

Financial Condition
Hocking County
For the Year Ended December 31, 2015



Millhuff-Stang

CERTIFIED PUBLIC ACCOUNTANT

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Dave Yost • Auditor of State

Board of Commissioners
Hocking County
1 East Main Street
Logan, Ohio 43138

We have reviewed the *Independent Auditor's Report* of Hocking County, prepared by Millhuff-Stang, CPA, Inc., for the audit period January 1, 2015 through December 31, 2015. 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. Hocking County is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

September 28, 2016

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Hocking County Financial Condition
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Independent Auditor's Report

Board of Commissioners
Hocking County
1 East Main Street
Logan, Ohio 43138

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hocking County, Ohio (the County), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County'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 opinions on these financial statements based on our audit. We did not audit the financial statements of the Hocking Valley Community Hospital or Hocking Valley Industries, Inc., which are discretely presented component units and which represent 100% of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hocking Valley Community Hospital and Hocking Valley Industries, Inc. is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The other auditors audited the financial statements of Hocking Valley Industries, Inc. in accordance with auditing standards generally accepted in the United States of America and not in accordance with *Government Auditing Standards*.

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 opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hocking County, Ohio, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, Motor Vehicle Gas Tax Fund, Board of Developmental Disabilities Fund, and Emergency Medical Services Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 20 to the financial statements, during 2015, the County adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68." We did not modify our opinion regarding these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12, the schedules of the County's proportionate share of the net pension liability on page 90, and the schedule of County contributions on page 91 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2016 on our consideration of the County's internal control over financial reporting and on 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

July 25, 2016

Hocking County
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

The discussion and analysis of Hocking County's financial performance provides an overall review of the County's financial activities for the year ended December 31, 2015. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the County's financial performance.

Financial Highlights

Key financial highlights for 2015 are as follows:

Overall:

Total net position increased \$404,015 primarily due to governmental activities changes.

Total revenue was \$22,311,524 in 2015.

Total program expenses were \$21,907,509 in 2015.

Governmental Activities:

Total revenue was \$22,128,093 in 2015, while program expenses were \$21,673,184.

Program expenses were primarily composed of health, public works, public safety, legislative and executive, judicial, and human services, where expenses were \$5,970,109, \$4,142,145, \$4,413,077, \$3,578,647, \$2,087,780, and \$1,080,091, respectively, in 2015.

Business-Type Activities:

Program revenues were \$183,431 for business-type activities, while corresponding expenses were \$234,325.

Using these Basic Financial Statements

These basic financial statements consist of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hocking County as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

- The statement of net position and statement of activities provide information about the activities of the whole County, presenting both an aggregate view of the County's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the County's most significant funds with all other non-major funds presented in total in one column. In the case of Hocking County, the General Fund, the Motor Vehicle Gas Tax Fund, the Board of Developmental Disabilities Fund, and the Emergency Medical Services Fund are the major governmental funds for the County. The Sewer Fund is the County's major Enterprise Fund.

Hocking County
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

Reporting the County as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the County to provide programs and activities, the view of the County as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015?" The statement of net position and the statement of activities answer this question. These statements include *all assets, liabilities, and deferred inflows and outflows of resources* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the County's *net position* and changes in net position. This change in net position is important because it tells the reader, for the County as a whole, whether the *financial position* of the County has improved. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the County's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required or mandated programs and other factors.

In the statement of net position and the statement of activities, the County is divided into three distinct kinds of activities:

- **Governmental Activities** – Most of the County's programs and services are reported here including general government (legislative and executive and judicial), public safety, public works, health, human services, economic development and assistance, and conservation and recreation.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The County's wastewater treatment operations are reported as business-type activities.
- **Component Units** – The Hocking Valley Community Hospital and the Hocking Valley Industries, Inc. are reported as component units of the County as more fully described in Note 1 to the basic financial statements.

Reporting the County's Most Significant Funds

Fund Financial Statements

The analysis of the County's major funds begins on page 10. Fund financial statements provide detailed information about the County's major funds. The County uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's major governmental funds are the General Fund, the Motor Vehicle Gas Tax Fund, the Board of Developmental Disabilities Fund, and the Emergency Medical Services Fund. The County's major enterprise fund is the Sewer Fund.

Governmental Funds Most of the County's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance various County programs. The relationship (or differences) between governmental *activities* (reported in the statement of net position and the statement of activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statements for the County as a whole.

Hocking County
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The County as a Whole

Recall that the statement of net position provides the perspective of the County as a whole. Table 1 provides a summary of the County's net position for 2015 compared to the prior year:

Table 1
Net Position

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---------------------------------------|-------------------------|---------------|--------------------------|------------|---------------|---------------|
| | 2015 | 2014* | 2015 | 2014* | 2015 | 2014* |
| <i>Assets</i> | | | | | | |
| Current & Other Assets | \$ 22,315,899 | \$ 21,927,978 | \$ 244,606 | \$ 264,949 | \$ 22,560,505 | \$ 22,192,927 |
| Capital Assets, Net | 26,902,604 | 26,369,424 | 1,045,002 | 1,089,970 | 27,947,606 | 27,459,394 |
| Total Assets | 49,218,503 | 48,297,402 | 1,289,608 | 1,354,919 | 50,508,111 | 49,652,321 |
| <i>Deferred Outflows of Resources</i> | | | | | | |
| Pensions | 1,610,286 | 1,062,939 | 12,519 | 8,217 | 1,622,805 | 1,071,156 |
| <i>Liabilities</i> | | | | | | |
| Current and Other Liabilities | 1,012,750 | 1,046,204 | 3,898 | 5,040 | 1,016,648 | 1,051,244 |
| Non-Current Liabilities: | | | | | | |
| Due within One Year | 392,856 | 346,315 | 13,000 | 14,053 | 405,856 | 360,368 |
| Due in More than One Year: | | | | | | |
| Net Pension Liability | 8,696,119 | 8,499,702 | 67,369 | 65,847 | 8,763,488 | 8,565,549 |
| Other Amounts | 1,861,895 | 1,515,273 | 405,329 | 415,955 | 2,267,224 | 1,931,228 |
| Total Liabilities | 11,963,620 | 11,407,494 | 489,596 | 500,895 | 12,453,216 | 11,908,389 |
| <i>Deferred Inflows of Resources</i> | | | | | | |
| Taxes | 5,850,043 | 5,545,403 | - | - | 5,850,043 | 5,545,403 |
| Pensions | 152,773 | - | 1,184 | - | 153,957 | - |
| Total Deferred Inflows of Resources | 6,002,816 | 5,545,403 | 1,184 | - | 6,004,000 | 5,545,403 |
| <i>Net Position</i> | | | | | | |
| Net Investment in Capital Assets | 25,366,023 | 25,209,232 | 626,673 | 669,870 | 25,992,696 | 25,879,102 |
| Restricted | 10,736,077 | 10,590,191 | - | - | 10,736,077 | 10,590,191 |
| Unrestricted (Deficit) | (3,239,747) | (3,391,979) | 184,674 | 192,371 | (3,055,073) | (3,199,608) |
| Total Net Position | \$ 32,862,353 | \$ 32,407,444 | \$ 811,347 | \$ 862,241 | \$ 33,673,700 | \$ 33,269,685 |

* As Restated, See Note 20.

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Total assets increased by \$855,790. The increase in total assets is due to increases in capital assets, net and taxes receivable. Taxes receivable increased due to an increase in sale tax. Capital assets in the governmental activities increased \$533,180 from 2014 to 2015, due to additions which were partially offset by current year depreciation and disposals. Capital assets in the business-type activities decreased \$44,968 from 2014 to 2015, primarily due to depreciation expense. Deferred outflows of resources increased due primarily to increases in pension payments in 2015 which are recognized as deferred outflows of resources.

Current and other liabilities remained consistent with the prior year. Total non-current liabilities increased \$579,423 as a result of the issuance of debt which was partially offset by debt payments and an increase to net pension liability. Deferred inflows of resources increased due to the implementation of GASB 68 which increased deferred inflows of resources related to pensions and also due to an increase to deferred inflows of resources related to property taxes.

During 2015, the County adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the County's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the County's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the County is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

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In accordance with GASB 68, the County's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68 and GASB 71, the County is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position for governmental activities at December 31 2014, from \$39,844,207 to \$32,407,444 and for business-type activities at December 31, 2014 from \$919,871 to \$862,241.

Table 2 shows the changes in net position for fiscal year 2015 and 2014.

| | Changes in Net Position | | | | | |
|--|----------------------------|-----------------------------|----------------------|----------------------------|-----------------------------|----------------------|
| | 2015 | | | 2014* | | |
| | Governmental Activities | Business-Type Activities | Total | Governmental Activities | Business-Type Activities | Total |
| Revenues | | | | | | |
| <i>Program Revenues:</i> | | | | | | |
| Charges for Services and Sales | \$ 3,554,390 | \$ 175,893 | \$ 3,730,283 | \$ 3,675,545 | \$ 179,080 | \$ 3,854,625 |
| Operating Grants and Contributions | 5,947,466 | - | 5,947,466 | 6,366,026 | - | 6,366,026 |
| Capital Grants and Contributions | 573,759 | 7,538 | 581,297 | 1,683,962 | 12,272 | 1,696,234 |
| Total Program Revenues | <u>10,075,615</u> | <u>183,431</u> | <u>10,259,046</u> | <u>11,725,533</u> | <u>191,352</u> | <u>11,916,885</u> |
| <i>General Revenues:</i> | | | | | | |
| Property Taxes | 5,160,893 | - | 5,160,893 | 5,421,599 | - | 5,421,599 |
| Sales Taxes | 4,066,274 | - | 4,066,274 | 3,634,353 | - | 3,634,353 |
| Grants and Entitlements | 1,465,814 | - | 1,465,814 | 1,390,871 | - | 1,390,871 |
| Other Taxes | 1,097,227 | - | 1,097,227 | 953,068 | - | 953,068 |
| Interest Earnings | 40,641 | - | 40,641 | 68,898 | - | 68,898 |
| Gain on Sale of Capital Assets | 4,772 | - | 4,772 | - | - | - |
| Miscellaneous | 216,857 | - | 216,857 | 370,026 | - | 370,026 |
| Total General Revenues | <u>12,052,478</u> | <u>-</u> | <u>12,052,478</u> | <u>11,838,815</u> | <u>-</u> | <u>11,838,815</u> |
| Total Revenues | <u>22,128,093</u> | <u>183,431</u> | <u>22,311,524</u> | <u>23,564,348</u> | <u>191,352</u> | <u>23,755,700</u> |
| Program Expenses | | | | | | |
| <i>General Government:</i> | | | | | | |
| Legislative and Executive | 3,578,647 | - | 3,578,647 | 4,261,865 | - | 4,261,865 |
| Judicial | 2,087,780 | - | 2,087,780 | 1,972,426 | - | 1,972,426 |
| Public Safety | 4,413,077 | - | 4,413,077 | 4,253,407 | - | 4,253,407 |
| Public Works | 4,142,145 | - | 4,142,145 | 3,486,260 | - | 3,486,260 |
| Health | 5,970,109 | - | 5,970,109 | 6,008,536 | - | 6,008,536 |
| Human Services | 1,080,091 | - | 1,080,091 | 1,275,822 | - | 1,275,822 |
| Economic Development and Assistance | 132,843 | - | 132,843 | 631,593 | - | 631,593 |
| Conservation and Recreation | 240,994 | - | 240,994 | 207,500 | - | 207,500 |
| Interest and Fiscal Charges | 27,498 | - | 27,498 | 30,757 | - | 30,757 |
| Wastewater Treatment | - | 234,325 | 234,325 | - | 241,679 | 241,679 |
| Total Expenses | <u>21,673,184</u> | <u>234,325</u> | <u>21,907,509</u> | <u>22,128,166</u> | <u>241,679</u> | <u>22,369,845</u> |
| Change in Net Position | <u>454,909</u> | <u>(50,894)</u> | <u>404,015</u> | <u>1,436,182</u> | <u>(50,327)</u> | <u>1,385,855</u> |
| Net Position - Beginning of Year | 32,407,444 | 862,241 | 33,269,685 | N/A | N/A | N/A |
| Net Position - End of Year | <u>\$ 32,862,353</u> | <u>\$ 811,347</u> | <u>\$ 33,673,700</u> | <u>\$ 32,407,444</u> | <u>\$ 862,241</u> | <u>\$ 33,269,685</u> |

* As Restated, See Note 20.

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The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$1,071,156 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$955,486. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

| | Governmental Activities | Business-Type Activities |
|---|----------------------------|-----------------------------|
| Total 2015 program expenses under GASB 68 | \$21,673,184 | \$234,325 |
| Pension expense under GASB 68 | (948,131) | (7,355) |
| 2015 contractually required contribution | 1,146,288 | 8,924 |
| Adjusted 2015 program expenses | 21,871,341 | 235,894 |
| Total 2014 program expenses under GASB 27 | 22,128,166 | 241,679 |
| Decrease in program expenses not related to pension | (\$256,825) | (\$5,785) |

Governmental Activities

Governmental net position increased \$454,909 from 2014 to 2015. Total governmental activities revenues decreased \$1,436,255 due primarily to decreases in operating grants and contributions and capital grants and contributions, which were partially offset by an increase in sales tax. Operating grants decreased primarily due to decreases in the Developmental Disabilities operating grants and Community Development Block grants. Capital grants decreased primarily due to monies received in 2014 from the Ohio Department of Transportation project for construction of a bridge.

