

Fremont Community Health Resources

(f/k/a Fremont Health and Affiliates)

A Component Unit of Dodge County, Nebraska

Fremont, Nebraska

Financial Statements and Supplementary Information

June 30, 2019

Together with Independent Auditor's Report

Appendix Item # 13.
Date 11-20-2019

DODGE COUNTY, NEBRASKA
FREMONT COMMUNITY HEALTH RESOURCES

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Fremont Community Health Resources
(f/k/a Fremont Health and Affiliates)

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Independent Auditor's Report

To the Board of Trustees
Fremont Community Health Resources
(f/k/a Fremont Health and Affiliates)
Fremont, Nebraska:

Report on the Financial Statements

We have audited the accompanying financial statements of Fremont Community Health Resources (f/k/a Fremont Health and Affiliates) (FCHR), a component unit of Dodge County, Nebraska, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise FCHR's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 FCHR, a component unit of Dodge County, Nebraska, as of June 30, 2019, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, Fremont Health entered into a strategic partnership/affiliation agreement with Nebraska Methodist Health System (NMHS) with a closing date of October 1, 2018. On the closing date, Fremont Health was renamed Fremont Community Health Resources (FCHR). An affiliate of NMHS, Methodist Fremont Health acquired the operations and certain assets and liabilities of FCHR on October 1, 2018 and entered into a long-term sales-type lease with FCHR for use of all property previously utilized by Fremont Health. Our opinion is not modified with respect to this matter.

Other Matter*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require the schedule of changes in net pension liability and related ratios and schedule of contributions on pages 15 and 16, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who 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 supplementary 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements are not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2019, on our consideration of FCHR's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FCHR's 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 FCHR's internal control over financial reporting and compliance.

Spim Johnson, LLP

Omaha, Nebraska,
September 26, 2019.

Fremont Community Health Resources
(f/k/a Fremont Health and Affiliates)

Statement of Net Position
June 30, 2019

ASSETS

Current assets:		
Cash and cash equivalents	\$	407,662
Receivables -		
Current portion of sales-type lease		1,894,267
Interest		1,080,175
Other		767,776
Prepaid expenses		<u>5,311</u>
Total current assets		4,155,191
Sales-type lease receivable, net of current portion		<u>45,779,772</u>
Total assets		<u>49,934,963</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension related deferred outflows		<u>11,430,923</u>
Total assets and deferred outflows of resources	\$	<u><u>61,365,886</u></u>

LIABILITIES

Current liabilities,		
Accounts payable	\$	17,745
Net pension liability		<u>15,884,804</u>
Total liabilities		<u>15,902,549</u>

DEFERRED INFLOWS OF RESOURCES

Pension related deferred inflows		<u>355,328</u>
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NET POSITION

Unrestricted		<u>45,108,009</u>
Total liabilities, deferred inflows of resources and net position	\$	<u><u>61,365,886</u></u>

See notes to financial statements

Fremont Community Health Resources
(f/k/a Fremont Health and Affiliates)

Statement of Revenue, Expenses and Changes in Net Position
For the Year Ended June 30, 2019

OPERATING REVENUE,	
Interest income	\$ <u>1,080,688</u>
OPERATING EXPENSES:	
Insurance	63,509
Professional fees	225,542
Other expenses	<u>29,690</u>
Total operating expenses	<u>318,741</u>
OPERATING INCOME	<u>761,947</u>
NONOPERATING LOSSES:	
Loss related to asset purchase agreement with Methodist Fremont Health	(51,334,682)
Loss related to sales-type lease agreement with Methodist Fremont Health	(12,024,525)
Loss related to discontinued operations - Employee severance	(1,232,544)
Medical center operations	<u>(3,109,455)</u>
Total nonoperating loss	<u>(67,701,206)</u>
DECREASE IN NET POSITION	(66,939,259)
NET POSITION, beginning of year	<u>112,047,268</u>
NET POSITION, end of year	\$ <u><u>45,108,009</u></u>

See notes to financial statements

Fremont Community Health Resources
(f/k/a Fremont Health and Affiliates)

