
Fayette County Memorial Hospital

**Financial Report
with Supplemental Information
December 31, 2020**

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, 2020 through December 31, 2020. 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

September 21, 2021

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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, 2020 and 2019 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, 2020 and 2019 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 Matters

As described in Note 18 to the financial statements, on May 2, 2020, the Hospital was acquired by Adena Health System. Our opinion is not modified with respect to this matter.

As described in Note 16 to the financial statements, the Hospital received a Paycheck Protection Program loan in the amount of \$4,634,726. The balance is classified as a current liability due to uncertainty regarding the Hospital's eligibility for the loan. 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 26, 2021 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 26, 2021

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, 2020 and 2019. 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

On March 11, 2020 the World Health Organization declared COVID-19 (a respiratory disease that can result in serious illness or death) a pandemic. Countries shut their borders, cruise ships were halted at sea, businesses were forced to shut down, sporting events were cancelled, students were sent home, and mask mandates went into effect.

On March 17th, 2020 the Director for the Ohio Department of Health issued an order to suspend all non-essential surgeries and procedures in an action to protect the healthcare workforce during such an unprecedented event. The recommendation was in full force and effect until being withdrawn May 1, 2020.

The Hospital followed the orders mentioned above by cancelling all elective, non-urgent surgeries. The community was at a heightened awareness about COVID-19, the spread of the virus, and the "stay at home" order that was issued. In addition to the cancelling of procedures, the Hospital began experiencing a significant decline in the number of patients coming to the emergency department and Medical and Surgical Associates which encompasses the family practice and same day care clinic. While the Hospital relies heavily on outpatient volume for sustainability there was also a decline in inpatient volume during this time.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act (enacted March 27, 2020 in response to the COVID-19 outbreak) provided funding to support large and small businesses, industries, individuals, independent contractors, and hospitals. The Hospital recognized \$6.0M of Provider Relief Funds and State of Ohio Coronavirus Relief Funds. Additionally, a division of the CARES Act established the Paycheck Protection Program to provide cash flow assistance through guaranteed loans to employers who maintain their payroll. Such assistance utilized to cover payroll, paid sick leave, and employee salaries and the loans are eligible to be forgiven. The Hospital received \$4.6M in PPP funding. The Hospital also received \$800K under the Medicare Accelerated and Advance Payment Program. These amounts are considered short-term loans and reported as current liabilities in the Statement of Net Position.

In 2020, the Hospital provided 1,367 acute patient days compared to 1,524 acute patient days in 2019. Outpatient services were at 74,497 visits in 2020 compared to 90,518 in 2019. Clinic visits

Fayette County Memorial Hospital

Management's Discussion and Analysis

for 2020 were at 36,685 compared to 43,509 in 2019. Surgeries performed in 2020 were 2,156 compared to 2,302 in 2019. Emergency room visits were 13,233 in 2020 compared to 16,581 in 2019.

The Hospital's total assets increased by \$8,944,970 or 46.7% in 2020, compared to a decrease of \$4,336,824 or 18.5% in 2019. This change was primarily due to an increase in cash and cash equivalents as a result of cash provided by capital and non-capital related financing activities related to the CARES Act. In addition, assets limited as to use increased by \$5,668,165 due to transferring cash to the State Treasury Asset Reserve of Ohio investment from the Hospital's main operating account. 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 \$1,343,145 in 2020, compared to an increase of \$1,976,566 in 2019.

The Hospital's total current liabilities increased by \$5,474,761 or 77.6% in 2020 compared to a decrease of \$516,391 in 2019. Offsetting the current liability increase was a decrease in the net pension and net postemployment benefit (OPEB) liabilities (GASB 68 & GASB 75) of \$11,162,412 compared to an increase of \$19,812,450 in 2019. This resulted in an overall decrease in total liabilities by \$1,484,453 or 2.4% in 2020.

Total net patient revenue decreased \$4,100,864 or 8.7% in 2020 compared to a decrease of \$1,887,131 or 3.9% in 2019. Total operating expenses decreased by \$3,943,754 or 6.7% due to a \$3,508,318 decrease 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.

In January of 2020 the Hospital took the next steps in strengthening the partnership between the Hospital and Adena Health System ("AHS") by voting unanimously to explore becoming part of the health system. After a year-long due-diligence process by both organizations, in a unanimous vote, the Fayette County Board of Trustees adopted a motion to move forward with a plan for AHS to acquire the Hospital. A special signing event was held on February 15, 2021 in which an agreement was officially signed. On May 2, 2021 the Hospital became part of AHS operating as Adena Fayette Medical Center.

Fayette County Memorial Hospital

Management's Discussion and Analysis

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 the Hospital's net position, the difference between assets and liabilities, as a way to measure the Hospital's financial health or financial position. Over time and consideration for the change in accounting resulting from GASB 68 & 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 COVID-19 pandemic, 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?"

Fayette County Memorial Hospital

Management's Discussion and Analysis

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, 2020, 2019, and 2018:

Assets and Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources, and Net Position

	December 31		
	2020	2019	2018
Current assets	\$ 11,792,705	\$ 8,636,546	\$ 12,507,168
Assets limited as to use	7,744,521	2,076,356	3,344,884
Capital assets	8,545,869	8,425,223	7,622,897
Total assets	<u>28,083,095</u>	<u>19,138,125</u>	<u>23,474,949</u>
Deferred outflow of resources	7,461,621	13,427,985	6,146,635
Current liabilities	15,360,736	7,052,435	7,568,826
Long-term liabilities	1,696,708	1,827,050	2,116,609
Accrued claims liability	1,500,000		
Net pension liability	42,264,078	53,426,490	33,614,040
Total liabilities	<u>60,821,522</u>	<u>62,305,975</u>	<u>43,299,475</u>
Deferred inflows of resources	9,078,279	766,311	6,673,173
Net position:			
Unrestricted	(42,016,665)	(37,924,631)	(26,526,033)
Net investment in capital assets	6,427,371	6,238,443	5,030,315
Restricted	1,234,209	1,180,012	1,144,654
Total net position	<u>\$ (34,355,085)</u>	<u>\$ (30,506,176)</u>	<u>\$ (20,351,064)</u>

Fayette County Memorial Hospital

Management's Discussion and Analysis

Total assets and deferred outflow of resources amounted to \$35.5 million as of December 31, 2020 compared to \$32.6 million as of December 31, 2019. The Hospital's largest asset, capital assets, net of depreciation totaled \$8.5 million, 24.0% of total assets and deferred outflows of resources. This compares to \$8.4 million or 25.9% in 2019.