Total governmental activities expenses decreased \$454,982 primarily due to decreases in legislative and executive expenses (\$683,218) and economic development and assistance expenses (\$498,750), which were partially offset by increases in public works expenses (\$655,885). The decreases in legislative and executive expenses is primarily for distributions of excess real estate assessment fees from prior years to various local governments within the County as well as countywide reappraisal services that occurred in 2014. The decrease in economic development and assistance expenses is due to additional Community Development Block grant programs that occurred during 2014. The increase in public works expenses is due to less costs being capitalized in 2015 than in 2014.

The County receives diverse types of revenues to provide for the vast number of programs provided by the County. Operating grants and contributions provide 27% of total revenues for governmental activities. Property taxes and sales taxes provide 23% and 18% of total revenues for governmental activities, respectively.

Health, public works, public safety, and general government legislative and executive comprise 28%, 19%, 20% and 17%, respectively, of total expenses for governmental activities.

The statement of activities shows the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and various unrestricted federal and state grants and entitlements.

Hocking County
Management's Discussion and Analysis
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Table 3
 Total Cost of Program Services
 Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|--|------------------------|----------------------|----------------------|----------------------|
| | 2015 | 2014 | 2015 | 2014 |
| General Government - Legislative and Executive | \$ 3,578,647 | \$ 4,261,865 | \$ 2,591,124 | \$ 3,173,350 |
| General Government - Judicial | 2,087,780 | 1,972,426 | 1,197,667 | 1,039,100 |
| Public Safety | 4,413,077 | 4,253,407 | 3,171,134 | 2,890,770 |
| Public Works | 4,142,145 | 3,486,260 | (14,495) | (1,529,467) |
| Health | 5,970,109 | 6,008,536 | 3,788,352 | 3,766,991 |
| Human Services | 1,080,091 | 1,275,822 | 600,030 | 820,738 |
| Economic Development and Assistance | 132,843 | 631,593 | 40,885 | 45,447 |
| Conservation and Recreation | 240,994 | 207,500 | 195,374 | 164,947 |
| Interest and Fiscal Charges | 27,498 | 30,757 | 27,498 | 30,757 |
| Total Expenses | \$ 21,673,184 | \$ 22,128,166 | \$ 11,597,569 | \$ 10,402,633 |

46% of governmental activities are supported through program revenues.

Business-Type Activities

Business-type activities include wastewater treatment.

For business-type activities, charges for services and sales decreased \$3,187, while capital grants and contributions decreased \$4,734, and wastewater treatment expenses decreased \$7,354, resulting in a decrease in net position of \$50,894. Charges for services and sales accounted for 96% of total revenues of \$183,431.

The County's Funds

Information about the County's major governmental funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other sources of \$23,311,632 and expenditures and other uses of \$23,242,839. The net change in fund balance for the year was most significant in the Board of Developmental Disabilities which experienced a decrease in fund balance of \$386,153 primarily due to a decrease in charges for services and intergovernmental revenues.

The General Fund experienced a decrease in fund balance of \$64,995 primarily due to expenditures and other financing uses exceeding revenues and other financing sources as a result of increased transfers out.

The Motor Vehicle Gas Tax Fund experienced an increase in fund balance of \$259,665 primarily due to a decrease in expenditures as a direct result of less monies received.

The Emergency Medical Services Fund experienced an increase in fund balance of \$123,085 due to revenues and other financing sources exceeding expenditures.

Hocking County
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

General Fund Budgeting Highlights

The County's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2015 the County amended its General Fund budget numerous times, none significant.

For the General Fund, budget basis actual revenue and other financing sources were \$7,539,599, above final budget estimates of \$6,826,568. Of this difference, tax revenues made the majority of this difference.

Budget basis actual expenditures and other financing uses were \$7,814,794, below final budget estimates of \$8,013,568 which resulted in a \$198,774 difference. Of this difference, legislative and executive made the majority of the difference. Total actual expenditures and other financing uses on the budget basis were \$275,195 above revenues and other financing sources.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2015 the County had \$27,947,606 (net of accumulated depreciation) invested in construction in progress, land, land improvements, buildings, machinery and equipment, vehicles, infrastructure, a wastewater treatment plant and collection system; \$26,902,604 in governmental activities. Additional information regarding capital assets is shown in Note 7 to the basic financial statements. Tables 4.1 and 4.2 show fiscal 2015 and 2014 balances by governmental activities and business-type activities:

Table 4.1
 Capital Assets At December 31
 (Net of Depreciation)
 Governmental Activities

| | 2015 | 2014 |
|--------------------------|---------------|---------------|
| Land | \$ 928,080 | \$ 811,350 |
| Construction in Progress | 230,008 | 11,715 |
| Land Improvements | 72,806 | 44,002 |
| Buildings | 2,984,257 | 3,071,127 |
| Machinery and Equipment | 1,769,063 | 1,700,864 |
| Vehicles | 2,828,415 | 2,396,650 |
| Infrastructure | 18,089,975 | 18,333,716 |
| Total | \$ 26,902,604 | \$ 26,369,424 |

Table 4.2
 Capital Assets At December 31
 (Net of Depreciation)
 Business-Type Activities

| | 2015 | 2014 |
|----------------------------|--------------|--------------|
| Land | \$ 29,000 | \$ 29,000 |
| Wastewater Treatment Plant | 37,002 | 45,493 |
| Collection System | 979,000 | 1,015,477 |
| Total | \$ 1,045,002 | \$ 1,089,970 |

Hocking County
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

Debt

At December 31, 2015 the County had \$1,442,843 in governmental activities bonds and long-term loans and notes, \$281,052 due within one year. At December 31, 2015, the County had \$418,329 in business-type activity bonds, \$13,000 due within one year.

Tables 5 and 6 summarize bonds and notes/loans outstanding for the past two years:

Outstanding Debt At December 31
 Governmental Activities

| | 2015 | 2014 |
|--------------------------|---------------------|---------------------|
| Long Term Notes/Loans | \$ 1,435,143 | \$ 1,049,539 |
| Special Assessment Bonds | 7,700 | 11,300 |
| Total | \$ 1,442,843 | \$ 1,060,839 |

Table 6
 Outstanding Debt At December 31
 Business-Type Activities

| | 2015 | 2014 |
|---------------|-------------------|-------------------|
| OWDA Loan | \$ 10,629 | \$ - |
| Revenue Bonds | 407,700 | 420,100 |
| Total | \$ 418,329 | \$ 420,100 |

All long-term notes and loans and special assessment bonds outstanding for governmental activities are general obligations of the County for which the full faith and credit of the County is pledged for repayment. For additional information regarding bonds and long-term notes and loans payable please see Note 13 to the basic financial statements.

Current Financial Related Activities

Hocking County is strong financially at the present time. However, as the preceding information shows, the County heavily depends on its property taxpayers as well as intergovernmental monies. Since the property tax revenues do not grow at the same level as inflation and because state and federal mandates continue without providing the additional revenue resources needed to continue such programs, the County will be faced with significant challenges over the next several years to contain costs and ultimately consider the possibility of having to go back to the voters for an additional sales tax levy.

This scenario requires management to plan carefully and prudently to provide the resources to meet taxpayer needs over the next several years.

In addition, the County's system of budgeting and internal controls has made significant improvements over the past several years. All of the County's financial abilities will be needed to meet the challenges of the future.

Contacting the County's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information contact Kenneth R. Wilson, County Auditor at Hocking County, 1 East Main Street, Logan, Ohio 43138, phone at (740) 385-2127, or e-mail at kwilson@co.hocking.oh.us.

Hocking County
Statement of Net Position
As of December 31, 2015

| | Primary Government | | | Component Units | |
|--|----------------------------|-----------------------------|----------------------|---------------------|------------------------------|
| | Governmental Activities | Business-Type Activities | Total | Hospital | Adult Activities Workshop |
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 12,197,036 | \$ 208,111 | \$ 12,405,147 | \$ - | \$ - |
| Cash, Cash Equivalents and Investments in Segregated Accounts | - | - | - | 2,567,704 | 164,531 |
| Receivables: | | | | | |
| Taxes | 6,951,800 | - | 6,951,800 | - | - |
| Accounts, Net | 93,277 | 36,495 | 129,772 | 5,484,344 | 44,161 |
| Interest | 6,376 | - | 6,376 | - | - |
| Special Assessments | 11,475 | - | 11,475 | - | - |
| Intergovernmental | 2,651,634 | - | 2,651,634 | - | - |
| Materials and Supplies Inventory | 404,301 | - | 404,301 | 424,799 | 2,101 |
| Prepaid Items | - | - | - | 1,710,207 | - |
| Deposits | - | - | - | 566,197 | - |
| Restricted Cash and Cash Equivalents and Investments in Segregated Accounts | - | - | - | 242,041 | - |
| Net Pension Asset | - | - | - | 39,173 | - |
| Deposits | - | - | - | - | 994 |
| Nondepreciable Capital Assets | 1,158,088 | 29,000 | 1,187,088 | 538,026 | - |
| Depreciable Capital Assets, Net | 25,744,516 | 1,016,002 | 26,760,518 | 10,112,948 | 32,214 |
| Total Assets | 49,218,503 | 1,289,608 | 50,508,111 | 21,685,439 | 244,001 |
| Deferred Outflows of Resources | | | | | |
| Pensions | 1,610,286 | 12,519 | 1,622,805 | 2,048,395 | - |
| Liabilities | | | | | |
| Accounts Payable | 241,771 | 806 | 242,577 | 2,587,342 | 5,403 |
| Accrued Wages and Benefits Payable | 470,469 | 2,550 | 473,019 | 525,988 | 45,832 |
| Contracts Payable | 1,900 | - | 1,900 | - | - |
| Intergovernmental Payable | 298,610 | 542 | 299,152 | - | - |
| Self Insurance Liability | - | - | - | 380,581 | - |
| Estimated Third-Party Payor Settlements | - | - | - | 80,000 | - |
| Line-of-Credit | - | - | - | 375,500 | - |
| Long-term Liabilities: | | | | | |
| Due Within One Year | 392,856 | 13,000 | 405,856 | 835,248 | 3,604 |
| Due in More Than One Year: | | | | | |
| Net Pension Liability (See Note 10) | 8,696,119 | 67,369 | 8,763,488 | 11,755,379 | - |
| Other Amounts Due in More than One Year | 1,861,895 | 405,329 | 2,267,224 | 1,876,906 | 11,004 |
| Total Liabilities | 11,963,620 | 489,596 | 12,453,216 | 18,416,944 | 65,843 |
| Deferred Inflows of Resources | | | | | |
| Property Taxes Not Levied to Finance Current Year Operations | 5,850,043 | - | 5,850,043 | - | - |
| Pensions | 152,773 | 1,184 | 153,957 | 218,472 | - |
| Total Deferred Inflows of Resources | 6,002,816 | 1,184 | 6,004,000 | 218,472 | - |
| Net Position | | | | | |
| Net Investment in Capital Assets | 25,366,023 | 626,673 | 25,992,696 | 8,472,707 | 17,606 |
| Restricted for: | | | | | |
| Debt Service | 71,063 | - | 71,063 | - | - |
| Capital Projects | 743,136 | - | 743,136 | - | - |
| Hocking County 911 | 1,210,873 | - | 1,210,873 | - | - |
| Senior Citizens | 324,827 | - | 324,827 | - | - |
| Motor Vehicle Gas Tax | 3,516,390 | - | 3,516,390 | - | - |
| Family and Children First | 233,351 | - | 233,351 | - | - |
| Board of Developmental Disabilities | 791,991 | - | 791,991 | - | - |
| Emergency Medical Services | 1,158,158 | - | 1,158,158 | - | - |
| Real Estate Assessment | 766,372 | - | 766,372 | - | - |
| Municipal Court Special Projects | 206,071 | - | 206,071 | - | - |
| Wireless 911 | 252,580 | - | 252,580 | - | - |
| Other Purposes | 1,461,265 | - | 1,461,265 | 242,041 | - |
| Unrestricted (Deficit) | (3,239,747) | 184,674 | (3,055,073) | (3,616,330) | 160,552 |
| Total Net Position | \$ 32,862,353 | \$ 811,347 | \$ 33,673,700 | \$ 5,098,418 | \$ 178,158 |

See accompanying notes to the basic financial statements.