Statements of Cash Flows
For the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Pension contributions made	(4,900,000)
Cash paid to suppliers and contractors	(306,307)
Interest receipts	513
	<u> </u>
Net cash used in operating activities	<u>(5,205,794)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payment received on sales-type lease	3,334,500
Cash transferred related to asset purchase agreement with Methodist Fremont Health	(320,997)
Discontinued operations - Cash paid for employee severance	(1,232,544)
Pension contributions made prior to December 22, 2018	(5,481,396)
Cash received from medical center operations	700,658
	<u> </u>
Net cash used in financing activities	<u>(2,999,779)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,205,573)
CASH AND CASH EQUIVALENTS, beginning of year	8,613,235
	<u> </u>
CASH AND CASH EQUIVALENTS, end of year	\$ <u>407,662</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 761,947
Adjustments to reconcile operating income to net cash provided by operating activities -	
Change in pension related deferred outflows	(9,172,745)
Change in pension related deferred inflows	(1,830,203)
Change in net pension liability	4,363,804
Pension contributions made prior to December 22, 2018	5,481,396
Pension expense included in discontinued operations	(3,742,252)
(Increase) decrease in current assets -	
Receivables -	
Interest	(1,080,175)
Prepaid expenses	(5,311)
Increase in current liabilities -	
Accounts payable	17,745
	<u> </u>
Net cash used in operating activities	<u>\$ (5,205,794)</u>

See notes to financial statements

Fremont Community Health Resources
(f/k/a Fremont Health and Affiliates)

Notes to the Financial Statements
June 30, 2019

(1) Description of Reporting Entity

Fremont Community Health Resources (f/k/a Fremont Health) (FCHR) operated a 181-bed medical system in Fremont, Nebraska through October 1, 2018.

During 2017, Fremont Health entered into an agreement with Juniper Advisory, LLC (Juniper) to serve as Fremont Health's financial advisor and to provide investment banking services in consideration of a potential affiliation transaction. During 2018, Fremont Health's Board of Trustees agreed to enter into a strategic partnership/affiliation agreement (Agreement) with Nebraska Methodist Health System (NMHS). The Agreement was signed on July 24, 2018 and required the following:

- NMHS forming Methodist Fremont Health (MFH), a Nebraska not-for-profit corporation to lease and operate a hospital and nursing home in the space leased from Fremont Health and to acquire and assume the other healthcare programs and facilities of Fremont Health and its affiliates. The sole corporate member of MFH is NMHS.
- The Board of Directors of MFH to have nine members, initially including seven individuals who are residents of Dodge County, Nebraska.
- The current Fremont Health Foundation adopting restated articles and bylaws, substituting MFH for Fremont Health.
- The closing of the Agreement and related documents was effective October 1, 2018. Conditions to the closing included, but were not limited to:
 - Dodge County board approval
 - Attorney General notification
 - Adoption of articles and bylaws of MFH
 - Execution of an asset purchase agreement
 - Employee lease agreement, whereby Fremont Health will continue to employ all staff through December 22, 2018 and lease employees back to MFH until that time
 - NMHS delivering a guarantee of the obligations of MFH
- On October 1, 2018, Fremont Health was renamed Fremont Community Health Resources (FCHR), a new Board of Trustees was appointed and key bylaw revisions were made. FCHR remains a political subdivision, governed by many of the provisions of the State of Nebraska hospital statute, and owns the hospital and nursing home property, which is now leased to MFH.

The terms of the lease agreement include the following:

- A 50-year term commencing October 1, 2018
- Rent of \$3,334,500 per year for the first 20 years and \$1 per year thereafter, due 10 days after commencement of the lease agreement
- MFH commitment to \$30,000,000 in capital invested in the leased facilities over the first 10 years of the lease term
- Information technology integration with NMHS within 36 months of the lease commencement, with a minimum capital investment of \$2,000,000

Fremont Community Health Resources
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Notes to the Financial Statements
June 30, 2019

- o An option to purchase the entire leased facilities after the first 20 years of rent payments, after all FCHR liabilities with the respect to the defined benefit pension plan are satisfied, and after MFH has satisfied all financial covenants. The purchase price is set at \$1
- Terms of the asset purchase agreement called for the purchase of the majority of the remaining assets of Fremont Health and affiliates and assumption of liabilities. The agreement called for certain assets to remain with FCHR, most of which were cash. Fremont Health's defined benefit pension plan liability remained with FCHR.

Upon execution of the closing agreements, FCHR owed a commission to Juniper.