As of December 31, 2020, the Hospital's total liabilities and deferred inflows of resources were approximately \$69.9 million compared to \$63.1 million in 2019. The year over year increase can be attributed to an \$8.3 million increase in the Hospital's deferred inflows of resources. Current liabilities consisting of accounts payable and other accrued liabilities totaled \$12.5 million or 17.9% of total liabilities and deferred inflows of resources. The net pension liability totaled approximately \$42.3 million or 60.5% of total liabilities and deferred inflows of resources. This represented a decrease to the net pension liability from prior year of \$11.2 million or 20.9%.

Fayette County Memorial Hospital

Management's Discussion and Analysis

Operating Results and Changes in Net Position

	Year Ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Operating revenues:			
Net patient service revenues	\$ 42,798,842	\$ 46,899,706	\$ 48,786,837
Other	1,984,418	1,387,069	1,467,705
Total operating revenues	44,783,260	48,286,775	50,254,542
Operating expenses:			
Salaries and wages	22,417,137	21,827,685	20,515,426
Employee benefits and payroll taxes	9,132,209	13,027,519	8,842,868
Operating supplies and expenses	7,926,392	6,681,328	5,622,661
Professional services and consultant fees	8,777,661	11,408,858	9,335,815
Insurance	380,090	357,588	334,429
Utilities	799,876	872,387	787,026
Leases and rentals	634,826	466,124	414,851
Maintenance and repairs	1,433,455	1,589,982	1,379,391
Depreciation and amortization	1,290,760	1,174,240	1,206,577
Other expenses	1,998,517	1,328,966	1,124,090
Total operating expenses	54,790,923	58,734,677	49,563,134
Operating income (loss)	(10,007,663)	(10,447,902)	691,408
Nonoperating gain - Net	6,158,754	292,790	150,918
Changes in net position	(3,848,909)	(10,155,112)	842,326
Net position - Beginning of year	(30,506,176)	(20,351,064)	(8,392,479)
Adjustment due to change in accounting principle	-	-	(12,800,911)
Net position - End of year	\$ (34,355,085)	\$ (30,506,176)	\$ (20,351,064)

Fayette County Memorial Hospital

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, physicians' 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 \$4,100,864 or 8.7%. This decrease was primarily due to:

- 10% decrease in inpatient days from 2019 to 2020
- 23% decrease in swing bed days from 2019 to 2020
- 16% decrease in physician practice visits from 2019 to 2020
- 18% decrease in outpatient visits from 2019 to 2020
- 20% decrease in emergency room visits from 2019 to 2020

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.

These provisions or contractual deductions were approximately 58.2% and 58.9% of gross patient revenue in 2020 and 2019, 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:

Fayette County Memorial Hospital

Management's Discussion and Analysis

- Salaries and wages increased \$589,452 or 2.7% from 2019 to 2020 compared to \$1,312,259 or 6.4% increase from 2018 to 2019.
- Employee Benefits and Payroll Taxes decreased \$3,895,310 or 29.9% from 2019 to 2020 compared to \$4,184,651 or 47.3% increase from 2018 to 2019.
- Operating supplies increased \$1,245,064 or 18.6% from 2019 to 2020 compared to \$1,058,667 or 18.8% increase from 2018 to 2019.
- Professional services & consultant fees decreased \$2,631,197 or 23.1% from 2019 to 2020 compared to a \$2,073,043 or 22.2% increase from 2018 to 2019.

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

	2020	2019	2018
Cash from			
Operating activities	\$ (924,633)	\$ (1,148,425)	\$ 3,586,662
Capital and related financing activities	(1,572,601)	(2,433,755)	(1,602,604)
Non-capital and related financing activities	10,681,372	31,314	98,945
Investing activities	179,851	236,284	168,430
Net change in cash and cash equivalents	8,363,989	(3,314,582)	2,251,433
Cash - Beginning of year	2,873,794	6,188,376	3,936,943
Cash - End of year	\$ 11,237,783	\$ 2,873,794	\$ 6,188,376

Capital Assets and Debt Administration

Capital Assets

At December 31, 2020, the Hospital had approximately \$34.5 million invested in capital assets, with an accumulated depreciation of approximately \$25.9 million. Depreciation and amortization

Fayette County Memorial Hospital

Management's Discussion and Analysis

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

	2020	2019	2018
Land	\$ 433,225	\$ 433,225	\$ 433,225
Land improvements	683,659	683,659	683,659
Buildings	17,292,199	16,787,764	16,152,327
Fixed equipment	2,280,582	2,223,571	2,075,990
Major moveable equipment	13,565,653	12,806,032	11,614,865
Construction in progress	211,464	189,385	187,005
Total	<u>34,466,782</u>	<u>33,123,636</u>	<u>31,147,071</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 \$6,753,224 in debt outstanding compared to \$2,186,780 in 2019. The table below summarizes these amounts by type of debt instrument:

	2020	2019	2018
Notes payable - County	\$ 1,435,220	\$ 1,578,535	\$ 1,720,424
Notes payable			89,495
Paycheck Protection Program Loan	4,634,726		
Lease Obligations	<u>683,278</u>	<u>608,245</u>	<u>782,663</u>
Total notes and leases	<u>\$ 6,753,224</u>	<u>\$ 2,186,780</u>	<u>\$ 2,592,582</u>

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

The Hospital is bound by the terms of the Hospital Assistance Agreement with the Fayette 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, 2020, these covenants include maintaining a minimum reserve of cash on hand of \$1,100,605. The Hospital was in compliance with the covenants as of December 31, 2020.

Fayette County Memorial Hospital

Management's Discussion and Analysis

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 for 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.

