed interest rates of 3.25 to 8.52 percent. They expire at various times through 2018 and are collateralized by the equipment leased. The cost of leased equipment was \$1,409,799 for both the years ended December 31, 2014 and 2013.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

Note 7 - Long-term Debt (Continued)

Long-term debt activity for the years ended December 31, 2014 and 2013 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2014					
Leases and notes payable:					
Lease obligations	\$ 1,012,325	\$ -	\$ (523,732)	\$ 488,593	\$ 262,496
Notes payable - 2003 series	2,815,000	-	(225,000)	2,590,000	590,000
Notes payable	483,179	-	(71,064)	412,115	74,614
Total lease and notes payable	4,310,504	-	(819,796)	3,490,708	927,110
Other liabilities -					
Compensated absences	1,347,478	1,892,402	(1,912,525)	1,327,355	1,327,355
Total long-term and other liabilities	\$ 5,657,982	\$ 1,892,402	\$ (2,732,321)	\$ 4,818,063	\$ 2,254,465
2013					
Leases and notes payable:					
Lease obligations	\$ 504,657	\$ 782,941	\$ (275,273)	\$ 1,012,325	\$ 501,894
Notes payable - 2003 series	3,025,000	-	(210,000)	2,815,000	2,815,000
Notes payable	550,439	-	(67,260)	483,179	70,932
Total lease and notes payable	4,080,096	782,941	(552,533)	4,310,504	3,387,826
Other liabilities -					
Compensated absences	1,204,475	2,059,413	(1,916,410)	1,347,478	1,347,478
Total long-term and other liabilities	\$ 5,284,571	\$ 2,842,354	\$ (2,468,943)	\$ 5,657,982	\$ 4,735,304

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

Years Ending December 31	Long-term Debt			Capital Lease Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 664,614	\$ 47,554	\$ 712,168	\$ 262,495	\$ 18,812	\$ 281,307
2016	78,488	35,399	113,887	88,371	11,983	100,354
2017	221,652	30,978	252,630	75,414	7,006	82,420
2018	227,333	25,297	252,630	62,313	1,833	64,146
2019	231,494	19,380	250,874	-	-	-
Thereafter	1,578,534	47,680	1,626,214	-	-	-
Total	\$ 3,002,115	\$ 206,288	\$ 3,208,403	\$ 488,593	\$ 39,634	\$ 528,227

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

Note 8 - Operating Leases

The Hospital has entered into operating lease agreements for equipment, which expire at various times through 2018. Operating lease expense totaled approximately \$603,000 and \$476,000 in 2014 and 2013, respectively.

At December 31, 2014, future minimum lease payments for operating leases, by year and in the aggregate, are summarized as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2015	\$ 490,623
2016	333,311
2017	160,543
2018	<u>42,293</u>
Total minimum lease payments	<u>\$ 1,026,770</u>

Note 9 - Risk Management

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

The Hospital is insured against medical malpractice claims under a claims-made based policy. The policy covers claims resulting from incidents that occurred during the policy terms, regardless of when the claim is reported to the insurance carrier. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claim exceeding \$1,000,000 or aggregate claims exceeding \$3,000,000 for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$5,000,000 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.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

Note 10 - Defined Benefit Pension Plan

Plan Description - The Hospital contributes to the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: The traditional pension plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan (MD) - a defined contribution plan; and the combined plan (CO) - a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor, and death benefits, annual cost of living adjustments, and postretirement healthcare benefits to qualifying members of both the traditional and the combined plans; however, healthcare benefits are not statutorily guaranteed. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment healthcare coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS board of trustees (the "Board"). OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-6705 or 1-800-222-PERS (7377).

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2014, member and employer contribution rates were consistent across all three plans (TP, MD, and CO), and are actuarially determined. The 2014 member contribution rate for members of local government units was 10 percent of their annual covered salary. The 2014 employer contribution rate for local government units was 14 percent of covered payroll. The Hospital's contributions to OPERS for the years ended December 31, 2014, 2013, and 2012 were \$2,867,000, \$3,067,000, and \$2,754,000, respectively. Required employer contributions for all plans are equal to 100 percent of employer charges and must be extracted from the employer's records.

Postretirement Benefits - In order to qualify for postretirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an "other postemployment benefit (OPEB)," as described in GASB Statement No. 45. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2014, 2013, and 2012, state and local employers contributed at a rate of 14.00 percent for each year of covered payroll. The portion of employer contributions allocated to health care was 2.00 percent during the year ended December 31, 2014, 1.00 percent during the year ended December 31, 2013, and 4.00 percent during the year ended December 31, 2012. The portion of the employer's contribution used to fund postemployment benefits for 2014, 2013, and 2012 was \$410,000, \$219,000, and \$787,000, respectively.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

Note 10 - Defined Benefit Pension Plan (Continued)

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. Changes to the healthcare plan were adopted by the OPERS board of trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the passage of pension legislation under SB 343 and the approved healthcare changes, OPERS expects to be able to consistently allocate 4.00 percent of the employer contributions toward the healthcare fund after the end of the transition period.