FCHR is now organized to provide quality and comprehensive healthcare services at a reasonable cost to the residents of Dodge County, Nebraska and surrounding area and intends to continue to fulfill this purpose through a long-term lease of its real estate and improvements to MFH. FCHR will continue to maintain, fund and administer the defined benefit pension plan in accordance with the terms thereof for the benefit of its former employees until such time as all of the obligations of FCHR under the defined benefit pension plan have been satisfied or otherwise provided for.

All funds of FCHR, including payments of rent received by FCHR under the real estate and improvements lease, shall be used solely to satisfy the obligations of FCHR under the real estate and improvements lease, the payment of administrative expenses consistent with its ongoing status as a county hospital under Nebraska law and as a landlord under the real estate and improvements lease, and to properly administer and satisfy its obligations under the defined benefit pension plan. Any funds remaining after FCHR has satisfied all of its obligations under the defined benefit pension plan or as otherwise described above shall be transferred by FCHR to the Fremont Health Foundation, a Nebraska non-profit corporation, to be used to promote and support the healthcare needs of the residents of Dodge County, Nebraska. The Board of Trustees may, if it so desires, designate at the time of contribution such funds to the Fremont Health Foundation that all or any portion of remaining funds are to be used for specific purposes or for a specific entity consistent with the above, which could include but is not limited to MFH; provided, however, any use designated by the Board of Trustees for such remaining funds must be permitted by an organization exempt under Section 501(c)(3) of the Internal Revenue Code and that is a public charity under Section 509(a) of the Internal Revenue Code, and the designation cannot result in a contribution or grant to a hospital or an affiliate of a hospital that competes with MFH.

(2) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies of FCHR, a component unit of Dodge County, Nebraska. These policies are in accordance with accounting principles generally accepted in the United States of America.

A. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). Revenue is recognized when earned and expenses are recorded when the liability is incurred.

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Notes to the Financial Statements
June 30, 2019

B. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

C. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

D. Sales-Type Lease Receivable

The balance of the sales-type lease receivable represents the net present value of future lease payments in accordance with the terms of the agreement between FCHR and MFH. See Note 4 for additional information regarding the sales-type lease receivable.

E. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense.

F. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of unrecognized items not yet charged to pension expense.

G. Net Position

Net position classifications are defined as follows:

Restricted – This component of net position consists of constraints placed on net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There is no restricted net position as of June 30, 2019.

Unrestricted – This component of net position consists of net position that do not meet the definition of “restricted.”

The Board may designate portions of the unrestricted net position for specific purposes, projects, or investment as an aid in the planning of expenditures and the conservation of assets.

When FCHR has both restricted and unrestricted resources available for a particular expense, it is FCHR’s policy to apply restricted resources before unrestricted.

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Notes to the Financial Statements
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H. Operating Income

Operating income includes transactions deemed by management to be ongoing, major or central to the activities of FCHR. Revenue and expenses to perform these activities are reported as operating income for the reporting period. Operating revenue results from interest earned on the sales-type lease transaction with MFH – FCHR’s principal activity. Operating expenses are all expenses incurred to perform the activities required of FCHR.

I. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to FCHR’s pension plan (the Plan), pension expense, information about the fiduciary net position of the Plan, and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

J. Subsequent Events

FCHR considered events occurring through September 26, 2019 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(3) Cash, Cash Equivalents and Investments

The statutes of the State of Nebraska authorize FCHR to invest in certificates of deposit and time deposits of banks, capital stock of financial institutions, obligations of the United States government and agencies thereof, and securities provided in the authorized investment guidelines of the Nebraska Investment Council.

Government regulations require that all bank balances be insured or collateralized by U.S. government securities held by FCHR’s third-party agent or the pledging financial institution’s trust department in the name of FCHR.

Interest Rate Risk: FCHR does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changes in interest rates. All of FCHR’s holdings at June 30, 2019 were in cash or cash equivalents.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, FCHR’s deposits may not be returned. At June 30, 2019, all of FCHR’s deposits were adequately insured by federal depository insurance or collateralized by securities held by an agent of FCHR in FCHR’s name.