Trent J. Lemle
Chief Financial Officer

Fayette County Memorial Hospital

Statement of Net Position

December 31, 2020 and 2019

	2020	2019
Current Assets		
Cash and cash equivalents (Note 3)	\$ 4,090,597	\$ 1,386,923
Accounts receivable - Net (Note 4)	5,988,255	5,771,896
Inventory	1,063,643	767,683
Notes receivable	549,729	193,064
Estimated third-party payor settlements	-	481,321
Other current assets	100,481	35,659
Total current assets	11,792,705	8,636,546
Assets Limited as to Use (Notes 3 and 5)	7,744,521	2,076,356
Capital Assets (Note 6)		
Nondepreciable capital assets	644,689	622,610
Depreciable capital assets	33,822,093	32,501,027
Total capital assets	34,466,782	33,123,637
Less accumulated depreciation	25,920,913	24,698,414
Net capital assets	8,545,869	8,425,223
Total assets	28,083,095	19,138,125
Deferred Outflows of Resources Related to Pension and Other Postemployment Benefits (Notes 11 and 12)	7,461,621	13,427,985
Total assets and deferred outflows of resources	\$ 35,544,716	\$ 32,566,110
Current Liabilities		
Accounts payable	\$ 3,589,465	\$ 3,136,494
Current portion of long-term debt (Note 8)	5,056,516	359,730
Estimated third-party payor settlements	1,326,425	-
Accrued liabilities and other:		
Accrued compensation and other accrued liabilities	1,849,836	1,969,982
Accrued compensated absences	1,673,401	1,586,229
Accrued claims liability (Note 10)	1,065,093	-
Medicare advance payments (Note 16)	800,000	-
Total current liabilities	15,360,736	7,052,435
Noncurrent Liabilities		
Long-term debt - Net of current portion (Note 8)	1,696,708	1,827,050
Net pension and other postemployment benefits liability (Notes 11 and 12)	42,264,078	53,426,490
Accrued claims liability (Note 10)	1,500,000	-
Total liabilities	60,821,522	62,305,975
Deferred Inflows of Resources Related to Pension and Other Postemployment Benefits (Notes 11 and 12)	9,078,279	766,311
Net Position (Deficit)		
Net investment in capital assets	6,427,371	6,238,443
Restricted - Expendable for capital improvements and other purposes	1,234,209	1,180,012
Unrestricted	(42,016,665)	(37,924,631)
Total net position (deficit)	(34,355,085)	(30,506,176)
Total liabilities, deferred inflows of resources, and net position (deficit)	\$ 35,544,716	\$ 32,566,110

See notes to financial statements.

Fayette County Memorial Hospital

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenue		
Net patient service revenue (Note 2)	\$ 42,798,842	\$ 46,899,706
Other	1,984,418	1,387,069
Total operating revenue	44,783,260	48,286,775
Operating Expenses		
Salaries and wages	22,417,137	21,827,685
Employee benefits and payroll taxes	9,132,209	13,027,519
Operating supplies and expenses	7,926,392	6,681,328
Professional services and consultant fees	8,777,661	11,408,858
Insurance	380,090	357,588
Utilities	799,876	872,387
Leases and rentals	634,826	466,124
Maintenance and repairs	1,433,455	1,589,982
Depreciation	1,290,760	1,174,240
Other	1,998,517	1,328,966
Total operating expenses	54,790,923	58,734,677
Operating Loss	(10,007,663)	(10,447,902)
Other Income (Expense)		
Contributions	141,210	188,903
Realized gain on sale of investments	42,584	78,936
Grant revenue (Note 16)	5,990,206	-
Other income	139,282	160,710
Change in unrealized investment gain (Note 5)	5,835	73,217
Interest expense	(75,593)	(51,387)
Other expense	(84,770)	(157,589)
Total other income	6,158,754	292,790
Decrease in Net Position	(3,848,909)	(10,155,112)
Net Position (Deficit) - Beginning of year	(30,506,176)	(20,351,064)
Net Position (Deficit) - End of year	\$ (34,355,085)	\$ (30,506,176)

Fayette County Memorial Hospital

Statement of Cash Flows

Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 46,423,576	\$ 47,265,933
Cash payments to suppliers for services and goods	(23,431,320)	(22,300,507)
Cash payments to employees	(25,901,307)	(27,500,920)
Other operating revenue received	1,984,418	1,387,069
Net cash used in operating activities	(924,633)	(1,148,425)
Cash Flows from Noncapital Financing Activities		
Donations and other	56,440	31,314
Grant revenue	5,990,206	-
Paycheck Protection Program loan	4,634,726	-
Net cash provided by noncapital financing activities	10,681,372	31,314
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,428,726)	(1,976,566)
Proceeds from long-term debt	327,245	87,238
Interest paid on long-term debt	(75,593)	(51,387)
Principal payments on notes payable	(395,527)	(493,040)
Net cash used in capital and related financing activities	(1,572,601)	(2,433,755)
Cash Flows from Investing Activities		
Investment income	48,419	152,153
Change in assets limited as to use - Net	(7,850)	(76,579)
Rental receipts - Net of expenses paid	139,282	160,710
Net cash provided by investing activities	179,851	236,284
Net Increase (Decrease) in Cash and Cash Equivalents	8,363,989	(3,314,582)
Cash and Cash Equivalents - Beginning of year	2,873,794	6,188,376
Cash and Cash Equivalents - End of year	\$ 11,237,783	\$ 2,873,794
Statement of Net Position Classification of Cash		
Cash and cash equivalents (Note 3)	\$ 4,090,597	\$ 1,386,923
Assets limited as to use (Note 3)	7,147,186	1,486,871
Total cash and cash equivalents	\$ 11,237,783	\$ 2,873,794

Fayette County Memorial Hospital

Statement of Cash Flows (Continued)

Years Ended December 31, 2020 and 2019

	2020	2019
A reconciliation of operating loss to net cash and cash equivalents from operating activities is as follows:		
Cash Flows from Operating Activities		
Operating loss	\$ (10,007,663)	\$ (10,447,902)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	1,290,760	1,174,240
Provision for bad debts	5,720,385	5,675,177
Loss on disposal of capital assets	17,320	-
Changes in assets and deferred outflows of resources and liabilities and deferred inflows of resources:		
Accounts receivable	(5,936,744)	(5,211,449)
Estimated third-party settlements	1,807,746	(1,757,986)
Inventory	(295,960)	19,454
Other assets	(421,487)	1,899,286
Accounts payable	452,971	146,471
Other accrued liabilities	2,532,119	730,046
Net pension and other postemployment liability	(11,162,412)	19,812,450
Deferred outflows and inflows of resources	14,278,332	(13,188,212)
Medicare advanced payments	800,000	-
Net cash used in operating activities	<u><u>\$ (924,633)</u></u>	<u><u>\$ (1,148,425)</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 health care 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, 2020 and 2019 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 (the "Foundation") (hereafter collectively referred to as the Hospital). 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 with an original maturity of three months or less when purchased, 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 insured only 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 \$42,798,842 and \$46,899,706 as of December 31, 2020 and 2019, respectively. Net patient service revenue is net of provision for contractual adjustments of \$67,573,678 and bad debt of \$5,720,385 in 2020 and contractual adjustments of \$75,256,495 and bad debt of \$5,675,177 in 2019.

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 \$1,468,000 and \$756,000 in 2020 and 2019, 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 health care 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. Provision for income taxes of \$615,000 has been included operating expenses in the statement of revenue, expenses, and changes in net position related to taxes incurred for unrelated business income.

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 \$485,000 and \$1,887,000 of services to indigent patients during 2020 and 2019, 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 \$301,000 and \$344,000 for 2020 and 2019, 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 other postemployment benefit (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 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.

Adoption of New Accounting Pronouncement

As of December 31, 2020, the Hospital adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, including Debt Borrowings and Direct Placements*. As a result of implementing this standard, there were changes to the information that is disclosed related to debt, including classification of direct borrowings and direct placements vs. other debt and disclosures terms specified in debt agreements related to significant subjective acceleration clauses. The financial statements for the year ended December 31, 2019 have been restated in order to adopt GASB Statement No. 88.