Note 11 - Self-insured Benefits

The Hospital is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$750,000 per employee or total claims in excess of \$1,500,000. A liability for claims incurred but not reported is included within accounts payable. Claims, charged to operations when incurred, were approximately \$2,636,000 and \$3,334,000 for the years ended December 31, 2014 and 2013, respectively.

Note 12 - 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, 2014 and 2013:

	2014	2013
Assets Limited as to Use	<u>\$ 305,246</u>	<u>\$ 217,094</u>
Net Position		
Restricted - Expendable for capital improvements and other purposes	\$ 204,364	\$ 153,832
Unrestricted	100,882	63,262
Total net position	<u>\$ 305,246</u>	<u>\$ 217,094</u>
Other Income (Expense)		
Contributions	\$ 130,370	\$ 180,555
Other expense	(42,218)	(92,717)
Total other income	<u>\$ 88,152</u>	<u>\$ 87,838</u>
Cash Provided by Financing Activities	\$ 88,152	\$ 87,838
Cash - Beginning of year	<u>217,094</u>	<u>129,256</u>
Cash - End of year	<u>\$ 305,246</u>	<u>\$ 217,094</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

Note 13 - Going Concern and Management's Plan

The Hospital had operating losses of \$2,823,000 and \$3,465,000 for 2014 and 2013, respectively. The Hospital's current liabilities exceed the Hospital's current assets at December 31, 2014. As noted in Note 7, the Hospital was not in compliance with certain covenants as of December 31, 2014. These factors could be indicative of the Hospital's inability to continue as a going concern.

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

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

Supplemental Information

Fayette County Memorial Hospital

Combining Statement of Net Position December 31, 2014

	Fayette County Memorial Hospital	Fayette County Memorial Foundation	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,898,651	\$ -	\$ 1,898,651
Accounts receivable	4,109,482	-	4,109,482
Notes receivable	468,126	-	468,126
Estimated third-party payor settlements	184,741	-	184,741
Inventory	597,985	-	597,985
Other current assets	1,944,743	-	1,944,743
Total current assets	9,203,728	-	9,203,728
Assets Limited as to Use	1,601,824	305,246	1,907,070
Long-term Investments	1,447,453	-	1,447,453
Capital Assets	8,845,701	-	8,845,701
Total assets	<u>\$ 21,098,706</u>	<u>\$ 305,246</u>	<u>\$ 21,403,952</u>
Liabilities and Net Position			
Current Liabilities			
Current portion of long-term debt	\$ 927,110	\$ -	\$ 927,110
Accounts payable	2,873,700	-	2,873,700
Estimated third-party payor settlements	2,631,164	-	2,631,164
Accrued liabilities and other:			
Accrued compensation	1,827,514	-	1,827,514
Accrued compensated absences	1,327,355	-	1,327,355
Other accrued liabilities	64,085	-	64,085
Total current liabilities	9,650,928	-	9,650,928
Long-term Debt - Net of current portion	2,563,598	-	2,563,598
Total liabilities	12,214,526	-	12,214,526
Net Position			
Net investment in capital assets	5,354,993	-	5,354,993
Restricted - Expendable for capital improvements and other purposes	912,930	204,364	1,117,294
Unrestricted	2,616,257	100,882	2,717,139
Total net position	8,884,180	305,246	9,189,426
Total liabilities and net position	<u>\$ 21,098,706</u>	<u>\$ 305,246</u>	<u>\$ 21,403,952</u>

Fayette County Memorial Hospital

Combining Statement of Revenues, Expenses, and Changes in Net Position Year Ended December 31, 2014

	Fayette County Memorial Hospital	Fayette County Memorial Foundation	Total
Unrestricted Revenue, Gains, and Other Support			
Net patient service revenue	\$ 39,562,879	\$ -	\$ 39,562,879
Other	1,448,140	-	1,448,140
Total unrestricted revenue, gains, and other support	41,011,019	-	41,011,019
Expenses			
Salaries and wages	21,667,444	-	21,667,444
Employee benefits and payroll taxes	6,360,524	-	6,360,524
Operating supplies and expenses	4,344,681	-	4,344,681
Professional services and consultant fees	5,677,030	-	5,677,030
Insurance	495,394	-	495,394
Utilities	782,215	-	782,215
Leases and rentals	602,545	-	602,545
Maintenance and repairs	1,421,200	-	1,421,200
Depreciation and amortization	1,339,375	-	1,339,375
Other	1,143,461	-	1,143,461
Total expenses	43,833,869	-	43,833,869
Operating Loss	(2,822,850)	-	(2,822,850)
Other Income (Expense)			
Contributions	347,052	130,370	477,422
Realized gain on sale of investments	46,344	-	46,344
Other income	93,396	-	93,396
Change in unrealized investment gain	17,523	-	17,523
Interest expense	(104,015)	-	(104,015)
Other expense	-	(42,218)	(42,218)
Total other income	400,300	88,152	488,452
(Decrease) Increase in Unrestricted Net Position	\$ (2,422,550)	\$ 88,152	\$ (2,334,398)

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 basic statement of net position as of December 31, 2014, and the related basic statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 19, 2015.