At June 30, 2019, FCHR was exposed to custodial risk as follows:

Insured (FDIC) or collateralized with securities held by FCHR	\$ 250,000
Collateralized with securities held by the pledging financial institution’s trust department or agent in other than FCHR’s name	<u>157,662</u>
	<u>\$ 407,662</u>

Fremont Community Health Resources
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Notes to the Financial Statements
June 30, 2019

(4) Sales-Type Lease Receivable

As disclosed in Note 1, FCHR entered into a sales-type lease related to the hospital building, nursing facility building, outpatient clinics, and the associated land with MFH. The following summarizes the terms of the lease:

- A 50-year term commencing October 1, 2018,
- Rent of \$3,334,500 per year for the first 20 years and \$1 per year thereafter, due 10 days after commencement of the lease agreement,
- An option to purchase the entire leased facilities after the first 20 years of rent payments, after all FCHR liabilities with the respect to the defined benefit pension plan are satisfied, and after MFH has satisfied all financial covenants. The purchase price is set at \$1.
- Tenant to maintain a policy of property and casualty insurance with respect to the full replacement value of the leased premises, and maintain commercial general liability and professional liability insurance.
- Tenant is responsible for all maintenance and upkeep of the leased premises.
- Landlord shall maintain directors and officers liability insurance, professional liability insurance, general liability insurance, fiduciary liability insurance, workers compensation insurance, and other insurance coverage to cover all claims and occurrences arising prior to the commencement date.

FCHR accounts for this lease as a sales-type lease, and all of the loss related to this transaction is recognized in the Statement of Revenue, Expenses and Changes in Net Position for the year ended June 30, 2019 as follows:

Net book value of leased property	\$ 63,033,064
Net present value of future lease receipts	<u>51,008,539</u>
Loss on sales-type lease	<u>\$ 12,024,525</u>

The sales-type lease receivable is recorded at net present value of the future cash flows of the lease payments. A discount rate of 3.2%, which reflected FCHR's borrowing rate as of the date of the transaction, was used to determine the net present value. Future lease receipts are as follows:

Year ended June 30,	Principal	Interest	Total
2020	\$ 1,894,267	1,440,233	3,334,500
2021	1,951,493	1,383,007	3,334,500
2022	2,010,448	1,324,052	3,334,500
2023	2,071,183	1,263,317	3,334,500
2024	2,133,754	1,200,746	3,334,500
2025-29	11,675,520	4,996,980	16,672,500
2030-34	13,548,931	3,123,569	16,672,500
2035-38	<u>12,388,443</u>	<u>949,557</u>	<u>13,338,000</u>
	<u>\$ 47,674,039</u>	<u>15,681,461</u>	<u>63,355,500</u>

Fremont Community Health Resources
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Notes to the Financial Statements
June 30, 2019

(5) Other Receivables

Other receivables consist of amounts due to FCHR by third party payors which are the result of previous hospital operations of FCHR, prior to the transaction with MFH.

(6) Defined Benefit Pension Plan

Plan Description

FCHR has established and contributes to the Fremont Health Restated Pension Plan (the Plan), which is a single employer defined benefit pension plan administered by the Pension and Retirement Committee, established and appointed by the FCHR Board of Trustees. Entry to the Plan was frozen on December 31, 2006. Employees hired after that date were not eligible to participate in the Plan. Effective midnight, December 22, 2018, additional accrued benefits under the Plan ceased. Article 10 of the Plan document establishes the authority of FCHR to amend any or all of the provisions of the Plan. The Plan does not issue stand-alone financial reports.

Plan Membership

At December 31, 2018, Plan membership consisted of the following:

Inactive beneficiaries currently receiving benefits	398
Inactive beneficiaries entitled to but not yet receiving benefits	<u>333</u>
	<u>731</u>

Pension Benefits

Members may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is defined as the latter of the member's 65th birthday or completion of two years vesting service. Members cannot begin receiving benefits before age 55. Benefits are calculated as follows:

- 1% of the member's Average Monthly Earnings multiplied by years of Credited Service prior to June 1, 1974, with no credit for service prior to January 1, 1969, plus
- 2% of Average Monthly Earnings multiplied by years of Credited Service completed after June 1, 1974 and prior to January 1, 1991, plus
- 1.45% of Average Monthly Earnings multiplied by years of Credited Service completed after December 31, 1990.
- In no event shall more than 40 years of Credited Service be taken into account in determining a member's monthly benefit.

Average Monthly Earnings are defined as the sum of earnings paid to a member during their five highest consecutive completed Earnings Years in the last ten years of the member's employment, prior to the earlier of the member's retirement date, member's termination date, member's date of death, or January 1, 2019, divided by 60.