Hocking County
Statement of Activities
For the Year Ended December 31, 2015

| | Program Revenues | | | |
|--|-------------------------|---|---|---|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities | | | | |
| General Government: | | | | |
| Legislative and Executive | \$3,578,647 | \$941,082 | \$46,441 | \$ - |
| Judicial | 2,087,780 | 693,504 | 196,609 | - |
| Public Safety | 4,413,077 | 771,842 | 446,841 | 23,260 |
| Public Works | 4,142,145 | 137,613 | 3,468,528 | 550,499 |
| Health | 5,970,109 | 865,770 | 1,315,987 | - |
| Human Services | 1,080,091 | 94,849 | 385,212 | - |
| Economic Development and Assistance | 132,843 | 9,703 | 82,255 | - |
| Conservation and Recreation | 240,994 | 40,027 | 5,593 | - |
| Interest and Fiscal Charges | 27,498 | - | - | - |
| <i>Total Governmental Activities</i> | <u>21,673,184</u> | <u>3,554,390</u> | <u>5,947,466</u> | <u>573,759</u> |
| Business-Type Activities | | | | |
| Wastewater Treatment | 234,325 | 175,893 | - | 7,538 |
| <i>Total Business-Type Activities</i> | <u>234,325</u> | <u>175,893</u> | <u>-</u> | <u>7,538</u> |
| <i>Total Primary Government</i> | <u>\$ 21,907,509</u> | <u>\$ 3,730,283</u> | <u>\$ 5,947,466</u> | <u>\$ 581,297</u> |
| Component Units | | | | |
| Hospital | \$ 34,024,578 | \$ 35,522,369 | \$ - | \$ - |
| Adult Activities Workshop | 807,173 | 625,956 | 236,300 | - |
| <i>Total Component Units</i> | <u>\$ 34,831,751</u> | <u>\$ 36,148,325</u> | <u>\$ 236,300</u> | <u>\$ -</u> |

General Revenues

Property Taxes Levied for:
 General Purposes
 Other Purposes
Sales Taxes Levied for:
 General Purposes
 Other Purposes
Other Taxes
Grants and Entitlements not Restricted to Specific Programs
Interest Earnings
Gain on Sale of Capital Assets
Noncapital Grants and Contributions
Miscellaneous

Total General Revenues

Change in Net Position

Net Position Beginning of Year - As Restated

See Note 20 (Primary Government) and Note 23 (Component Unit)

Net Position End of Year

See accompanying notes to the basic financial statements.

continued

| Net (Expense) Revenue and Changes in Net Position | | | | |
|--|-----------------------------|----------------------|---------------------|------------------------------|
| Governmental Activities | Business-Type Activities | Total | Component Units | |
| | | | Hospital | Adult Activities Workshop |
| \$ (2,591,124) | \$ - | \$ (2,591,124) | \$ - | \$ - |
| (1,197,667) | - | (1,197,667) | - | - |
| (3,171,134) | - | (3,171,134) | - | - |
| 14,495 | - | 14,495 | - | - |
| (3,788,352) | - | (3,788,352) | - | - |
| (600,030) | - | (600,030) | - | - |
| (40,885) | - | (40,885) | - | - |
| (195,374) | - | (195,374) | - | - |
| (27,498) | - | (27,498) | - | - |
| <u>(11,597,569)</u> | <u>-</u> | <u>(11,597,569)</u> | <u>-</u> | <u>-</u> |
| - | (50,894) | (50,894) | - | - |
| - | (50,894) | (50,894) | - | - |
| (11,597,569) | (50,894) | (11,648,463) | | |
| | | | 1,497,791 | - |
| | | | - | 55,083 |
| | | | <u>1,497,791</u> | <u>55,083</u> |
| 1,776,628 | - | 1,776,628 | - | - |
| 3,384,265 | - | 3,384,265 | - | - |
| 3,253,044 | - | 3,253,044 | - | - |
| 813,230 | - | 813,230 | - | - |
| 1,097,227 | - | 1,097,227 | - | - |
| 1,465,814 | - | 1,465,814 | - | - |
| 40,641 | - | 40,641 | 18,191 | 27 |
| 4,772 | - | 4,772 | - | - |
| - | - | - | 115,459 | - |
| 216,857 | - | 216,857 | 17,600 | - |
| <u>12,052,478</u> | <u>-</u> | <u>12,052,478</u> | <u>151,250</u> | <u>27</u> |
| 454,909 | (50,894) | 404,015 | 1,649,041 | 55,110 |
| <u>32,407,444</u> | <u>862,241</u> | <u>33,269,685</u> | <u>3,449,377</u> | <u>123,048</u> |
| <u>\$ 32,862,353</u> | <u>\$ 811,347</u> | <u>\$ 33,673,700</u> | <u>\$ 5,098,418</u> | <u>\$ 178,158</u> |

Hocking County
Balance Sheet
Governmental Funds
As of December 31, 2015

| | General | Motor Vehicle Gas Tax | Board of Developmental Disabilities | Emergency Medical Services | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------|---|----------------------------------|--------------------------------|--------------------------------|
| Assets | | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 3,386,802 | \$ 1,618,290 | \$ 600,589 | \$ 1,158,440 | \$ 5,432,915 | \$ 12,197,036 |
| Receivables: | | | | | | |
| Taxes | 2,679,529 | - | 1,883,255 | 1,912,082 | 476,934 | 6,951,800 |
| Accounts, Net | - | - | 23,252 | 68,021 | 2,004 | 93,277 |
| Accrued Interest | 6,376 | - | - | - | - | 6,376 |
| Intergovernmental | 467,098 | 1,702,884 | 297,094 | 108,824 | 75,734 | 2,651,634 |
| Interfund | 20,870 | - | - | - | - | 20,870 |
| Special Assessments | - | - | - | - | 11,475 | 11,475 |
| Due from Other Funds | - | 897 | 22,124 | - | - | 23,021 |
| Materials and Supplies Inventory | 4,323 | 399,978 | - | - | - | 404,301 |
| <i>Total Assets</i> | <u>\$ 6,564,998</u> | <u>\$ 3,722,049</u> | <u>\$ 2,826,314</u> | <u>\$ 3,247,367</u> | <u>\$ 5,999,062</u> | <u>\$ 22,359,790</u> |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | | | |
| Liabilities | | | | | | |
| Accounts Payable | \$ 51,789 | \$ 16,879 | \$ 16,407 | \$ 14,563 | \$ 142,133 | \$ 241,771 |
| Contracts Payable | - | - | - | - | 1,900 | 1,900 |
| Accrued Wages and Benefits Payable | 183,433 | 51,801 | 71,885 | 81,511 | 81,839 | 470,469 |
| Due to Other Funds | - | - | - | 897 | 22,124 | 23,021 |
| Intergovernmental Payable | 89,513 | 23,211 | 41,656 | 37,074 | 107,156 | 298,610 |
| Interfund Payable | - | - | - | - | 20,870 | 20,870 |
| <i>Total Liabilities</i> | <u>324,735</u> | <u>91,891</u> | <u>129,948</u> | <u>134,045</u> | <u>376,022</u> | <u>1,056,641</u> |
| Deferred Inflows of Resources | | | | | | |
| Property Taxes Not Levied to Finance Current Year Operations | 1,998,056 | - | 1,792,827 | 1,820,270 | 238,890 | 5,850,043 |
| Unavailable Revenues - Delinquent Taxes | 100,780 | - | 90,428 | 91,812 | 12,049 | 295,069 |
| Unavailable Revenues - Special Assessments | - | - | - | - | 11,475 | 11,475 |
| Unavailable Revenues - Grants | 271,158 | 1,162,492 | 210,990 | 108,824 | 14,844 | 1,768,308 |
| <i>Total Deferred Inflows of Resources</i> | <u>2,369,994</u> | <u>1,162,492</u> | <u>2,094,245</u> | <u>2,020,906</u> | <u>277,258</u> | <u>7,924,895</u> |
| Fund Balances | | | | | | |
| Nonspendable | 157,186 | 399,978 | - | - | - | 557,164 |
| Restricted | - | 2,067,688 | 602,121 | 1,092,416 | 5,348,722 | 9,110,947 |
| Committed | 33,723 | - | - | - | - | 33,723 |
| Assigned | 1,569,519 | - | - | - | - | 1,569,519 |
| Unassigned (Deficit) | 2,109,841 | - | - | - | (2,940) | 2,106,901 |
| <i>Total Fund Balances</i> | <u>3,870,269</u> | <u>2,467,666</u> | <u>602,121</u> | <u>1,092,416</u> | <u>5,345,782</u> | <u>13,378,254</u> |
| <i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i> | <u>\$ 6,564,998</u> | <u>\$ 3,722,049</u> | <u>\$ 2,826,314</u> | <u>\$ 3,247,367</u> | <u>\$ 5,999,062</u> | <u>\$ 22,359,790</u> |

See accompanying notes to the basic financial statements.

Hocking County
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 As of December 31, 2015*

| | | |
|---|----|------------|
| Total Governmental Fund Balances | \$ | 13,378,254 |
|---|----|------------|

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

26,902,604

Certain receivables reported as revenues on the statement of activities are not available to pay for current period expenditures and therefore are reported as deferred inflows in the funds.

| | | |
|---------------------|------------------|-----------|
| Taxes | 295,069 | |
| Intergovernmental | 1,768,308 | |
| Special Assessments | 11,475 | |
| Total | 2,074,852 | 2,074,852 |

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.

| | | |
|--|--------------------|-------------|
| Deferred outflows of resources related to pensions | 1,610,286 | |
| Deferred inflows of resources related to pensions | (152,773) | |
| Net pension liability | (8,696,119) | |
| Total | (7,238,606) | (7,238,606) |

Long-term liabilities, including bonds, notes, capital leases and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.

| | | |
|---------------------------|--------------------|-------------|
| Compensated Absences | (718,170) | |
| Long Term Notes | (1,435,143) | |
| Special Assessment Bonds | (7,700) | |
| Capital Lease Obligations | (93,738) | |
| Total | (2,254,751) | (2,254,751) |

| | | |
|--|-----------|-------------------|
| Net Position of Governmental Activities | \$ | 32,862,353 |
|--|-----------|-------------------|

See accompanying notes to the basic financial statements.

Hocking County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2015

| | General | Motor Vehicle Gas Tax | Board of Developmental Disabilities | Emergency Medical Services | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------------|---|----------------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | | |
| Taxes | \$ 5,173,942 | \$ - | \$ 1,590,688 | \$ 1,620,519 | \$ 1,992,006 | \$ 10,377,155 |
| Intergovernmental | 1,159,647 | 3,962,530 | 1,401,784 | 261,710 | 1,096,567 | 7,882,238 |
| Charges for Services | 1,103,138 | 111,778 | 13,507 | 668,592 | 898,762 | 2,795,777 |
| Fees, Licenses and Permits | 1,025 | - | - | - | 93,056 | 94,081 |
| Fines and Forfeitures | 108,773 | 18,141 | - | - | 537,815 | 664,729 |
| Special Assessments | - | - | - | - | 3,901 | 3,901 |
| Interest | 37,546 | 2,910 | - | - | 185 | 40,641 |
| Miscellaneous | 88,815 | 11,160 | 39,003 | - | 77,879 | 216,857 |
| <i>Total Revenues</i> | <u>7,672,886</u> | <u>4,106,519</u> | <u>3,044,982</u> | <u>2,550,821</u> | <u>4,700,171</u> | <u>22,075,379</u> |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General Government: | | | | | | |
| Legislative and Executive | 2,051,747 | - | - | - | 1,431,741 | 3,483,488 |
| Judicial | 1,597,416 | - | - | - | 475,918 | 2,073,334 |
| Public Safety | 2,818,701 | - | - | - | 1,296,938 | 4,115,639 |
| Public Works | 26,499 | 2,670,642 | - | - | - | 2,697,141 |
| Health | 57,534 | - | 3,404,004 | 2,250,472 | 172,541 | 5,884,551 |
| Human Services | 584,108 | - | - | - | 483,161 | 1,067,269 |
| Conservation and Recreation | 238,329 | - | - | - | - | 238,329 |
| Economic Development and Assistance | 56,292 | - | - | - | 76,799 | 133,091 |
| Capital Outlay | 80,495 | 1,167,071 | 18,384 | 744,452 | 666,118 | 2,676,520 |
| Debt Service: | | | | | | |
| Principal | 64,708 | 128,400 | 8,348 | 64,691 | 84,465 | 350,612 |
| Interest and Fiscal Charges | 5,553 | 594 | 774 | 2,651 | 17,926 | 27,498 |
| <i>Total Expenditures</i> | <u>7,581,382</u> | <u>3,966,707</u> | <u>3,431,510</u> | <u>3,062,266</u> | <u>4,705,607</u> | <u>22,747,472</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>91,504</u> | <u>139,812</u> | <u>(386,528)</u> | <u>(511,445)</u> | <u>(5,436)</u> | <u>(672,093)</u> |
| Other Financing Sources/(Uses) | | | | | | |
| Issuance of OPWC Loans | - | 7,578 | - | - | - | 7,578 |
| Issuances of Notes | - | - | - | 634,530 | - | 634,530 |
| Issuance of OWDA Loans | - | - | - | - | 15,888 | 15,888 |
| Proceeds from Sale of Capital Assets | 500 | 2,810 | 375 | - | 10,200 | 13,885 |
| Inception of Capital Lease | 69,005 | - | - | - | - | 69,005 |
| Transfers In | - | 109,465 | - | - | 385,902 | 495,367 |
| Transfers Out | (226,004) | - | - | - | (269,363) | (495,367) |
| <i>Total Other Financing Sources/(Uses)</i> | <u>(156,499)</u> | <u>119,853</u> | <u>375</u> | <u>634,530</u> | <u>142,627</u> | <u>740,886</u> |
| <i>Net Changes in Fund Balances</i> | <u>(64,995)</u> | <u>259,665</u> | <u>(386,153)</u> | <u>123,085</u> | <u>137,191</u> | <u>68,793</u> |
| <i>Fund Balances Beginning of Year</i> | <u>3,935,264</u> | <u>2,208,001</u> | <u>988,274</u> | <u>969,331</u> | <u>5,208,591</u> | <u>13,309,461</u> |
| <i>Fund Balances End of Year</i> | <u>\$ 3,870,269</u> | <u>\$ 2,467,666</u> | <u>\$ 602,121</u> | <u>\$ 1,092,416</u> | <u>\$ 5,345,782</u> | <u>\$ 13,378,254</u> |

See accompanying notes to the basic financial statements.