Note 3 - Deposits and Investments

Deposits and investments are reported in the financial statements as follows as of December 31, 2020:

	Cash and Cash Equivalents	Assets Limited as to Use	Total
Deposits	\$ 4,090,597	\$ 7,147,186	\$ 11,237,783
Mutual funds	-	323,284	323,284
Equities	-	274,051	274,051
Total	<u>\$ 4,090,597</u>	<u>\$ 7,744,521</u>	<u>\$ 11,835,118</u>

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>

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 and approval by the auditor of state, treasurer, or 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 the statutory authority.

Note 3 - Deposits and Investments (Continued)

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

Active Funds

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

Inactive Funds

Inactive funds are those funds not required for use within the current five-year period of designated depositories. Ohio law permits inactive moneys 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, 2020 and 2019, 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.

December 31, 2020 and 2019

Note 3 - Deposits and Investments (Continued)

There were no investments subject to this risk as of December 31, 2020 and 2019.

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. There were no investments subject to this risk as of December 31, 2020 and 2019.

Note 4 - Accounts Receivable

The details of patient accounts receivable are set forth below:

	2020	2019
Patient accounts receivable	\$ 17,816,089	\$ 18,876,577
Less:		
Allowance for uncollectible accounts	(2,453,215)	(3,332,185)
Allowance for contractual adjustments	(9,374,619)	(9,772,496)
Net patient accounts receivable	\$ 5,988,255	\$ 5,771,896

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:

	2020	2019
Medicare (includes HMOs)	34 %	27 %
Medicaid (includes HMOs)	18	18
Commercial insurance	29	29
Self-pay	19	26
Total	100 %	100 %

Note 5 - Assets Limited as to Use

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

	2020	2019
Board designated	\$ 6,423,217	\$ 807,707
Donor restricted:		
Community health services	895,449	887,805
Capital expenditures	64,424	64,424
Foundation-restricted assets	361,431	316,420
Total assets limited as to use	\$ 7,744,521	\$ 2,076,356

The Hospital had net unrealized gains of \$5,835 and \$73,217 in its investment portfolio as of December 31, 2020 and 2019, respectively. Interest, dividends, and realized gains and losses amounted to \$42,584 and \$78,936 for the years ended December 31, 2020 and 2019, respectively.

December 31, 2020 and 2019

Note 6 - Capital Assets

The cost of capital assets and related depreciable lives as of December 31, 2020 are summarized below:

	2019	Additions	Transfers	Retirements	2020	Depreciable Life - Years
Capital assets not being depreciated:						
Land	\$ 433,225	\$ -	\$ -	\$ -	\$ 433,225	
Construction in progress	189,385	535,730	(513,651)	-	211,464	
Total capital assets not being depreciated	622,610	535,730	(513,651)	-	644,689	
Capital assets being depreciated:						
Land improvements	683,659	-	-	-	683,659	10-20
Buildings	16,787,765	106,235	398,199	-	17,292,199	15-50
Fixed equipment	2,223,571	24,430	32,581	-	2,280,582	5-20
Major movable equipment	12,806,032	762,331	82,871	(85,581)	13,565,653	5-25
Total capital assets being depreciated	32,501,027	892,996	513,651	(85,581)	33,822,093	
Less accumulated depreciation:						
Buildings	11,727,142	451,285	-	-	12,178,427	
Fixed equipment	1,789,195	59,795	-	-	1,848,990	
Major movable equipment	10,548,242	772,240	-	(68,261)	11,252,221	
Land Improvements	633,835	7,440	-	-	641,275	
Total accumulated depreciation	24,698,414	1,290,760	-	(68,261)	25,920,913	
Total capital assets being depreciated - Net	7,802,613	(397,764)	513,651	(17,320)	7,901,180	
Total capital assets - Net	\$ 8,425,223	\$ 137,966	\$ -	\$ (17,320)	\$ 8,545,869	

December 31, 2020 and 2019

Note 6 - Capital Assets (Continued)

The cost of capital assets and related depreciable lives as of 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	\$ 7,622,897	\$ 802,326	\$ -	\$ -	\$ 8,425,223	

Note 7 - Estimated Third-party Settlements

Approximately 68 and 62 percent of the Hospital's revenue from patient services is received from Medicare and Medicaid programs for 2020 and 2019, 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.

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 reimbursed on a prospective basis using the Enhanced Ambulatory Patient Groups (EAPG) system.

Note 7 - Estimated Third-party Settlements (Continued)

The Medicaid payment system in Ohio is a prospective one, where 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, 2020 and 2019, the Hospital recognized a change in estimate of approximately \$1,808,000 and \$(1,758,000), 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, where 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, 2020, capital leases have imputed interest rates of 3.30 to 6.89 percent. They expire at various times through 2024 and are collateralized by the equipment leased. The cost of leased equipment was \$2,226,134 and \$1,898,889 for the years ended December 31, 2020 and 2019, respectively. Accumulated depreciation on the property under capital lease was \$1,193,245 and \$1,041,448 for the years ended December 31, 2020 and 2019, respectively. Depreciation expense of \$196,071 and \$190,987 for the years ended December 31, 2020 and 2019, respectively, is included in the depreciation amount disclosed in Note 6.

December 31, 2020 and 2019

Note 8 - Long-term Debt (Continued)

Long-term debt activity at December 31, 2020 and 2019 can be summarized as follows:

	2020				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Direct borrowings and direct placements:					
Lease obligations	\$ 608,245	\$ 327,245	\$ (252,212)	\$ 683,278	\$ 277,039
Notes payable - Fayette County, Ohio	1,578,535	-	(143,315)	1,435,220	144,751
Paycheck Protection Program loan (Note 16)	-	4,634,726	-	4,634,726	1,801,186
Total direct borrowings and direct placements	2,186,780	4,961,971	(395,527)	6,753,224	2,222,976
Other liabilities - Compensated absences	1,586,229	2,250,066	(2,162,894)	1,673,401	1,673,401
Total long-term and other liabilities	<u>\$ 3,773,009</u>	<u>\$ 7,212,037</u>	<u>\$ (2,558,421)</u>	<u>\$ 8,426,625</u>	<u>\$ 3,896,377</u>
	2019				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Direct borrowings and direct placements:					
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 direct borrowings and direct placements	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>

Total interest expense for the years ended December 31, 2020 and 2019 was approximately \$76,000 and \$51,000, respectively. Annual debt service requirements to maturity for the above direct borrowings and direct placement obligations are as follows:

Years Ending December 31	Long-term Debt			Capital Lease Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 4,779,477	\$ 15,428	\$ 4,794,905	\$ 277,039	\$ 34,696	\$ 311,735
2022	146,203	13,991	160,194	210,681	22,090	232,771
2023	1,144,266	12,540	1,156,806	95,399	9,863	105,262
2024	-	-	-	70,317	3,514	73,831
2024	-	-	-	29,842	469	30,311
Total	<u>\$ 6,069,946</u>	<u>\$ 41,959</u>	<u>\$ 6,111,905</u>	<u>\$ 683,278</u>	<u>\$ 70,632</u>	<u>\$ 753,910</u>

Note 9 - Operating Leases

The Hospital has entered into operating lease agreements for equipment, which expire at various times through 2025. Operating lease expense totaled approximately \$635,000 and \$466,000 in 2020 and 2019, respectively.