The accompanying basic financial statements have been prepared assuming that Fayette County Memorial Hospital will continue as a going concern. As discussed in Note 13 to the basic financial statements, the Hospital has suffered recurring losses and has current liabilities due that exceed current assets available which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 13. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be material weakness and another deficiency that we consider to be a significant deficiency.

To Management and the Board of Trustees
Fayette County Memorial Hospital

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2014-1 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2014-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fayette County Memorial Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as Finding 2014-3 - material noncompliance with laws and regulations.

Fayette County Memorial Hospital's Responses to Findings

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

Purpose of this Report

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

Plante & Moran, PLLC

June 19, 2015

Fayette County Memorial Hospital

Schedule of Findings and Questioned Costs Year Ended December 31, 2014

Section II - Financial Statement Audit Findings

Reference Number	Finding
2014-1	<p>Finding Type - Material weakness</p> <p>Criteria - The Hospital has not appropriately updated cash and investment account signers due to recent turnover.</p> <p>Condition - The Hospital's financial institution records indicate that individuals who are no longer employees of the Hospital have access to certain cash and investment accounts.</p> <p>Context - Improper access to cash and investment accounts</p> <p>Cause - The financial institutions have not been properly notified of employee terminations and changes made to account signers on a timely basis.</p> <p>Effect - Improper access to cash and investment accounts could result in misappropriation of assets.</p> <p>Recommendation - The Hospital should ensure that all cash and investment account signers are appropriately updated.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management acknowledges that account signers need to be updated based on recent turnover at the Hospital. Management is working with the Hospital's financial institutions to update the accounts accordingly.</p>

Reference Number	Finding
2014-2	<p>Finding Type - Significant deficiency</p> <p>Criteria - The Hospital does not have a process in place to evaluate new leases to determine proper classification and recognition in the financial statements.</p> <p>Condition - No analysis in the accounting department was completed on the new lease entered into during 2014 to verify proper classification.</p> <p>Context - There was one new lease entered into during 2014 with payments over the life of the lease totaling approximately \$35,000.</p> <p>Cause - The Hospital does not have a policy in place to evaluate new leases to determine proper classification and recognition.</p> <p>Effect - Lack of review of lease criteria could result in leases being incorrectly classified and recognized in the financial statements.</p>

Fayette County Memorial Hospital

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-2 (Cont.)	<p>Recommendation - The Hospital should implement a policy to ensure all new leases are reviewed for proper classification and recognition in the financial statements.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management acknowledges that there should be a policy in place as recommended and will work toward getting this in place in the coming year.</p>

Reference Number	Finding
2014-3	<p>Finding Type - Material noncompliance with laws and regulations</p> <p>Criteria - ORC 9.833 and 305.172 requires an actuary to certify amounts reserved related to healthcare self-insurance are fairly stated in accordance with sound loss reserving principles.</p> <p>ORC 117.111 requires certain security controls over a governmental entity's electronic transactions, including a security procedure adopted in writing.</p> <p>ORC 321.46 requires continuing education for individuals overseeing the investment or deposit of moneys of a governmental entity.</p> <p>Condition - The Hospital did not obtain an actuary report to support the amount reserved related to healthcare self-insurance during 2014.</p> <p>The Hospital does not have a written security control policy in place for electronic transactions.</p> <p>The individual responsible for overseeing the investment or deposit of monies did not meet the continuing education requirement during 2014.</p> <p>Context - The Hospital has not demonstrated compliance related to these specific areas of the Ohio Compliance Supplement.</p> <p>Cause - The Hospital does not have a process in place to evaluate the sections of the Ohio Compliance Supplement that apply to the Hospital and monitor and document compliance with these sections.</p> <p>Effect - The Hospital was not in compliance with respect to these specific areas of the Ohio Compliance Supplement.</p>

Fayette County Memorial Hospital

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-3 (Cont.)	<p>Recommendation - The Hospital should implement a procedure to verify that the most recent version of the Ohio Compliance Supplement is reviewed at least on an annual basis to determine the sections that apply to the Hospital and to monitor and document the Hospital's compliance with these sections.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management acknowledges that there should be a process in place as recommended and will work toward getting this in place in the upcoming year.</p>

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Dave Yost • Auditor of State

FAYETTE COUNTY MEMORIAL HOSPITAL

FAYETTE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 20, 2015**