Hocking County
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2015*

Net Change in Fund Balances - Total Governmental Funds \$ 68,793

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital asset additions exceeded depreciation in the current period.

| | | |
|---------------------------|----------------|---------|
| Capital Asset Additions | 2,676,520 | |
| Current Year Depreciation | (2,078,986) | |
| Total | 597,534 | 597,534 |

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. These are the amounts of the gain or loss on the disposal of capital assets and the proceeds received.

| | | |
|--------------------------------------|-----------------|----------|
| Proceeds from Sale of Capital Assets | (13,885) | |
| Loss on Disposal of Capital Assets | (55,241) | |
| Gain on Disposal of Capital Assets | 4,772 | |
| Total | (64,354) | (64,354) |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | | |
|----------------------|---------------|--------|
| Taxes | (52,761) | |
| Intergovernmental | 104,801 | |
| Special Assessments | (3,901) | |
| Charges for Services | (197) | |
| Total | 47,942 | 47,942 |

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows. 1,146,288

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (948,131)

Proceeds from the issuance of long-term notes and loans in the statement of revenues, expenditures and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities. (657,996)

Repayment of bond principal and long term notes principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net position and does not result in an expense in the statement of activities. 275,992

Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net position and does not result in an expense in the statement of activities. 74,620

New capital lease obligations in the statement of revenues, expenditures and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities. (69,005)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | | |
|----------------------------------|-----------------|----------|
| Increase in Compensated Absences | (16,774) | |
| Total | (16,774) | (16,774) |

Net Change in Net Position of Governmental Activities \$ 454,909

See accompanying notes to the basic financial statements.

Hocking County
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2015

| | Budgeted Amounts | | | Variance with Final Budget: Positive (Negative) |
|--|---------------------|---------------------|---------------------|--|
| | Original | Final | Actual | |
| Revenues | | | | |
| Taxes | \$ 4,531,000 | \$ 4,531,000 | \$ 5,087,226 | \$ 556,226 |
| Charges for Services | 879,158 | 879,158 | 993,289 | 114,131 |
| Fees, Licenses and Permits | 1,600 | 1,600 | 1,025 | (575) |
| Fines and Forfeitures | 150,000 | 150,000 | 112,026 | (37,974) |
| Intergovernmental | 1,157,800 | 1,157,800 | 1,164,891 | 7,091 |
| Interest | 45,000 | 45,000 | 32,441 | (12,559) |
| Other | 32,010 | 32,010 | 71,027 | 39,017 |
| <i>Total Revenues</i> | <u>6,796,568</u> | <u>6,796,568</u> | <u>7,461,925</u> | <u>665,357</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government: | | | | |
| Legislative and Executive | 1,998,317 | 2,084,918 | 1,961,088 | 123,830 |
| Judicial | 1,605,056 | 1,639,119 | 1,591,270 | 47,849 |
| Public Safety | 2,922,071 | 2,929,043 | 2,863,145 | 65,898 |
| Public Works | 31,333 | 29,043 | 26,711 | 2,332 |
| Health | 77,410 | 77,214 | 69,538 | 7,676 |
| Human Services | 642,458 | 642,676 | 626,775 | 15,901 |
| Conservation and Recreation | 240,271 | 240,494 | 238,329 | 2,165 |
| Community and Economic Development | 56,822 | 58,620 | 56,489 | 2,131 |
| Debt Service: | | | | |
| Principal Retirements | 64,708 | 64,708 | 64,708 | - |
| Interest | 5,553 | 5,553 | 5,553 | - |
| <i>Total Expenditures</i> | <u>7,643,999</u> | <u>7,771,388</u> | <u>7,503,606</u> | <u>267,782</u> |
| <i>Excess of Revenues Under Expenditures</i> | <u>(847,431)</u> | <u>(974,820)</u> | <u>(41,681)</u> | <u>933,139</u> |
| Other Financing Sources (Uses): | | | | |
| Advances In | 30,000 | 30,000 | 77,674 | 47,674 |
| Transfers Out | (354,152) | (242,180) | (234,844) | 7,336 |
| Advances Out | - | - | (76,344) | (76,344) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(324,152)</u> | <u>(212,180)</u> | <u>(233,514)</u> | <u>(21,334)</u> |
| <i>Net Change in Fund Balance</i> | (1,171,583) | (1,187,000) | (275,195) | 911,805 |
| <i>Fund Balance at Beginning of Year</i> | 2,867,900 | 2,867,900 | 2,867,900 | - |
| <i>Prior Year Encumbrances Appropriated</i> | 94,809 | 94,809 | 94,809 | - |
| <i>Fund Balance at End of Year</i> | <u>\$ 1,791,126</u> | <u>\$ 1,775,709</u> | <u>\$ 2,687,514</u> | <u>\$ 911,805</u> |

See accompanying notes to the basic financial statements.

Hocking County
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Non-GAAP Budgetary Basis)
Motor Vehicle Gas Tax Fund
For the Year Ended December 31, 2015*

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget: Positive (Negative) |
|---|-------------------------|---------------------|---------------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues | | | | |
| Charges for Services | \$ 130,200 | \$ 130,200 | \$ 113,122 | \$ (17,078) |
| Fines and Forfeitures | 24,000 | 24,000 | 17,589 | (6,411) |
| Intergovernmental | 3,400,000 | 3,400,000 | 3,432,188 | 32,188 |
| Interest | 1,000 | 1,000 | 2,754 | 1,754 |
| Other | 25,000 | 134,465 | 13,970 | (120,495) |
| <i>Total Revenues</i> | <u>3,580,200</u> | <u>3,689,665</u> | <u>3,579,623</u> | <u>(110,042)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Public Works | 3,139,227 | 3,368,662 | 3,127,374 | 241,288 |
| Capital Outlay | 469,592 | 349,622 | 348,946 | 676 |
| Debt Service: | | | | |
| Principal Retirements | 153,406 | 153,406 | 128,400 | 25,006 |
| Interest and Fiscal Charges | 594 | 594 | 594 | - |
| <i>Total Expenditures</i> | <u>3,762,819</u> | <u>3,872,284</u> | <u>3,605,314</u> | <u>266,970</u> |
| Excess of Revenues Under Expenditures | <u>(182,619)</u> | <u>(182,619)</u> | <u>(25,691)</u> | <u>156,928</u> |
| Other Financing Sources: | | | | |
| Transfers In | 27,000 | 27,000 | 109,465 | 82,465 |
| Total Other Financing Sources | <u>27,000</u> | <u>27,000</u> | <u>109,465</u> | <u>82,465</u> |
| <i>Net Change in Fund Balance</i> | (155,619) | (155,619) | 83,774 | 239,393 |
| <i>Fund Balance at Beginning of Year</i> | 1,277,194 | 1,277,194 | 1,277,194 | - |
| <i>Prior Year Encumbrances Appropriated</i> | 180,527 | 180,527 | 180,527 | - |
| <i>Fund Balance at End of Year</i> | <u>\$ 1,302,102</u> | <u>\$ 1,302,102</u> | <u>\$ 1,541,495</u> | <u>\$ 239,393</u> |

See accompanying notes to the basic financial statements.

Hocking County
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Non-GAAP Budgetary Basis)
Board of Developmental Disabilities Fund
For the Year Ended December 31, 2015*

| | Budgeted Amounts | | Actual | Variance with Final Budget: Positive (Negative) |
|--|------------------|------------------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Property Taxes | \$ 1,519,000 | \$ 1,519,000 | \$ 1,590,688 | \$ 71,688 |
| Charges for Services | 10,800 | 10,800 | 17,507 | 6,707 |
| Intergovernmental | 1,355,226 | 1,355,226 | 1,432,852 | 77,626 |
| Other | 108,150 | 108,150 | 38,868 | (69,282) |
| <i>Total Revenues</i> | <u>2,993,176</u> | <u>2,993,176</u> | <u>3,079,915</u> | <u>86,739</u> |
| Expenditures | | | | |
| Current: | | | | |
| Health | 3,757,784 | 3,824,562 | 3,524,342 | 300,220 |
| Debt Service: | | | | |
| Principal Retirements | 8,348 | 8,348 | 8,348 | - |
| Interest & Fiscal Charges | 774 | 774 | 774 | - |
| <i>Total Expenditures</i> | <u>3,766,906</u> | <u>3,833,684</u> | <u>3,533,464</u> | <u>300,220</u> |
| <i>Excess of Revenues Under Expenditures</i> | <u>(773,730)</u> | <u>(840,508)</u> | <u>(453,549)</u> | <u>386,959</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers Out | (65,000) | - | - | - |
| Advances In | - | - | 52,315 | 52,315 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(65,000)</u> | <u>-</u> | <u>52,315</u> | <u>52,315</u> |
| <i>Net Change in Fund Balance</i> | <u>(838,730)</u> | <u>(840,508)</u> | <u>(401,234)</u> | <u>439,274</u> |
| <i>Fund Balance at Beginning of Year</i> | 787,916 | 787,916 | 787,916 | - |
| <i>Prior Year Encumbrances Appropriated</i> | 106,478 | 106,478 | 106,478 | - |
| <i>Fund Balance at End of Year</i> | <u>\$ 55,664</u> | <u>\$ 53,886</u> | <u>\$ 493,160</u> | <u>\$ 439,274</u> |

See accompanying notes to the basic financial statements.

Hocking County
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Non-GAAP Budgetary Basis)
Emergency Medical Services Fund
For the Year Ended December 31, 2015*

| | Budgeted Amounts | | Actual | Variance with Final Budget: Positive (Negative) |
|---|-------------------|--------------------|---------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Property Taxes | \$ 1,565,000 | \$ 1,565,000 | \$ 1,620,519 | \$ 55,519 |
| Charges for Services | 612,300 | 656,600 | 710,215 | 53,615 |
| Intergovernmental | 150,000 | 150,000 | 218,710 | 68,710 |
| <i>Total Revenues</i> | <u>2,327,300</u> | <u>2,371,600</u> | <u>2,549,444</u> | <u>177,844</u> |
| Expenditures | | | | |
| Current: | | | | |
| Health | 2,732,872 | 2,709,829 | 2,405,635 | 304,194 |
| Capital Outlay | - | 634,530 | 634,530 | - |
| Debt Service: | | | | |
| Principal Retirements | - | 64,691 | 64,691 | - |
| Interest & Fiscal Charges | - | 2,651 | 2,651 | - |
| <i>Total Expenditures</i> | <u>2,732,872</u> | <u>3,411,701</u> | <u>3,107,507</u> | <u>304,194</u> |
| <i>Excess of Revenues Over/(Under) Expenditures</i> | <u>(405,572)</u> | <u>(1,040,101)</u> | <u>(558,063)</u> | <u>482,038</u> |
| OTHER FINANCING SOURCES: | | | | |
| Issuance of Notes | - | 634,530 | 634,530 | - |
| Total Other Financing Sources and Uses | - | 634,530 | 634,530 | - |
| <i>Net Change in Fund Balance</i> | (405,572) | (405,571) | 76,467 | 482,038 |
| <i>Fund Balance at Beginning of Year</i> | 927,791 | 927,791 | 927,791 | - |
| <i>Prior Year Encumbrances Appropriated</i> | 107,307 | 107,307 | 107,307 | - |
| <i>Fund Balance at End of Year</i> | <u>\$ 629,526</u> | <u>\$ 629,527</u> | <u>\$ 1,111,565</u> | <u>\$ 482,038</u> |

See accompanying notes to the basic financial statements.

Hocking County
Statement of Fund Net Position
Proprietary Fund
As of December 31, 2015

| Assets | Sewer Fund |
|---|-------------------|
| <i>Current Assets</i> | |
| Equity in Pooled Cash and Cash Equivalents | \$ 208,111 |
| Accounts Receivable (net of allowance, where applicable) | <u>36,495</u> |
| Total Current Assets | <u>244,606</u> |
| <i>Noncurrent Assets</i> | |
| Non-depreciable Capital Assets | 29,000 |
| Depreciable Capital Assets, Net | <u>1,016,002</u> |
| Total Noncurrent Assets | <u>1,045,002</u> |
| <i>Total Assets</i> | <u>1,289,608</u> |
| Deferred Outflows of Resources | |
| Pensions | <u>12,519</u> |
| Liabilities | |
| <i>Current Liabilities</i> | |
| Accounts Payable | 806 |
| Accrued Wages and Benefits Payable | 2,550 |
| Intergovernmental Payable | 542 |
| Revenue Bonds - Current | <u>13,000</u> |
| Total Current Liabilities | <u>16,898</u> |
| <i>Noncurrent Liabilities</i> | |
| Net Pension Liability | 67,369 |
| OWDA Loan Payable | 10,629 |
| Revenue Bonds - Net of Current | <u>394,700</u> |
| Total Noncurrent Liabilities | <u>472,698</u> |
| <i>Total Liabilities</i> | <u>489,596</u> |
| Deferred Inflows of Resources | |
| Pension | <u>1,184</u> |
| Net Position | |
| Net Investment in Capital Assets | 626,673 |
| Unrestricted | <u>184,674</u> |
| <i>Total Net Position</i> | <u>\$ 811,347</u> |

See accompanying notes to the basic financial statements.