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

Years Ending December 31	Amount
2021	\$ 657,410
2022	575,058
2023	563,820
2024	491,804
2025	369,708
Total	<u>\$ 2,657,800</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.

During the year ended December 31, 2020, amounts were recorded for settlement agreements reached with third-party payors and a software provider totaling \$2,612,624 and \$565,093, respectively. The settlements resulted in \$2,612,624 recognized as a reduction to net patient service revenue and \$565,093 as professional services and consultant fees in the statement of revenue, expenses, and changes in net position. During the year ended December 31, 2020, \$612,624 of amounts due to third-party payors were paid, and the remaining amount of \$2,565,093 is recorded in accrued claims liability in the statement of net position and is due to be paid in 2021. For the third-party payor settlement to be paid in 2021, failure to make payment within 30 days of the due date results in any remaining payments becoming due and payable immediately.

Note 11 - Defined Benefit Pension Plan

Plan Description

The Hospital contributes to the Ohio Public Employees Retirement System. 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 5 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’ 2020 and 2019 contribution rates on covered payroll are as follows:

	Pension	Postretirement Health Care	Death Benefits	Total
OPERS - 2020	14.00 %	- %	- %	14.00 %

December 31, 2020 and 2019

Note 11 - Defined Benefit Pension Plan (Continued)

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

The Hospital's required and actual pension contributions to the plan for the years ended December 31, 2020 and 2019 were approximately \$2,813,000 and \$2,892,000, respectively.

Net Pension Liability, Deferrals, and Pension Expense

At December 31, 2020 and 2019, the Hospital reported as a liability its proportionate share of the net pension liability of OPERS. At December 31, 2020, the net pension liability was measured as of December 31, 2019. At December 31, 2019, the net pension liability was measured as of December 31, 2018. 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, 2020 and 2019, the Hospital's proportion was 0.13 percent.

For the years ended December 31, 2020 and 2019, the Hospital recognized pension expense of approximately \$4,175,000 and \$7,875,000, respectively.

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

At December 31, 2020, 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	\$ 22,564	\$ 336,148
Changes of assumptions	1,343,657	-
Differences between actual and proportionate share of contributions	406,448	821,662
Net difference between projected and actual earnings on pension plan investments	-	4,993,946
Employer contributions to the plan subsequent to the measurement date	2,813,282	-
Total	<u>\$ 4,585,951</u>	<u>\$ 6,151,756</u>

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>

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
2021	\$ (737,585)
2022	(1,897,305)
2023	212,804
2024	(1,975,986)
2025	7,251
Thereafter	11,734

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, 2020.

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:

	2020	2019
Valuation date	December 31, 2019	December 31, 2018
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	7.20 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 years ended December 31, 2020 and 2019. 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.

December 31, 2020 and 2019

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, 2020 in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed income	25.00 %	1.83 %
Domestic equities	19.00	5.75
Real estate	10.00	5.20
Private equity	12.00	10.70
International equity	21.00	7.66
Other investments	13.00	4.98

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

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 years ended December 31, 2020 and 2019, 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 Percentage Point Decrease (6.2%)	Current Discount Rate (7.2%)	1 Percentage Point Increase (8.2%)
Net pension liability - 2020	\$ 41,123,745	\$ 24,873,879	\$ 10,272,556
Net pension liability - 2019	\$ 53,597,059	\$ 36,235,711	\$ 21,810,977

Pension Plan Fiduciary Net Position

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

December 31, 2020 and 2019

Note 11 - Defined Benefit Pension Plan (Continued)

Payable to the Pension Plan

The Hospital reported a payable of \$410,800 and \$773,700 for the outstanding amount of contributions to the pension plan required for the years ended December 31, 2020 and 2019, 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 health care 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. Health care coverage for disability recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of another postemployment benefit, 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 health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2020 and 2019, 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 health care 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 health care benefits. The portion of employer contributions allocated to health care was 0 percent during 2020 and 2019. The OPERS board of trustees is also authorized to establish rules for the payment of a portion of the health care 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 2020 and 2019 was \$0.

December 31, 2020 and 2019

Note 12 - Other Postemployment Benefits (Continued)

Net OPEB Liability

At December 31, 2020 and 2019, the Hospital reported as a liability its proportionate share of the net OPEB liability. At December 31, 2020, the net OPEB liability was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019. 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. 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, 2020 and 2019, 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, 2020 and 2019, the Hospital recognized OPEB expense of approximately \$1,793,000 and \$1,677,000, respectively. At December 31, 2020 and 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 466	\$ 1,590,414
Changes of assumptions	2,752,683	-
Net difference between projected and actual earnings on OPEB plan investments	-	885,504
Changes in proportion and differences between reporting unit contributions and proportionate share of contributions	122,521	450,605
Total	\$ 2,875,670	\$ 2,926,523

	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	\$ 1,589,583	\$ 46,643

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
2021	\$ 298,039
2022	28,787
2023	705
2024	(378,384)

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:

	2020	2019
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	6.00 percent, net of pension plan investment expenses	6.00 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 3.16 and 3.96 percent for the years ended December 31, 2020 and 2019, 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, 2020 in the following table:

	Target Allocation	Long-term Expected Real Rate of Return
Fixed income	36.00 %	1.53 %
Domestic equities	21.00	5.75
Real estate	6.00	5.69
International equities	23.00	7.66
Other investments	14.00	4.90

Notes to Financial Statements

December 31, 2020 and 2019

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, 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

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 3.16 and 3.96 percent for the years ended December 31, 2020 and 2019, respectively, 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:

	1 Percentage Point Decrease (2.16%)	Current Discount Rate (3.16%)	1 Percentage Point Increase (4.16%)
Net OPEB liability - 2020	\$ 22,757,865	\$ 17,390,199	\$ 13,092,445

Changes in the health care 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 health care cost trend rate that is 1.0 percentage point lower or 1.0 percentage point higher than the current rate:

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

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 \$335,450 and \$299,242 as of December 31, 2020 and 2019, respectively, is included within accounts payable. A summary of the changes in this accrual is as follows:

	2020	2019
Beginning balance	\$ 299,242	\$ -
Payments	(2,957,261)	(2,463,077)
Claims	2,993,469	2,762,319
Ending balance	<u>\$ 335,450</u>	<u>\$ 299,242</u>

December 31, 2020 and 2019

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Assets Limited as to Use		
	<u>\$ 361,431</u>	<u>\$ 316,420</u>
Net Position		
Restricted - Expendable for capital improvements and other purposes	\$ 289,955	\$ 219,301
Unrestricted	<u>71,476</u>	<u>97,119</u>
Total net position	<u>\$ 361,431</u>	<u>\$ 316,420</u>
Other Income (Expense)		
Contributions	\$ 129,781	\$ 163,361
Other expense	<u>(84,770)</u>	<u>(157,589)</u>
Total other expense	<u>\$ 45,011</u>	<u>\$ 5,772</u>
Increase in Net Position	\$ 45,011	\$ 5,772
Net Position - Beginning of year	<u>316,420</u>	<u>310,648</u>
Net Position - End of year	<u>\$ 361,431</u>	<u>\$ 316,420</u>

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, 2020 and 2019 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 where 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.

December 31, 2020 and 2019

Note 15 - Fair Value Measurements (Continued)

The Hospital has the following recurring fair value measurements as of December 31, 2020 and 2019:

Assets Measured at Fair Value on a Recurring Basis at December 31, 2020				
	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, 2020
Assets:				
Mutual funds	\$ 323,284	\$ -	\$ -	\$ 323,284
Equities	274,051	-	-	274,051
Total assets	<u>\$ 597,335</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 597,335</u>

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>

The fair value of Level 2 securities as of December 31, 2020 and 2019 was determined primarily on quoted prices from the Hospital's custodian bank.

Note 16 - COVID-19 Pandemic

Provider Relief Fund

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted hundreds of thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. During the second quarter of 2020, the Hospital's operations were significantly impacted, as shelter-in-place orders and a government mandate to suspend elective procedures reduced volumes during the period. The Hospital mitigated the impact by managing workforce productivity, delaying capital expenditures, actively managing cash disbursements, and implementing other cost-reduction measures.

Enacted on March 27, 2020, the CARES Act was established, which authorizes \$100 billion to be administered through grants and other mechanisms to hospitals, public entities, not-for-profit entities, and Medicare- and Medicaid-enrolled suppliers and institutional providers. The purpose of these funds is to reimburse providers for lost revenue attributable to the coronavirus disease pandemic, such as forgone revenue from canceled procedures, and to provide support for related health care expenses, such as constructing temporary structures or emergency operation centers; retrofitting facilities; purchasing medical supplies and equipment, including personal protective equipment and testing supplies; and increasing workforce. Furthermore, these relief funds ensure uninsured patients are receiving testing and treatment for COVID-19.

Note 16 - COVID-19 Pandemic (Continued)

On April 10, 2020, the U.S. Department of Health and Human Services (HHS) began making payments to health care providers from the \$100 billion appropriation. These are payments to health care providers that will not need to be repaid as long as the Hospital complies with certain terms and conditions outlined by HHS. The Hospital relied upon guidance issued by HHS through the report date. The terms and conditions first require the health care provider to identify health care-related expenses attributed to COVID-19 that no other source has reimbursed or is obligated to reimburse. If those expenses do not exceed the funding received, the health care provider then applies the funds to patient care lost revenue. HHS' January 15, 2021 notice, *Post-Payment Notice of Reporting Requirements*, provided health care providers three options to calculate patient care lost revenue. To determine the total distributions to be recognized as revenue as of December 31, 2020, the Hospital totaled unreimbursed related expenses attributed to COVID-19 and calculated patient care lost revenue based on the difference between 2020 budgeted and 2020 actual patient care revenue.

The Hospital received payments of \$5,110,993 and \$798,408 as part of general and targeted distributions of the CARES Act Provider Relief Fund and the State of Ohio Coronavirus Relief Fund, respectively. As of December 31, 2020, the Hospital has recognized \$5,990,206 (including the amounts above and other grant revenue) as grant revenue on the statement of revenue, expenses, and changes in net assets. The Hospital has asserted that it has met the conditions and restrictions outlined within HHS' and the State of Ohio's published terms and conditions as of December 31, 2020. HHS and the State of Ohio are entitled to recoup Provider Relief Fund and Coronavirus Relief Fund amounts that are unused for the purposes disclosed above.

HHS' and the State of Ohio's requirements for the uses of the funds are subject to change and are open to interpretation and clarification; therefore, there may be changes in the amounts recognized as grant revenue during the year ended December 31, 2020. Any changes in amounts recognized as a result of new guidance, interpretation, or clarification will be recognized in the period in which the change occurred.

Paycheck Protection Program (PPP)

During the year ended December 31, 2020, the Hospital received a PPP loan in the amount of \$4,634,726. The PPP loan program was created under the CARES Act and is administered by the Small Business Administration (SBA). Under the terms of this program, the loan may be fully or partially forgiven if the loan proceeds are spent on qualifying expenses and if staffing level and salary maintenance requirements are met. The Hospital may use the funds on qualifying expenses over a covered period up to eight weeks. At the conclusion of the covered period, any balance that is not forgiven by the SBA will be repaid over a period of two years, with interest accruing at a rate of 1 percent and monthly payments of principal and interest beginning 10 months after the conclusion of the covered period. Based on the loan amount, irrespective of any potential forgiveness that may be granted in the future, monthly principal payments would be approximately \$261,000 during the repayment period.

Any request for forgiveness is subject to review and approval by the lender and the SBA, including review of qualifying expenditures and staffing and salary levels. In addition, because the Hospital's loan exceeds \$2 million, the SBA will review the Hospital's loan file, which will include review of the Hospital's eligibility for the program and the good faith certification of the necessity of the loan.

Prior to December 31, 2020, the Hospital submitted a request for forgiveness of the entire loan balance; however, there can be no assurance that any portion of the PPP loan will be forgiven.

Note 16 - COVID-19 Pandemic (Continued)

If the SBA determines the Hospital was not initially eligible under the program or concludes that the Hospital did not have an adequate basis for making the good-faith certification of the necessity of the loan at the time of application, the loan could become payable on demand. Furthermore, the SBA has the ability to review the Hospital's loan file for a period subsequent to the date the loan is forgiven or repaid in full. The results of any review could result in the SBA requesting additional documentation to support the Hospital's initial eligibility for the loan and request for loan forgiveness, with the potential for the SBA to pursue legal remedies at its discretion.

At December 31, 2020, the outstanding balance on the PPP loan is \$4,634,726, which is classified as debt on the statement of net position. The balance is classified as a current liability due to uncertainty regarding the Hospital's eligibility for the loan.