An enhanced retirement benefit is available for those members who were employees of FCHR on December 22, 2018, where additional years of credited service were granted to members who were employed by FCHR as of that date.

Fremont Community Health Resources
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Notes to the Financial Statements
June 30, 2019

If a member retires before normal retirement age and elects to commence benefits, the member's monthly retirement benefit is reduced permanently by an early-retirement reduction. The reduction is 1/15th for each of the first 5 years by which the member's early retirement date precedes normal retirement age, and 1/30th for each of the next 5 years by which early retirement date precedes the member's 60th birthday.

Contributions

Contributions to the plan are established by the Pension and Retirement Committee, based on an actuarially determined rate recommended by an independent actuary. During the year ended June 30, 2019 FCHR contributed \$10,381,396 to the Plan.

Net Pension Liability

FCHR's net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	N/A
Investment rate of return	6.0%, net of pension plan investment expense, including inflation

Mortality rates are based on the RP 2000 mortality tables projected from the year 2000, with MP 2015 mortality improvement scale for males or females, as appropriate.

The long term expected rate of return on pension plan assets was determined by best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) developed for each major asset class. The 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 percentages and by adding expected inflation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity securities	30-70%	6.00%
Fixed income securities	30-70%	6.00%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at \$3,200,000 per year for the next consecutive 19 years based on direction from the Board of Trustees and consistent with the terms of the purchase agreement between MFH and FCHR. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of 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.

Fremont Community Health Resources
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Notes to the Financial Statements
June 30, 2019

Changes in the Net Pension Liability

Changes in the net pension liability are as follows:

	<u>Increase (Decrease)</u>		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2017	\$ 77,056,316	65,535,316	11,521,000
Changes for the year:			
Service cost	573,731	--	573,731
Interest	5,647,033	--	5,647,033
Changes in benefit terms	(3,822,838)	--	(3,822,838)
Differences between expected and actual experience	341,661	--	341,661
Changes in assumptions	11,267,607	--	11,267,607
Contributions	--	10,381,396	(10,381,396)
Net investment income	--	(732,147)	732,147
Benefit payments	(4,672,538)	(4,672,538)	--
Administrative expense	--	(5,859)	5,859
Net changes	<u>9,334,656</u>	<u>4,970,852</u>	<u>4,363,804</u>
Balances at December 31, 2018	<u>\$ 86,390,972</u>	<u>70,506,168</u>	<u>15,884,804</u>

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

FCHR reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 593,527	133,343
Changes of assumptions	6,760,564	221,985
Net difference between projected and actual earnings on investments	<u>4,076,832</u>	<u>--</u>
Total	<u>\$ 11,430,923</u>	<u>355,328</u>

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

<u>Year Ended June 30,</u>	
2020	\$ 6,375,947
2021	3,131,677
2022	453,017
2023	<u>1,114,954</u>
	<u>\$ 11,075,595</u>

Fremont Community Health Resources
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Notes to the Financial Statements
June 30, 2019

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

The following presents the net pension liability of FCHR, calculated using the discount rate of 6.0%, as well as what FCHR's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.0%) or 1-percentage point higher (7.0%) than the current rate:

	<u>1% Decrease (5.0%)</u>	<u>Discount Rate (6.0%)</u>	<u>1% Increase (7.0%)</u>
FCHR's net pension liability – June 30, 2019	\$ 25,130,202	15,884,804	7,952,636

Payable to the Pension Plan

At June 30, 2019, FCHR reported no payables to the defined benefit pension plan.

(7) Budget and Budgetary Accounting

FCHR does not meet the criteria of the Nebraska Budget Act as they did not have a property tax request or receive state aid as defined in Section 13-518 of the Nebraska State Statute. Therefore, FCHR is not required to file a budget document or comply with the Budget Act requirements.

(8) Disposal of Operations

On October 1, 2018, FCHR entered into an asset purchase agreement with MFH as disclosed in Note 1. Based on the assets transferred to MFH and liabilities assumed by MFH, FCHR recognized a loss related to the asset purchase agreement as follows:

Assets transferred	\$ 73,242,630
Liabilities assumed	(23,561,792)
Juniper consulting fee	<u>1,653,844</u>
	<u>\$ 51,334,682</u>

FCHR's medical system operations were transferred on October 1, 2018 to MFH. The following is a summary of FCHR's statement of revenue and expenses for the three months ended September 30, 2018:

Total operating revenue	\$ 30,719,883
Total operating expenses	<u>33,985,018</u>
Operating income	3,265,135
Nonoperating income	<u>155,680</u>
Net loss	<u>\$ (3,109,455)</u>

**Fremont Community Health Resources
(f/k/a Fremont Health and Affiliates)**

**Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2019, 2018, 2017, 2016 and 2015**

	2019	2018	2017	2016	2015
Total pension liability					
Service cost	\$ 573,731	608,435	867,194	894,813	973,159
Interest	5,647,033	5,477,617	5,798,116	5,534,491	5,361,900
Changes to benefit terms	(3,822,838)	—	—	—	—
Differences between expected and actual experience	341,661	939,033	(2,133,509)	1,595,865	(291,627)
Changes in assumptions	11,267,607	—	(3,551,739)	—	—
Benefit payments	(4,672,538)	(4,790,462)	(5,198,772)	(3,766,337)	(3,561,400)
Net change in total pension liability	9,334,656	2,234,623	(4,218,710)	4,258,832	2,482,032
Total pension liability, beginning	77,056,316	74,821,693	79,040,403	74,781,571	72,299,539
Total pension liability, ending (a)	\$ 86,390,972	77,056,316	74,821,693	79,040,403	74,781,571
Plan fiduciary net position					
Contributions	\$ 10,381,396	1,719,659	2,305,313	2,039,684	2,104,176
Net investment income	(732,147)	7,710,940	2,827,057	135,521	3,921,987
Benefit payments	(4,672,538)	(4,790,462)	(5,198,772)	(3,766,337)	(3,561,400)
Administrative expense	(5,859)	(5,473)	(5,582)	(5,534)	(96,428)
Net change in plan fiduciary net position	4,970,852	4,634,664	(271,984)	(1,596,666)	2,368,335
Plan fiduciary net position, beginning	65,535,316	60,900,652	61,172,636	62,769,302	60,400,967
Plan fiduciary net position, ending (b)	\$ 70,506,168	65,535,316	60,900,652	61,172,636	62,769,302
Fremont Health's net pension liability, ending (a)-(b)	\$ 15,884,804	11,521,000	13,921,041	17,867,767	12,012,269
Plan fiduciary net position as a percentage of the total pension liability	81.61%	85.05%	81.39%	77.39%	83.94%
Covered employee payroll	\$ —	15,581,937	16,295,214	17,717,886	17,948,454
Fremont Health's net pension liability as a percentage of covered-employee payroll	N/A	73.94%	85.43%	100.85%	66.93%

See accompanying independent auditor's report

Note: GASB Statement No. 68 requires ten years of information to be presented in this schedule. However, until a full ten year trend is compiled, FCHR will present information for those years for which information is available.

Fremont Community Health Resources
(f/k/a Fremont Health and Affiliates)

Required Supplementary Information
Schedule of Contributions (In Thousands)
June 30, 2019, 2018, 2017, 2016 and 2015

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 1,926	1,720	2,305	2,040	2,104
Contributions in relation to the actuarially determined contribution	<u>(10,381)</u>	<u>(1,720)</u>	<u>(2,305)</u>	<u>(2,040)</u>	<u>(2,104)</u>
Contribution deficiency (excess)	<u>\$ (8,455)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Covered-employee payroll	\$ --	15,582	16,295	17,718	17,948
Contributions as a percentage of covered-employee payroll	N/A	11.04%	14.15%	11.51%	11.72%

See accompanying independent auditor's report

Notes to Schedule

Valuation Date:

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions used to determine contribution rates:

Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Remaining amortization period	20 years, open period
Asset valuation method	Actuarial value
Salary increases	N/A
Investment rate of return	6.0%, net of pension plan investment expense, including inflation
Retirement age	65
Mortality	IRS 2007

Note: GASB Statement No. 68 requires ten years of information to be presented in this schedule. However, until a full ten year trend is compiled, FCHR will present information for those years for which information is available.

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

To the Board of Trustees
Fremont Community Health Resources
(f/k/a Fremont Health and Affiliates)
Fremont, Nebraska:

We have audited, in accordance with the 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 Fremont Community Health Resources (f/k/a Fremont Health and Affiliates) (FCHR), as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise FCHR's basic financial statements and have issued our report thereon dated September 26, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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 FCHR's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FCHR's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Spim Johnson, LLP

Omaha, Nebraska,
September 26, 2019.