Hocking County
*Statement of Revenues, Expenses and
 Changes in Fund Net Position
 Proprietary Fund
 For the Year Ended December 31, 2015*

| | Sewer Fund |
|---|-------------------|
| Operating Revenues | |
| Charges for Services | \$ 175,893 |
| <i>Total Operating Revenues</i> | 175,893 |
| Operating Expenses | |
| Salaries and Wages | 58,241 |
| Fringe Benefits | 19,832 |
| Contractual Services | 53,091 |
| Depreciation | 58,059 |
| Materials and Supplies | 24,010 |
| <i>Total Operating Expenses</i> | 213,233 |
| <i>Operating Loss</i> | (37,340) |
| Nonoperating Expenses | |
| Interest and Fiscal Charges | (21,092) |
| <i>Total Nonoperating Expenses</i> | (21,092) |
| <i>Change in Net Position Before Capital Contributions</i> | (58,432) |
| Capital Contributions - Assessments | 7,538 |
| <i>Total Capital Contributions</i> | 7,538 |
| <i>Change in Net Position</i> | (50,894) |
| <i>Net Position at Beginning of Year - As Restated, See Note 20</i> | 862,241 |
| <i>Net Position at End of Year</i> | \$ 811,347 |

See accompanying notes to the basic financial statements.

Hocking County
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2015

| | Sewer Fund |
|---|-------------------|
| <i>Decrease in Cash and Cash Equivalents:</i> | |
| <i>Cash Flows from Operating Activities:</i> | |
| Cash Received from Customers | \$ 178,825 |
| Cash Payments to Suppliers for Goods and Services | (76,295) |
| Cash Payments to Employees for Services and Benefits | (91,525) |
| | <u>11,005</u> |
| <i>Net Cash Provided by Operating Activities</i> | |
| <i>Cash Flows from Capital and Related Financing Activities:</i> | |
| Proceeds from OWDA Loans | 10,629 |
| Acquisition of Capital Assets | (13,091) |
| Capital Contributions- Special Assessments | 7,538 |
| Principal Payments | (12,400) |
| Interest Payments | (21,092) |
| | <u>(28,416)</u> |
| <i>Net Cash Used for Capital and Related Financing Activities</i> | |
| Net Decrease in Cash and Cash Equivalents | (17,411) |
| Cash and Cash Equivalents at Beginning of Year | 225,522 |
| | <u>208,111</u> |
| Cash and Cash Equivalents at End of Year | |
| <i>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:</i> | |
| Operating Loss | \$ (37,340) |
| <i>Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:</i> | |
| Depreciation | 58,059 |
| Pension Expense Not Affecting Cash | (1,596) |
| Changes in Assets and Liabilities: | |
| Decrease in Accounts Receivable | 2,932 |
| Increase in Accounts Payable | 806 |
| Decrease in Intergovernmental Payable | (824) |
| Decrease in Compensated Absences | (9,908) |
| Decrease in Accrued Wages and Benefits Payable | (1,124) |
| | <u>48,345</u> |
| Total Adjustments | |
| Net Cash Provided by Operating Activities | <u>\$ 11,005</u> |

See accompanying notes to the basic financial statements.

Hocking County
Statement of Fiduciary Assets and Liabilities
Agency Funds
As of December 31, 2015

| | |
|--|-----------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$ 3,299,843 |
| Cash and Cash Equivalents in Segregated Accounts | 380,174 |
| Taxes Receivable | 18,054,910 |
| Intergovernmental Receivable | <u>1,502,714</u> |
| <i>Total Assets</i> | <u><u>\$ 23,237,641</u></u> |
| Liabilities | |
| Due to Other Governments | \$ 22,511,614 |
| Undistributed Monies | <u>726,027</u> |
| <i>Total Liabilities</i> | <u><u>\$ 23,237,641</u></u> |

See accompanying notes to the basic financial statements.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 1 - REPORTING ENTITY

Hocking County, Ohio (the County), was organized on March 1, 1818. The County is governed by a board of three Commissioners elected by the voters of the County. Other officials elected by the voters of the County that manage various segments of the County's operations are the County Auditor, County Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, Municipal Court Judge, a Probate/Juvenile Judge and a Common Pleas Court Judge. Although the elected officials manage the internal operations of their respective departments, the County Commissioners authorize expenditures as well as serve as the budget and taxing authority, contracting body and the chief administrators of public services for the entire County.

Reporting Entity: The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the County are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the County. For Hocking County, this includes the Hocking County Board of Developmental Disabilities and departments and activities that are directly operated by the elected County officials.

Component units are legally separate organizations for which the County is financially accountable. The County is financially accountable for an organization if the County appoints a voting majority of the organization's governing board and (1) the County is able to significantly influence the programs or services performed or provided by the organization; or (2) the County is legally entitled to or can otherwise access the organization's resources; the County is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the County is obligated for the debt of the organization. Component units may also include organizations for which the County approves the budget, the issuance of debt or levying of taxes.

Discretely Presented Component Units: The component units' columns in the basic financial statements identifies the financial data of the County's component units, Hocking Valley Community Hospital and Hocking Valley Industries, Inc. These component units are reported separately from the primary government to emphasize that they are legally separate from the County. Notes 23 and 24 provide significant disclosures related to these component units.

Hocking Valley Community Hospital - Hocking Valley Community Hospital is organized as a county hospital under provisions of the general statutes of the State of Ohio. The Board of Trustees are appointed by the County Commissioners and the Probate and Common Pleas Court Judges. The Hospital began operations in 1966 and has a 25-bed acute care unit and a 10-bed geriatric unit. Hocking Valley Community Hospital operates on a fiscal year ending December 31. The County has issued debt on behalf of the Hospital using the County's general taxing authority and the Hospital pays the debt service on this debt. Because the Hospital is a county hospital as defined under the Ohio Revised Code and the County does use their taxing authority to issue debt on behalf of the Hospital, the Hospital is presented as a component unit of Hocking County. Separately issued audited financial statements can be obtained from Hocking Valley Community Hospital, 601 State Route 664 North, Logan, Ohio 43138.

Hocking Valley Industries, Inc. - Hocking Valley Industries, Inc. is a legally separate, not-for-profit corporation, served by a self-appointing board of trustees. Hocking Valley Industries, Inc., under contractual agreement with the Hocking County Board of Developmental Disabilities, provides habilitation services for the mentally and physically handicapped adults in Hocking County. Hocking Valley Industries, Inc. operates on a fiscal year ending December 31.

The Hocking County Board of Developmental Disabilities provides Hocking Valley Industries, Inc. with staff salaries and other funds and support necessary for the operation of Hocking Valley Industries, Inc. Based on the significant services and resources provided by the County to Hocking Valley Industries, Inc. and the non-profit organization's sole purpose of providing assistance to the mentally and physically handicapped adults of Hocking County, Hocking Valley Industries, Inc. is presented as a component unit of Hocking County. Separately issued audited financial statements can be obtained from Hocking Valley Industries, Inc., 1369 East Front Street, Logan, Ohio 43138.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 1 - REPORTING ENTITY – (CONTINUED)

The County is associated with certain organizations, three of which are defined as jointly governed organizations, and two joint ventures. These organizations are presented in Notes 16 and 17 to the basic financial statements. These organizations are:

- Athens-Hocking-Vinton Alcohol, Drug Addiction and Mental Health District
- Athens/Hocking Joint Solid Waste Management District
- Buckeye Joint-County Self-Insurance Council
- Corrections Commission of Southeastern Ohio
- South Central Ohio Job and Family Services

As the custodian of public funds, the County Treasurer invests all public monies held on deposit in the County treasury. In the case of the districts and agency listed below, the County serves as fiscal agent, but the districts and agency are not fiscally dependent on the County. Accordingly, the activity of the following districts and agency are presented as agency funds within the County's basic financial statements.

- Hocking County Soil and Water Conservation District
- Hocking County General Health District
- Hocking Valley Community Residential Center

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Hocking County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the County's accounting policies.

Basis of Presentation: The County's basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the County that are governmental in nature, those that are considered business-type activities, and discretely presented component units.

The statement of net position presents the financial condition of the governmental and business-type activities and discretely presented component units of the County at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental activities, business-type activities, and discretely presented component units. Direct expenses are those that are specifically associated with a service, program, or department, and therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program, business-type activity, or discretely presented component unit activity is self-financing or draws from the general revenues of the County.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Fund Financial Statements

During the year, the County segregates transactions related to certain County functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the County at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting: The County uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain County functions or activities. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts recording cash, other financial resources, and deferred outflows of resources, together with all related liabilities, deferred inflows of resources, and residual equities or balances, and changes herein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. For financial statement presentation purposes, the various funds of the County are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the County are financed. The acquisition, use and balances of the County's expendable financial resources and the related current liabilities (except those accounted for in enterprise funds) are accounted for through governmental funds. The following are the County's major governmental funds:

General Fund – This fund is used to account for all financial resources of the County except those accounted for in another fund. The General Fund balance is available to the County for any purpose provided it is expended or transferred according to the general laws of Ohio.

Motor Vehicle Gas Tax Fund – This fund accounts for state gasoline tax and motor vehicle registration fees for maintenance and improvement of County roads and bridges and township bridges. The primary source of revenue for this fund is intergovernmental monies.

Board of Developmental Disabilities Fund – This fund accounts for the operation of a school and the costs of administering a workshop for the developmentally disabled. Revenue sources are a county-wide property tax levy and state and federal grants.

Emergency Medical Services Fund – This fund accounts for monies received from a county-wide tax levy, grant monies and charges for services to operate the County's Emergency Medical Services.

The other governmental funds of the County account for grants and other resources whose use is restricted for a particular purpose, debt service and capital projects.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

Enterprise Funds – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following is the County's major enterprise fund:

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Sewer Fund – This fund accounts for the provision of wastewater treatment services to residential and commercial users within the County. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the County, these revenues are fees for wastewater treatment services provided. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are not available to support the County's own programs. The County did not have any trust funds in 2015. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The County's agency funds account for assets held by the County for political subdivisions in which the County acts as fiscal agent and for taxes, state-levied shared revenues, fines and forfeitures collected and distributed to other political subdivisions, and for certain County department outside bank accounts.

Measurement Focus:

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the County are included on the statement of net position. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the fund financial statements for governmental funds. Like the government-wide financial statements, the proprietary funds are accounted for using a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows reflects how the County finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting: Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary funds and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred inflows of resources, and in the presentation of expenses versus expenditures, the recording of deferred inflows and outflows of resources related to net pension liabilities, and the recording of net pension liabilities.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Revenues – Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Measurable means the amount of the transaction can be determined and available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the County, available means expected to be received within sixty days after year end.

Nonexchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the year in which the sales are made. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the County must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the County on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, and interest. The permissive sales taxes, various State of Ohio non-reimbursable grants, local government, local government revenue assistance, gasoline tax, motor vehicle license tax, and undivided library taxes are recognized as receivables in accordance with the fiscal year of the State of Ohio that ends June 30, 2016. Therefore six months of receivables have been recorded for these revenue types.

Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditures/expenses) until then. The County recorded a deferred outflow of resources as of December 31, 2015 for pensions. The deferred outflows of resources related to the pension are explained in Note 10. The County also reports a deferred inflow of resources which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenues) until that time. For the County these amounts consist of special assessments which are not collected in the available period, intergovernmental receivables which are not collected in the available period, and pensions. Property taxes for which there is an enforceable legal claim as of December 31, 2015, but which were levied to finance fiscal year 2016 operations, have also been recorded as deferred inflows of resources.

The difference between deferred inflows on the statement of net position and the balance sheet is due to delinquent property taxes, intergovernmental grants, and special assessments not received during the available period. These were reported as revenues on the statement of activities and not recorded as deferred inflows on the statement of net position. Deferred inflows of resources related to pension are only reported on the Statement of Net Position. (See Note 10)

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Budgetary Process: The budgetary process is prescribed by provisions of the Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, legally are required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the County Commissioners.

The amounts reported as the original and final budgets on the budgetary statements reflect the amounts in the original and final amended official certificate of estimated resources at the time the original and final appropriations were passed. The County Commissioners legally enacted several supplemental appropriation resolutions during the year. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represented the final appropriation amounts passed by the Commissioners during the year.

Cash and Cash Equivalents: Cash balances of the County's funds, except cash held by a trustee or fiscal agent and in segregated accounts, are pooled and invested in short-term investments in order to provide improved cash management. Individual fund integrity is maintained through the County's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet and statement of net position. For reporting purposes, "Equity in Pooled Cash and Cash Equivalents" is defined as cash on hand, demand deposits and investments held in the County treasury. For cash flow reporting purposes, the County's proprietary funds consider cash and cash equivalents to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. "Equity in Pooled Cash and Cash Equivalents" is considered to be cash and equivalents since these assets are available on demand.