Medicare Advance Payments

During 2020, the Hospital requested accelerated Medicare payments, as provided for in the CARES Act, which allows for eligible health care facilities to request up to 6 months of accelerated Medicare payments for acute-care hospitals. The repayment terms of the accelerated Medicare payments begin one year after the first payment was issued, at which point these amounts will be repaid at 25 percent of the Medicare payments to the Hospital for 11 months. After 11 months, the recoupment will increase to 50 percent of the Medicare payments for 6 additional months (or until all amounts are repaid). Any unapplied accelerated payment amounts that are unpaid after this 17-month period are due to CMS, plus interest at a rate of 4 percent on the outstanding balance. As of December 31, 2020, the Hospital received \$800,000 from these accelerated Medicare payment requests, which is recorded within Medicare advance payments on the statement of net position.

Note 17 - Upcoming Accounting Pronouncement

In June 2017, the Governmental Accounting Standards Board issued 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 ended 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 18 - Subsequent Events

The Hospital has evaluated and disclosed any subsequent events through May 26, 2021, which is the date the financial statements were available to be issued.

In January 2021, the Hospital finalized its agreement to be acquired by Adena Health System as of May 2, 2021 for a purchase price of approximately \$1,400,000. The Hospital operations will be undertaken by Adena in order to increase efficiency and effectiveness of hospital operations and to provide for the ongoing delivery of health care services to the citizens of Fayette County, Ohio and surrounding areas. The fair value information for the purchase is not completed as of the date the financial statements were available to be issued.

Required Supplemental Information

Fayette County Memorial Hospital

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

**Last Six Fiscal Years
Year Ended December 31**

	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 2,813,282	\$ 2,891,727	\$ 2,683,961	\$ 2,548,919	\$ 2,590,631	\$ 2,753,872
Contributions in relation to the contractually required contribution	2,813,282	2,891,727	2,683,961	2,548,919	2,590,631	2,753,872
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hospital's Covered Payroll	\$ 20,084,276	\$ 20,923,101	\$ 19,169,352	\$ 18,195,949	\$ 19,231,676	\$ 20,402,903
Contributions as a Percentage of Covered Payroll	14.0 %	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 Three Fiscal Years Year Ended December 31		
	2020	2019	2018
Contractually required contribution	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-	-
Contribution Deficiency	\$ -	\$ -	\$ -
Hospital's Covered Payroll	\$ 20,084,276	\$ 20,923,101	\$ 19,169,352
Contributions as a Percentage of Covered Payroll	- %	- %	- %

*OPERS allocated 0 percent of pension contributions to OPEB in 2020, 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				
	2019	2018	2017	2016	2015
Hospital's proportion of the net pension liability	0.13000 %	0.13000 %	0.13000 %	0.13000 %	0.14000 %
Hospital's proportionate share of the net pension liability	\$ 24,873,879	\$ 36,235,711	\$ 19,655,543	\$ 29,260,019	\$ 24,572,394
Hospital's covered payroll	\$ 20,652,496	\$ 19,169,363	\$ 18,195,949	\$ 19,231,676	\$ 20,402,903
Hospital's proportionate share of the net pension liability as a percentage of its covered payroll	120.44 %	189.03 %	108.02 %	152.14 %	120.44 %
Plan fiduciary net position as a percentage of total pension liability	82.17 %	74.70 %	84.45 %	77.39 %	81.20 %

Fayette County Memorial Hospital

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

Last Three Fiscal Years Plan Year Ended December 31

	2019	2018	2017
Hospital's proportion of the net OPEB liability	0.13000 %	0.13000 %	0.13000 %
Hospital's proportionate share of the net OPEB liability	\$ 17,390,199	\$ 17,190,779	\$ 13,958,497
Hospital's covered payroll	\$ 20,652,496	\$ 20,923,101	\$ 19,169,352
Hospital's proportionate share of the net OPEB liability as a percentage of its covered payroll	84.20 %	82.16 %	72.82 %
Plan fiduciary net position as a percentage of total OPEB liability	47.80 %	46.33 %	54.14 %

Fayette County Memorial Hospital

Notes to Pension and OPEB Required Supplemental Information Schedules

December 31, 2020 and 2019

Pension Information

Benefit Changes

There were no changes of benefit terms in 2020 and 2019.

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 a decrease in the investment rate of return from 7.50 percent to 7.20 percent. There were no changes in methods and assumptions used in the calculation of actuarially determined contributions for 2020.

OPEB Information

Benefit Changes

There were no changes of benefit terms in 2020 and 2019.

Changes in Assumptions

There were no changes of benefit assumptions in 2020 and 2019.

Other Supplemental Information

Fayette County Memorial Hospital

Combining Statement of Net Position

December 31, 2020

	Fayette County Memorial Hospital	Fayette County Memorial Hospital Foundation	Total
Current Assets			
Cash and cash equivalents	\$ 4,090,597	\$ -	\$ 4,090,597
Accounts receivable	5,988,255	-	5,988,255
Inventory	1,063,643	-	1,063,643
Notes receivable	549,729	-	549,729
Other current assets	100,481	-	100,481
Total current assets	11,792,705	-	11,792,705
Assets Limited as to Use	7,383,090	361,431	7,744,521
Capital Assets			
Nondepreciable capital assets	644,689	-	644,689
Depreciable capital assets	33,822,093	-	33,822,093
Total capital assets	34,466,782	-	34,466,782
Less accumulated depreciation	25,920,913	-	25,920,913
Net capital assets	8,545,869	-	8,545,869
Total assets	27,721,664	361,431	28,083,095
Deferred Outflows of Resources Related to Pension and Other Postemployment Benefits	7,461,621	-	7,461,621
Total assets and deferred outflows of resources	\$ 35,183,285	\$ 361,431	\$ 35,544,716

Fayette County Memorial Hospital

Combining Statement of Net Position (Continued)

December 31, 2020

	Fayette County Memorial Hospital	Fayette County Memorial Hospital Foundation	Total
Current Liabilities			
Accounts payable	\$ 3,589,465	\$ -	\$ 3,589,465
Current portion of long-term debt	5,056,516	-	5,056,516
Estimated third-party payor settlements	1,326,425	-	1,326,425
Accrued liabilities and other:			
Accrued compensation and other accrued liabilities	1,849,836	-	1,849,836
Accrued compensated absences	1,673,401	-	1,673,401
Accrued claims liability	1,065,093	-	1,065,093
Medicare advance payments	800,000	-	800,000
Total current liabilities	15,360,736	-	15,360,736
Noncurrent Liabilities			
Long-term debt - Net of current portion	1,696,708	-	1,696,708
Net pension and other postemployment benefits liability	42,264,078	-	42,264,078
Accrued claims liability	1,500,000	-	1,500,000
Total liabilities	60,821,522	-	60,821,522
Deferred Inflows of Resources Related to Pension and Other Postemployment Benefits	9,078,279	-	9,078,279
Net Position (Deficit)			
Net investment in capital assets	6,427,371	-	6,427,371
Restricted - Expendable for capital improvements and other purposes	944,254	289,955	1,234,209
Unrestricted	(42,088,141)	71,476	(42,016,665)
Total net position (deficit)	(34,716,516)	361,431	(34,355,085)
Total liabilities, deferred inflows of resources, and net position (deficit)	<u>\$ 35,183,285</u>	<u>\$ 361,431</u>	<u>\$ 35,544,716</u>