During fiscal year 2015, investments were limited to Federal National Mortgage Association, Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation, and negotiable certificates of deposit.

Interest is distributed to the General Fund, the Motor Vehicle Gas Tax Fund and a non-major special revenue fund. The interest earned during 2015 amounted to \$37,546, \$2,910 and \$185 respectively.

Inventory of Supplies: Inventories of governmental funds are stated at cost while inventories of enterprise funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when used.

Interfund Assets and Liabilities: Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "Due from Other Funds" or "Due to Other Funds" on the balance sheet. On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund assets and liabilities within governmental activities are eliminated on the statement of net position.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Capital Assets: General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column on the government-wide statement of net position but are not reported on the fund financial statements. Capital assets used by the proprietary funds are reported in both the business-type activities column on the government-wide statement of net position and in the respective funds. In the case of land, buildings, and certain Enterprise Fund assets, the capital asset values initially were determined at December 31, 1995, assigning original acquisition costs when such information was available. In cases where information supporting original costs was not available, estimated historical costs were developed. Donated capital assets are capitalized at estimated fair value on the date donated. For all other assets, capital assets were recorded at original cost. The County has a comprehensive inventory management system to monitor and track capital assets and related depreciation. The County has established a capitalization policy of \$1,000 as the threshold for which capital assets are to be reported with the exception of infrastructure, for which the capitalization threshold is \$50,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements that extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost.

Public domain (infrastructure) general capital assets consisting of roads, bridges, and guardrails have been capitalized.

Land and construction in progress are not depreciated. Depreciation has been provided on a straight-line basis over the following estimated useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings | 40-60 |
| Land improvements | 15-25 |
| Machinery and equipment | 5-20 |
| Vehicles | 5 |
| Wastewater Treatment Plant | 25 |
| Collection System | 40-50 |
| Infrastructure | 10-50 |

Compensated Absences: The County uses the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and by those employees for whom it is probable will become eligible to receive payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year-end.

County employees earn vacation and sick leave at varying rates depending on length of service and departmental policy. All accumulated, unused vacation time is paid upon separation if the employee has at least one year of service. Accumulated, unused sick leave is paid up to a maximum of 240 hours depending on the length of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the County has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the County's union contracts. The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For the proprietary funds, the entire amount of compensated absences is reported as a fund liability.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Intergovernmental Revenues: For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, shared revenues, and entitlements, are recorded as receivables and revenues when measurable and available. Reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants, entitlements or shared revenues received for enterprise fund operating purposes are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

Accrued Liabilities and Long-Term Obligations: All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. Long-term notes/loans and special assessment bonds are recognized as liabilities on the fund financial statements when due.

Net Position: Net position represents the difference between assets, liabilities and deferred inflows/outflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings and the effect of deferred outflows and inflows related to the acquisition, construction or improvement of those assets.

Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions, or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Other purposes restricted net position include various grants and other resources restricted for various purposes. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the County's restricted net position, none are restricted by enabling legislation.

Capital Contributions: Capital contributions on the proprietary fund financial statements arise from outside contributions of capital assets, from grants, or from outside contributions of resources restricted to capital acquisition and construction.

Fund Balances: Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Non-spendable The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the County Commissioners. Those committed amounts cannot be used for any other purpose unless the County Commissioners remove or change the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the County for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of the County Commissioners.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Unassigned Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Interfund Transactions: Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers within governmental activities are eliminated on the statement of activities.

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 amount reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Pensions: For purposes 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 pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

NOTE 3 - CONVERSION OF OPERATIONS FROM BUDGET BASIS TO GAAP BASIS

While reporting financial position, results of operations, and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - (Non-GAAP Budgetary Basis) for the General fund and all major Special Revenue Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year-end encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance for governmental funds (GAAP basis).
4. Certain other financing sources are recorded on a GAAP basis but are not recorded on a budget basis.
5. Advances-in and advances-out are recorded as other financing sources and uses on a budget basis as opposed to increases or decreases in interfund receivables or payables on a GAAP basis.
6. Certain funds are reported as part of the General fund on a GAAP basis, but are not reported as part of the General fund on the Budget basis.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 3 - CONVERSION OF OPERATIONS FROM BUDGET BASIS TO GAAP BASIS – (CONTINUED)

Adjustments necessary to convert the results of operations at the end of the year on the budget basis to the GAAP basis are as follows:

| | Net Changes in Fund Balances | | | |
|---|-------------------------------------|--------------------------------------|--|---|
| | Major Governmental Funds | | | |
| | General | Motor Vehicle Gas Tax | Board of Developmental Disabilities | Emergency Medical Services |
| GAAP Basis | \$ (64,995) | \$ 259,665 | \$ (386,153) | \$ 123,085 |
| Increases (Decreases) Due to: | | | | |
| Revenue Accruals | 38,917 | (537,284) | 86,873 | (635,907) |
| Expenditure Accruals | (32,700) | 437,865 | (15,435) | 636,162 |
| Encumbrances | (150,236) | (76,472) | (86,519) | (46,873) |
| Perspective Difference: | | | | |
| Activity of Funds Reclassified For GAAP Reporting Purposes | (66,181) | - | - | - |
| Non-Budgeted Funds | (66,181) | - | - | - |
| Budget Basis | <u>\$ (275,195)</u> | <u>\$ 83,774</u> | <u>\$ (401,234)</u> | <u>\$ 76,467</u> |

NOTE 4 - DEPOSITS AND INVESTMENTS

Policies and Procedures: State statute classifies monies held by the County into two categories. Active monies means an amount of public monies determined to be necessary to meet current demand upon the County treasury. Active monies must be maintained either as cash in the County treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Monies held by the County that are not considered active are classified as inactive. Inactive monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations of or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, or the political subdivisions of Ohio, provided that such political subdivisions are located wholly or partly within the same county as the investing authority;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS – (CONTINUED)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed 5 percent of the County's total average portfolio;
10. Certain bankers' acceptances for a period not to exceed one hundred and eighty days and commercial paper notes for a period not to exceed two hundred and seventy days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
11. Under limited circumstances, corporate debt interests rated in any of the three highest rating classifications by at least two nationally recognized rating agencies;
12. Notes issued by corporations incorporated and operating within the United States, or by depository institutions doing business under any state or United States authority and operating within the United States. Such investments shall not exceed fifteen percent of the County's total average portfolio and meet other requirements; and
13. A current unpaid or delinquent tax line of credit authorized under division (G) of section 135.341 of the Revised Code provided that all of the conditions for entering into such a line of credit under that division are satisfied.

Protection of the County'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 monies 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 are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the County, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the County's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The County's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Cash on Hand At year end, the County had \$133,451 in un-deposited cash on hand which is included on the financial statements of the County as part of "Equity in Pooled Cash and Cash Equivalents".

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS – (CONTINUED)

Deposits At year-end, the County’s bank balance of \$13,477,620 is either covered by FDIC or collateralized by the financial institutions’ public entity deposit pools in the manner described above.

Investments As of December 31, 2015, the County had the following investment and maturity:

| | Carrying/Fair Value | Weighted Average Maturity | | |
|--|------------------------|---------------------------|-------------------|---------------------|
| | | <1 Year | 1 - 2 Years | 3-5 Years |
| Negotiable Certificates of Deposit | \$ 984,074 | \$ - | \$ - | \$ 491,468 |
| First American Treasury, MMF | 6,060 | 6,060 | - | 893,380 |
| Federal National Mortgage Association | 893,380 | - | - | 893,380 |
| Federal Farm Credit Bank | 258,302 | - | 258,302 | - |
| Federal Home Loan Mortgage Corporation | 844,225 | - | 448,673 | 888,158 |
| Total Investments | \$ 2,986,041 | \$ 6,060 | \$ 706,975 | \$ 3,166,386 |

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio. The County has no specific investment policy dealing with interest rate risk.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The County’s investment policy does not address credit risk beyond the requirements of the Ohio Revised Code. Investments in Federal Home Loan Mortgage Association, Federal National Mortgage Association, and Federal Farm Credit Bank were rated AA+ by Standard & Poor’s and Aaa by Moody’s. The County’s investments in individual marketable certificates of deposit are fully insured by the Federal Deposit Insurance Corporation. Investments in the First American Treasury Money Market Fund were rated AAAM by Standard & Poor’s.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single user. The County’s investment policy allows investments in those authorized under the Ohio Revised Code. The County has invested 33% in negotiable certificates of deposit, 30% in Federal National Mortgage Association, 9% in Federal Farm Credit Bank, 28% in Federal Home Loan Mortgage Corporation, and less the 1% in First American Treasury Money Market Fund.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In accordance with the investment policy, all of the County’s securities are either insured and registered in the name of the County or at least registered in the name of the County.

NOTE 5 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility personal property located in the County. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years. The last reappraisal was completed in 2010. Real property taxes are payable annually or semiannually. The first payment is due February 14, with the remainder payable by July 18.

Public utility real property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 5 - PROPERTY TAXES – (CONTINUED)

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to itself its share of the taxes collected. The County records receipt of these taxes in various funds.

Accrued property taxes receivables represent delinquent taxes outstanding and real and public utility taxes that were measurable and unpaid as of December 31, 2015. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2015 operations. The receivable is therefore offset by a credit to deferred inflows of resources. On the modified accrual basis, the entire receivable is deferred inflows of resources.

The full tax rate for all County operations for the year ended December 31, 2015, was \$11.40 per \$1,000 of assessed value. The assessed values of real property upon which 2015 property tax receipts were based are as follows:

| | |
|----------------------------|-----------------------|
| Real Estate | |
| Residential/Agricultural | \$ 468,220,880 |
| Commercial/Industrial | 48,977,560 |
| Public Utilities | 85,540 |
| Minerals | 657,000 |
| Tangible Personal Property | |
| Public Utilities | 68,069,700 |
| Total Property Taxes | <u>\$ 586,010,680</u> |

NOTE 6 - PERMISSIVE SALES TAX

In prior years, the County Commissioners, by resolution, imposed a one percent tax on certain retail sales, made in the County. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of each month. The State Auditor then has five days in which to draw the warrant payable to the County. Proceeds of the tax are credited entirely to the General Fund. Amounts that have been collected by the State and are to be received within the available period are accrued as revenue. Sales and use tax revenue for 2015 amounted to \$3,253,044.

In 1998, a 911 Sales Tax in the amount of one quarter of one percent on certain retail sales made in the County was imposed. The proceeds from this tax are credited to the Hocking County 911 Fund and are used for 911 purposes. Amounts that have been collected by the State and are to be received within the available period are accrued as revenue. The 911 sales and use tax revenue for 2015 amounted to \$813,230.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

| | Balance at January 1, 2015 | Additions | Deletions | Balance at December 31, 2015 |
|--|-------------------------------|--------------------|--------------------|---------------------------------|
| Governmental Activities | | | | |
| Non-Depreciable Capital Assets | | | | |
| Land | \$ 811,350 | \$ 116,730 | \$ - | \$ 928,080 |
| Construction In Progress | 11,715 | 229,293 | (11,000) | 230,008 |
| Total Non-Depreciable Capital Assets | 823,065 | 346,023 | (11,000) | 1,158,088 |
| Depreciable Capital Assets | | | | |
| Land Improvements | 97,881 | 36,825 | - | 134,706 |
| Buildings | 4,544,539 | 76,551 | - | 4,621,090 |
| Infrastructure | 32,898,956 | 1,049,656 | - | 33,948,612 |
| Vehicles | 4,662,275 | 776,626 | (110,499) | 5,328,402 |
| Machinery and Equipment | 4,821,953 | 390,839 | (63,661) | 5,149,131 |
| Total Depreciable Capital Assets | 47,025,604 | 2,330,497 | (174,160) | 49,181,941 |
| Less Accumulated Depreciation for | | | | |
| Land Improvements | (53,879) | (8,021) | - | (61,900) |
| Buildings | (1,473,412) | (163,421) | - | (1,636,833) |
| Infrastructure | (14,565,240) | (1,293,397) | - | (15,858,637) |
| Vehicles | (2,265,625) | (301,836) | 67,474 | (2,499,987) |
| Machinery and Equipment | (3,121,089) | (312,311) | 53,332 | (3,380,068) |
| Total Accumulated Depreciation | (21,479,245) | (2,078,986) | 120,806 | (23,437,425) |
| Total Depreciable Capital Assets, Net | 25,546,359 | 251,511 | (53,354) | 25,744,516 |
| Governmental Activities Capital Assets, Net | \$ 26,369,424 | \$ 597,534 | \$ (64,354) | \$ 26,902,604 |

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 7 - CAPITAL ASSETS – (CONTINUED)

| | Balance at | | Balance at | |
|--|-----------------|-------------|------------|-------------------|
| | January 1, 2015 | Additions | Deletions | December 31, 2015 |
| Business Type Activities | | | | |
| Non-Depreciable Capital Assets | | | | |
| Land | \$ 29,000 | \$ - | \$ - | \$ 29,000 |
| Total Non-Depreciable Capital Assets | 29,000 | - | - | 29,000 |
| Depreciable Capital Assets | | | | |
| Wastewater Treatment Plant | 349,506 | 13,091 | - | 362,597 |
| Collection System | 1,816,084 | - | - | 1,816,084 |
| Total Depreciable Capital Assets | 2,165,590 | 13,091 | - | 2,178,681 |
| Less Accumulated Depreciation for | | | | |
| Wastewater Treatment Plant | (304,013) | (21,582) | - | (325,595) |
| Collection System | (800,607) | (36,477) | - | (837,084) |
| Total Accumulated Depreciation | (1,104,620) | (58,059) | - | (1,162,679) |
| Total Depreciable Capital Assets, Net | 1,060,970 | (44,968) | - | 1,016,002 |
| Business Type Activities Capital Assets, Net | \$ 1,089,970 | \$ (44,968) | \$ - | \$ 1,045,002 |

Depreciation expense was charged to governmental functions as follows:

| | |
|--|--------------|
| Governmental Activities | |
| General Government | |
| Legislative and Executive | \$ 110,254 |
| Judicial | 26,312 |
| Public Safety | 312,426 |
| Public Works | 1,459,876 |
| Health | 130,445 |
| Human Services | 37,008 |
| Conservation and Recreation | 2,665 |
| Total Depreciation Expense - Governmental Activities | \$ 2,078,986 |

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 8 - INTERGOVERNMENTAL RECEIVABLES

A summary of the principal items of intergovernmental receivables is as follows:

| Fund/Type | Amount |
|--|--------------|
| Major Funds | |
| General Fund | |
| Local Government | \$ 198,999 |
| Homestead Rollback | 140,372 |
| Other | 127,727 |
| <i>Total General Fund</i> | 467,098 |
| Motor Vehicle Gas Tax | |
| License, Gasoline & Permissive Taxes | 1,695,741 |
| Other | 7,143 |
| <i>Total Motor Vehicle Gas Tax</i> | 1,702,884 |
| Board of Developmental Disabilities | |
| Grants and Entitlements | 183,305 |
| Homestead Rollback | 113,789 |
| <i>Total Board of Developmental Disabilities</i> | 297,094 |
| Emergency Medical Services | |
| Homestead Rollback | 108,824 |
| <i>Total Emergency Medical Services</i> | 108,824 |
| Total Major Funds | |
| | 2,575,900 |
| <i>Other Governmental Funds</i> | |
| Grants and Entitlements | 60,890 |
| Homestead Rollback | 14,844 |
| <i>Total Other Governmental Funds</i> | 75,734 |
| Total Intergovernmental Receivables | |
| Governmental Funds | \$ 2,651,634 |
| <i>Agency Funds</i> | |
| License, Gasoline and Permissive Taxes | \$ 595,237 |
| Undivided Library Tax | 419,765 |
| Local Government | 480,255 |
| Other | 7,457 |
| Total Agency Funds | \$ 1,502,714 |

NOTE 9 - RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; employee injuries; and natural disasters. The Buckeye Joint-County Self-Insurance Council is a jointly governed organization that serves Hocking, Jackson, Lawrence, Meigs, Monroe, Morgan, Noble, Pike, Vinton and Washington Counties, and was formed as an Ohio non-profit corporation for the purpose of establishing an insurance purchasing pool to obtain general liability, law enforcement, professional and fleet insurance. Member counties provide operating resources to the corporation based on actuarially determined rates.

The degree of control exercised by any participating government is limited to its representation on the Board. The Governing Board is composed of at least one County Commissioner from each of the participating counties. The Governing Board annually elects officers that include a President, Vice President, Second Vice-President and two Governing Board members. The Governing Board must approve the expenditures and investments of funds by the officer unless the Governing Board has set specific limits.

In the event of losses, the member will pay the first \$2,500 of any valid claim, except for electrical substations, transformers, and deep well pumps for which the deductible is \$10,000. The Council's liability insurance carrier will pay up to the policy limits, after the deductible. Any liability or judgment that exceeds the policy limits goes back to Hocking County.

The agreement between the County and the Council indicates that a voluntary withdrawal or termination by the County shall constitute a forfeiture of any pro-rata share of the Council reserve fund.

In the event of the termination of the Council, after sufficient time for payment of any potential claims and expense, any balance would be refunded to the members of the Council, pro-rated based upon their last year's contribution. During 2015, Hocking County paid \$140,253 to the Council for insurance coverage. This jointly governed organization is a cost-sharing pool.

The County pays the State Bureau of Worker's Compensation System a premium based on a rate per \$100 of salary. This rate is calculated based upon accident history and administrative costs. The County pays all elected officials' bonds by statute.

The County has not incurred significant reductions in insurance coverage from coverage in the prior year by major category of risk. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 10 - DEFINED BENEFIT RETIREMENT PLAN

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the County's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

NOTE 10 - DEFINED BENEFIT RETIREMENT PLAN – (CONTINUED)

Net Pension Liability (continued)

Ohio Revised Code limits the County's obligation for this liability to annually required payments. The County cannot control benefit terms or the manner in which pensions are financed; however, the County does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - County employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. County employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 10 - DEFINED BENEFIT RETIREMENT PLAN – (CONTINUED)

Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

| Group A | Group B | Group C |
|---|---|---|
| Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | Members not in other Groups and members hired on or after January 7, 2013 |
| State and Local | State and Local | State and Local |
| Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 |
| Public Safety | Public Safety | Public Safety |
| Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit | Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit | Age and Service Requirements: Age 52 with 25 years of service credit or Age 56 with 15 years of service credit |
| Law Enforcement | Law Enforcement | Law Enforcement |
| Age and Service Requirements: Age 52 with 15 years of service credit | Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit | Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit |
| Public Safety and Law Enforcement | Public Safety and Law Enforcement | Public Safety and Law Enforcement |
| Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 | Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 | Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 |

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 10 - DEFINED BENEFIT RETIREMENT PLAN – (CONTINUED)

Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| | <u>State and Local</u> | <u>Public Safety</u> | <u>Law Enforcement</u> |
|--|----------------------------|--------------------------|----------------------------|
| 2015 Statutory Maximum Contribution Rates | | | |
| Employer | 14.0 % | 18.1 % | 18.1 % |
| Employee | 10.0 % | * | ** |
| 2015 Actual Contribution Rates | | | |
| Employer: | | | |
| Pension | 12.0 % | 16.1 % | 16.1 % |
| Post-employment Health Care Benefits | <u>2.0</u> | <u>2.0</u> | <u>2.0</u> |
| Total Employer | <u>14.0 %</u> | <u>18.1 %</u> | <u>18.1 %</u> |
| Employee | <u>10.0 %</u> | <u>12.0 %</u> | <u>13.0 %</u> |

* This rate is determined by OPERS' Board and has no maximum rate established by ORC.

** This rate is also determined by OPERS' Board, but is limited by ORC to not more than 2 percent greater than the Public Safety rate.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The County's contractually required contribution was \$1,155,212 for 2015. Of this amount, \$95,950 is reported as an intergovernmental payable.

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

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | <u>OPERS</u> |
|--|--------------|
| Proportionate Share of the Net Pension Liability | \$8,763,488 |
| Proportion of the Net Pension Liability | 0.072659% |
| Pension Expense | \$955,486 |

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 10 - DEFINED BENEFIT RETIREMENT PLAN – (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

At December 31, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | OPERS |
|--|--------------|
| Deferred Outflows of Resources | |
| Net difference between projected and actual earnings on pension plan investments | \$467,593 |
| County contributions subsequent to the measurement date | 1,155,212 |
| Total Deferred Outflows of Resources | \$1,622,805 |
| Deferred Inflows of Resources | |
| Differences between expected and actual experience | \$153,957 |

\$1,155,212 reported as deferred outflows of resources related to pension resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | OPERS |
|--------------------------|--------------|
| Year Ending December 31: | |
| 2016 | (\$78,409) |
| 2017 | (78,409) |
| 2018 | (78,409) |
| 2019 | (78,409) |
| Total | (\$313,636) |

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | | |
|--|--|--|
| Wage Inflation | 3.75 percent | |
| Future Salary Increases, including inflation | 4.25 to 10.05 percent including wage inflation | |
| COLA or Ad Hoc COLA | 3 percent, simple | |
| Investment Rate of Return | 8 percent | |
| Actuarial Cost Method | Individual Entry Age | |

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 10 - DEFINED BENEFIT RETIREMENT PLAN – (CONTINUED)

Actuarial Assumptions – OPERS (continued)

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|------------------------|------------------------------|---|
| Fixed Income | 23.00 % | 2.31 % |
| Domestic Equities | 19.90 | 5.84 |
| Real Estate | 10.00 | 4.25 |
| Private Equity | 10.00 | 9.25 |
| International Equities | 19.10 | 7.40 |
| Other investments | 18.00 | 4.59 |
| Total | <u>100.00 %</u> | <u>5.28 %</u> |

Discount Rate

The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 10 - DEFINED BENEFIT RETIREMENT PLAN – (CONTINUED)

Sensitivity of the County’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the County’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|--|------------------------|-------------------------------------|------------------------|
| County's proportionate share of the net pension liability | \$16,122,306 | \$8,763,488 | \$2,565,589 |

NOTE 11 - POST EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System (OPERS)

Plan Description - OPERS administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

NOTE 11 - POST EMPLOYMENT BENEFITS – (CONTINUED)

Ohio Public Employees Retirement System (OPERS) (continued)

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5%.

The County's actual contributions for 2015, 2014, and 2013, which were used to fund OPEB were \$185,531, \$216,051, and \$416,974, respectively.

NOTE 12 - OTHER EMPLOYEE BENEFITS

Deferred Compensation Plans: The County offers the Ohio Public Employees Deferred Compensation Plan and the County Commissioners Association of Ohio Deferred Compensation Plan to its employees and elected officials. The plans were established in accordance with Internal Revenue Code 457, as well as ORC Sections 145.73 and 145.74. Participation in either plan is on a voluntary payroll deduction basis. These plans permit the deferral of compensation until future years. The deferred compensation is not available to employees until termination, retirement, death, or for an unforeseeable emergency. Both plans have implemented GASB Statement No. 32 in prior years. In accordance with the pronouncement, all assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 13 - LONG-TERM DEBT

The County's long-term obligations at year-end consisted of the following

| | Outstanding 12/31/2014* | Increases | Decreases | Outstanding 12/31/2015 | Due Within One Year |
|--|----------------------------|---------------------|---------------------|---------------------------|------------------------|
| Long-Term Notes: | | | | | |
| 2003 - 4.15% (Original Issue \$277,692) | | | | | |
| Juvenile Detention Facility Note | \$ 152,980 | \$ - | \$ 14,359 | \$ 138,621 | \$ 14,939 |
| 2012 - 2.75% (Original Issue \$520,000) | | | | | |
| Logan-Health Department | 403,159 | - | 49,054 | 354,105 | 50,402 |
| 2010 - 0.00% (Original Issue \$202,000) | | | | | |
| OPWC Note - CR 33A Bridge Replacement | 40,400 | - | 40,400 | - | - |
| 2013 - 2.47% (Original Issue \$69,000) | | | | | |
| Citizens Bank Note - Excavator | 23,000 | - | 23,000 | - | - |
| 2014 - 0% (Original Issue \$250,000) | | | | | |
| OPWC Loan - County Paving CR19R | 250,000 | - | 25,000 | 225,000 | 50,000 |
| 2015 - 2.5% (Original Issue \$634,530) | | | | | |
| EMS Equipment Note | - | 634,530 | 64,691 | 569,839 | 121,153 |
| 2015 - 0% (Original Issue \$7,578) | | | | | |
| OPWC Loan - 2015 County Paving CR08S | - | 7,578 | - | 7,578 | 758 |
| OWDA Loan - 2013 HSTS Project | - | 15,888 | 15,888 | - | - |
| 2013 - 0% (Original Issue \$200,000) | | | | | |
| OPWC Loan - County-City Paving Project | 180,000 | - | 40,000 | 140,000 | 40,000 |
| Total Long-Term Notes | 1,049,539 | 657,996 | 272,392 | 1,435,143 | 277,252 |
| Special Assessment Bonds: | | | | | |
| 1996 - 5.5% (Original Issue \$53,500) | | | | | |
| Rockbridge Sewer Special Assessment Bonds | 11,300 | - | 3,600 | 7,700 | 3,800 |
| Total Special Assessment Bonds | 11,300 | - | 3,600 | 7,700 | 3,800 |
| Capital Leases | 99,353 | 69,005 | 74,620 | 93,738 | 51,397 |
| Pension Liability | 8,499,702 | 196,417 | - | 8,696,119 | - |
| Compensated Absences | 701,396 | 910,486 | 893,712 | 718,170 | 60,407 |
| Total General Long-Term Obligations | \$ 10,361,290 | \$ 1,833,904 | \$ 1,244,324 | \$ 10,950,870 | \$ 392,856 |
| Enterprise Funds | | | | | |
| 1996 - 4.5% (Original Issue \$333,000) | | | | | |
| Rockbridge Sanitary Sewer Revenue Bonds | \$ 261,000 | \$ - | \$ 6,700 | \$ 254,300 | \$ 7,000 |
| 2015 - 3.26% (Original Issue \$10,629) | | | | | |
| OWDA Loan - Unsewered Area Planning | - | 10,629 | - | 10,629 | - |
| 1991 - 5.875% (Original Issue \$227,000) | | | | | |
| Haydenville Sewer FmHA Revenue Bonds | 159,100 | - | 5,700 | 153,400 | 6,000 |
| Total Revenue Bonds and Loans | 420,100 | 10,629 | 12,400 | 418,329 | 13,000 |
| Compensated Absences | 9,908 | - | 9,908 | - | - |
| Pension Liability | 65,847 | 1,522 | - | 67,369 | - |
| Total Enterprise Fund | \$ 495,855 | \$ 12,151 | \$ 22,308 | \$ 485,698 | \$ 13,000 |

* As restated, see Note 20.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 13 - LONG-TERM DEBT – (CONTINUED)

The County has pledged future special assessment revenues to repay \$7,700 (original issue amounts of \$53,500) in special assessment bonds issued in 1996. Proceeds from the bonds provided financing for the construction of the Rockbridge sewer lines. The bonds are payable solely from special assessment revenues and are payable through 2017. However, the County would be required to pay any deficit on these bonds if future special assessment revenues were not sufficient to make the debt service payments. Annual principal and interest payments on the bonds are expected to require all of the special assessment revenues. The total principal and interest remaining to be paid on the bonds is \$8,223. Principal and interest paid for the current year and total special assessment revenues were \$4,109, and \$3,901.