Fayette County Memorial Hospital

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

Year Ended December 31, 2020

	Fayette County Memorial Hospital	Fayette County Memorial Hospital Foundation	Total
Operating Revenue			
Net patient service revenue	\$ 42,798,842	\$ -	\$ 42,798,842
Other	1,984,418	-	1,984,418
Total operating revenue	44,783,260	-	44,783,260
Operating Expenses			
Salaries and wages	22,417,137	-	22,417,137
Employee benefits and payroll taxes	9,132,209	-	9,132,209
Operating supplies and expenses	7,926,392	-	7,926,392
Professional services and consultant fees	8,777,661	-	8,777,661
Insurance	380,090	-	380,090
Utilities	799,876	-	799,876
Leases and rentals	634,826	-	634,826
Maintenance and repairs	1,433,455	-	1,433,455
Depreciation	1,290,760	-	1,290,760
Other	1,998,517	-	1,998,517
Total operating expenses	54,790,923	-	54,790,923
Operating Loss	(10,007,663)	-	(10,007,663)
Other Income (Expense)			
Contributions	11,429	129,781	141,210
Realized gain on sale of investments	42,584	-	42,584
Grant revenue	5,990,206	-	5,990,206
Other income	139,282	-	139,282
Change in unrealized investment gain	5,835	-	5,835
Interest expense	(75,593)	-	(75,593)
Other expense	-	(84,770)	(84,770)
Total other income	6,113,743	45,011	6,158,754
Decrease (Increase) in Net Position	(3,893,920)	45,011	(3,848,909)
Net Position (Deficit) - Beginning of year	(30,822,596)	316,420	(30,506,176)
Net Position (Deficit) - End of year	<u>\$ (34,716,516)</u>	<u>\$ 361,431</u>	<u>\$ (34,355,085)</u>

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, 2020 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 26, 2021.

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) as a basis for designing 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 certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 as Finding 2020-001 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 as Finding 2020-002 to be a significant deficiency.

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 financial statements. 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as Finding 2020-003.

We also noted a matter that we have reported to management of the Hospital in a separate letter dated May 26, 2021.

To Management and the Board of Trustees
Fayette County Memorial Hospital

The Hospital's Responses to Findings

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

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is written in a cursive, flowing style.

May 26, 2021

Schedule of Findings

Financial Statement Audit Findings

Reference Number	Finding
2020-001	<p>Finding Type - Material weakness</p> <p>Criteria - The Hospital did not properly record accrued claims liabilities for settlement agreements reached to repay amounts previously recognized as revenue.</p> <p>Condition - Lack of proper accounting for accounting transactions</p> <p>Context - During 2020, settlement agreements were reached for amounts to be paid to certain third-party payors related to previous reimbursement from the payors. The entry was originally recorded to contractual allowances on the statement of net position and resulted in a material adjustment to move the amounts to contractual adjustments on the statement of revenue, expenses, and changes in net position.</p> <p>Cause - Lack of proper review and evaluation of the entries in accordance with generally accepted accounting principles</p> <p>Effect - The issue identified resulted in an understatement of assets in the statement of net position and overstatement of revenue in the statement of revenue, expenses, and changes in net position of \$2,612,624.</p> <p>Recommendation - The Hospital should ensure that transactions are properly presented in accordance with generally accepted accounting principles.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management acknowledges the identified adjustment and will evaluate future transactions for the appropriate accounting treatment.</p>

Reference Number	Finding
2020-002	<p>Finding Type - Significant deficiency</p> <p>Criteria - The Hospital remitted several OPERS contributions late during 2020. OPERS stipulates required monthly due dates on an annual basis for remittances under Ohio Revised Code Section 145. The due date is generally within one month of the month end.</p> <p>Condition - Untimely remittance of OPERS contributions, which were remitted approximately two months after month end for three months of 2020</p> <p>Context - In order to preserve cash flows, the Hospital remitted payments late for three months of the year to OPERS.</p> <p>Cause - Insufficient cash flows resulted in late payments in order to preserve liquidity.</p> <p>Effect - For three months of the year, employee and employer contributions totaling approximately \$1,000,000 were remitted late to OPERS, resulting in approximately \$27,000 of late fees paid to OPERS. There was no financial statement impact other than late fees paid to OPERS.</p> <p>Recommendation - The Hospital should remit contributions within the required plan dates.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management acknowledges that contributions were not remitted timely and will implement procedures to ensure that contributions are remitted timely going forward.</p>

Schedule of Findings (Continued)

Year Ended December 31, 2020

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2020-003	<p>Finding Type - Potential material noncompliance with laws and regulations</p> <p>Criteria - Federal laws and regulations (13 CFR Parts 113, 120 and 121) governing loans provided under the Small Business Administration’s Paycheck Protection Program require entities to consider applicable affiliation rules in order to qualify for the forgivable loan program. Four tests for affiliation based on control apply to participants under 13 CFR 121.301(f).</p> <p>Condition - The Hospital did not fully evaluate the applicable PPP affiliation rules prior to submitting the loan application.</p> <p>Context - During 2020, the Hospital received a PPP loan of \$4,634,726. Per the Hospital's initial loan application, no affiliates were disclosed. If it is determined that affiliates exist, this could result in the Hospital not being eligible to participate in the program because it might not meet certain other requirements (such as number of employees).</p> <p>Cause - The Hospital did not adequately consider affiliation rules in determining it was eligible for the Paycheck Protection Program loan.</p> <p>Effect - The Hospital received a PPP loan totaling \$4,634,726. If the SBA determines the Hospital was not initially eligible under the program, the loan could become payable on demand.</p> <p>Recommendation - The Hospital should evaluate the affiliation rules applicable to the Paycheck Protection Program and consult with legal counsel to address eligibility for the loan.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Hospital believes that the forgiveness of the loan is probable; however, it understands the implications if the SBA does not forgive the loan; therefore, the Hospital does not believe further action is needed.</p>

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OHIO AUDITOR OF STATE KEITH FABER



FAYETTE COUNTY MEMORIAL HOSPITAL

FAYETTE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 10/5/2021

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
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