The County has pledged future sewer customer revenues, net of specified operating expenses, to repay \$254,300 and \$153,400 (original issue amounts of \$333,000 and \$227,000) in sewer revenue bonds issued in 1996 and 1991, respectively. Proceeds from the bonds provided financing for the construction of the Rockbridge and Haydenville wastewater treatment facilities. The bonds are payable solely from sewer customer net revenues and are payable through 2037. Annual principal and interest payments on the bonds are generally expected to require approximately 46 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$646,644. Principal and interest paid for the current year and total customer net revenues were \$33,492 and \$20,719, respectively.

The compensated absences liability will be paid from the fund, from which the employees are paid, with the most significant funds being the General Fund, Motor Vehicle Gas Tax Fund, Board of Developmental Disabilities Fund, and the Emergency Medical Services Fund. The County pays obligations related to employee compensation from the fund benefitting from their service.

During 2003, the County issued long-term notes at 4.15% in the amount of \$277,692, for the purpose of assisting in the County's share of the Juvenile Detention Facilities. The notes are being paid from the debt service fund.

During 2010, the County issued a long term note from the Ohio Public Works Commission in the amount of \$202,000 at 0% interest for the purpose of replacing the County Road 33A Bridge. The note is being repaid from the Motor Vehicle Gas Tax Fund.

During 2012, the County issued \$520,000 in long term notes for the purpose of making improvements to a building at a 2.75% interest rate. The notes are being repaid from the debt service fund.

During 2015, the County issued an OWDA loan in the amount of \$15,888 for the Home Sewage Treatment System (HSTS) projects. This OWDA loan amount was paid in 2015 by grant funding from the American Reinvestment and Recovery Act.

During 2013, the County issued \$69,000 in long term notes for the purpose of purchasing an excavator at an interest rate of 2.47%. The note is being repaid from the Motor Vehicle Gas Tax Fund.

During 2013, the County issued an OPWC loan in the amount of \$200,000 at 0% interest for the County-City Paving Project. The OPWC loan is being repaid from the Motor Vehicle Gas Tax Fund.

During 2014, the County issued an OPWC loan in the amount of \$250,000 at 0% interest for the County Paving Project. This loan is being repaid from the Motor Vehicle Gas Tax Fund.

During 2015, the County issued an OWDA loan in the amount of \$10,629 for the purpose of unsewered area planning. The loan was issued for a 5 year period at a 3.26% rate. The final maturity date of the loan is January 1, 2021. An amortization schedule is not available and therefore is not presented on the next page.

During 2015, the County issued a note in the amount of \$634,530 for the purpose of purchasing vehicles and equipment. The loan was issued at an interest rate of 2.5% with a final maturity date of April 20, 2020.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 13 - LONG-TERM DEBT – (CONTINUED)

During 2015, the County issued an OPWC loan in the amount of \$7,578 at 0% interest for the purpose of paving two County roads. This loan was issued for a 5 year period and is being paid from the Motor Vehicle and Gas Tax Fund.

The following is a summary of the County's future principal and interest requirements for long-term bonds:

| | Logan-Health Department | | Special Assessment | | Sanitary Sewer | |
|---------------|-------------------------|------------------|--------------------|---------------|-------------------|-------------------|
| | Notes | | Bonds | | Revenue Bonds | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2016 | \$ 50,402 | \$ 9,536 | \$ 3,800 | \$ 347 | \$ 13,000 | \$ 20,456 |
| 2017 | 51,842 | 8,096 | 3,900 | 176 | 13,700 | 19,788 |
| 2018 | 53,295 | 6,643 | - | - | 14,500 | 19,084 |
| 2019 | 54,789 | 5,149 | - | - | 15,200 | 18,338 |
| 2020 | 56,314 | 3,624 | - | - | 15,900 | 17,555 |
| 2021-2025 | 87,463 | 2,444 | - | - | 92,900 | 74,567 |
| 2026-2030 | - | - | - | - | 119,600 | 47,892 |
| 2031-2035 | - | - | - | - | 88,400 | 18,916 |
| 2036-2037 | - | - | - | - | 34,500 | 2,348 |
| Totals | \$ 354,105 | \$ 35,492 | \$ 7,700 | \$ 523 | \$ 407,700 | \$ 238,944 |

| | Juvenile Detention | | EMS Note | | CR09Q | CR19R | CR08S |
|---------------|--------------------|------------------|-------------------|------------------|-------------------|-------------------|-----------------|
| | Facility Notes | | | | OPWC | OPWC | OPWC |
| | Principal | Interest | Principal | Interest | Paving | Paving | Paving |
| 2016 | \$ 14,939 | \$ 5,768 | \$ 121,153 | \$ 13,530 | \$ 40,000 | \$ 50,000 | \$ 758 |
| 2017 | 15,575 | 5,133 | 124,241 | 10,443 | 40,000 | 50,000 | 1,516 |
| 2018 | 16,221 | 4,486 | 127,367 | 7,318 | 40,000 | 50,000 | 1,516 |
| 2019 | 16,894 | 3,813 | 130,570 | 4,114 | 20,000 | 50,000 | 1,516 |
| 2020 | 17,587 | 3,120 | 66,508 | 834 | - | 25,000 | 1,516 |
| 2021-2025 | 57,405 | 4,834 | - | - | - | - | 756 |
| Totals | \$ 138,621 | \$ 27,154 | \$ 569,839 | \$ 36,239 | \$ 140,000 | \$ 225,000 | \$ 7,578 |

Hocking Valley Community Hospital is responsible for the debt service on the 1999 County Hospital Refunding and Improvement Bonds. The County is not reporting this debt as part of the County's Primary Government. The Hospital is responsible for paying off this debt; therefore, the debt is being reported within the Hocking Valley Community Hospital, a discretely presented component unit of the County. In the event that the Hospital would fail to pay the debt, the County would be responsible for making payment.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE

In previous fiscal years, the County entered into capital leases for various vehicles and equipment. During 2015 the County entered into a capital lease for two sheriff vehicles. The leases were recorded as an other financing source and capital outlay in the amount of \$69,005 in the governmental funds. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. The leases are being repaid from the General Fund, the Board of Developmental Disabilities Fund, and the Senior Citizens Fund.

The capital assets acquired by the leases have been capitalized in the statement of net position for governmental activities in the amount of \$327,491 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net position for governmental activities. Principal payments in fiscal year 2015 totaled \$74,620 in the governmental funds. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2015.

| Fiscal Year Ending June 30, | <u>Amount</u> |
|---|------------------|
| 2016 | \$ 56,491 |
| 2017 | 25,547 |
| 2018 | <u>20,083</u> |
| Total | 102,121 |
| Less Amount Representing Interest | <u>(8,383)</u> |
| Present Value of Net Minimum Lease Payments | <u>\$ 93,738</u> |

NOTE 15 - INTERFUND TRANSACTIONS

As of December 31, 2015, receivables and payables that resulted from various interfund transactions were as follows. The County's General Fund made advances to other funds in anticipation of intergovernmental grant revenue. These will be repaid in fiscal year 2016. Due to Other/From Other Funds balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and payment is made.

| | <u>Interfund Payables</u> | <u>Interfund Receivables</u> | <u>Due to Other Funds</u> | <u>Due From Other Funds</u> |
|---------------------------------------|-------------------------------|----------------------------------|-------------------------------|---------------------------------|
| Major Funds: | | | | |
| General | \$ - | \$ 20,870 | \$ - | \$ - |
| Motor Vehicle Gas Tax | - | - | - | 897 |
| Board of Developmental Disabilities | - | - | - | 22,124 |
| EMS | - | - | 897 | - |
| Total Major Funds | <u>-</u> | <u>20,870</u> | <u>897</u> | <u>23,021</u> |
| Non-Major Special Revenue Funds: | | | | |
| Justice Assistance Grant | 13,670 | - | - | - |
| Family and Children First | - | - | 3,103 | - |
| High Visibility Enforcement | 7,200 | - | - | - |
| Help Me Grow | - | - | 19,021 | - |
| Total Non-Major Special Revenue Funds | <u>20,870</u> | <u>-</u> | <u>22,124</u> | <u>-</u> |
| Total All Funds | <u>\$ 20,870</u> | <u>\$ 20,870</u> | <u>\$ 23,021</u> | <u>\$ 23,021</u> |

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 15 - INTERFUND TRANSACTIONS - (CONTINUED)

| Fund Type/Fund | Transfers In | Transfers Out |
|---|-------------------|-------------------|
| Major Funds | | |
| General Fund | \$ - | \$ 226,004 |
| Motor Vehicle Gas Tax | 109,465 | - |
| Total Major Funds | 109,465 | 226,004 |
| Other Governmental Funds | | |
| Non-Major Special Revenue Funds | | |
| VOCA Grant | 21,990 | - |
| Senior Citizens | - | 142,500 |
| Hocking County EMA | 24,152 | - |
| Felony Drug Court Probation | 19,065 | - |
| Prosecuting Attorney Law Enforcement | - | 6,990 |
| Municipal Clerk's Computer | 20,000 | - |
| Special Projects | - | 10,408 |
| FEMA - Auto Gas | - | 109,465 |
| Juvenile Court | 11,627 | - |
| Justice Assistance Grant | 25,860 | - |
| Total Non-Major Special Revenue Funds | 122,694 | 269,363 |
| Non-Major Capital Projects Funds | | |
| County Permanent Improvement Fund | 157,500 | - |
| Capital Projects - SHSC | 85,000 | - |
| Total Non-Major Capital Projects Funds | 242,500 | - |
| Non-Major Debt Service Fund | | |
| General Obligation Debt Fund | 20,708 | - |
| Total Non-Major Debt Service Fund | 20,708 | - |
| Total Other Governmental Funds | 385,902 | 269,363 |
| Total All Funds | \$ 495,367 | \$ 495,367 |

During the year, the County provided transfers from the General Fund to the various funds to subsidize them in accordance with the funds' needs or to provide resources to make debt service payments. The transfer from the FEMA – Auto Gas Fund to the Motor Vehicle Gas Tax Fund was for the County's local share of FEMA projects. The transfer from the Senior Citizens Fund was to Capital Projects Funds for capital improvements. The transfer from the Prosecuting Attorney Law Enforcement Fund went to the VOCA Grant Fund as a local match. The transfer from the Special Projects Fund went to the Felony Drug Court Probation Fund for salaries and benefits. All transfers were done in accordance with the Ohio Revised Code.

NOTE 16- JOINTLY GOVERNED ORGANIZATIONS

Athens-Hocking-Vinton Alcohol, Drug Addiction and Mental Health District

The County is a member of the Athens-Hocking-Vinton Alcohol, Drug Addiction and Mental Health District, which is a jointly governed organization of these three counties. The purpose of the District is to provide alcohol, drug addiction and mental health services to residents of each of these three counties. Each participating county has agreed to levy a tax within their county to assist in the operation of the District, whose passage requires a majority in the total three county districts.

This entity is governed by an eighteen-member board that is responsible for its own financial matters and operates autonomously from Hocking County. The Athens County Auditor serves as fiscal agent for the activities of the Board. Nine of the board members are appointed by the Ohio Department of Alcohol and Drug Addiction Services, four members are appointed by the Ohio Department of Mental Health, and five members are appointed by the County Commissioners. The District derives its revenue from local property taxes, intergovernmental grants and reimbursements, and other miscellaneous revenue. Hocking County has no ongoing financial interest or responsibility in this District.

Athens/Hocking Joint Solid Waste Management District

The County is a member of the Athens/Hocking Joint Solid Waste Management District, which is a jointly governed organization of these two counties. The purpose of the District is to make disposal of waste in the two-county area more comprehensive in terms of recycling, incinerating, and land filling. The District's sole revenue source is derived from a waste disposal fee for in-district and out-of-district waste. Although the counties contributed amounts to the District at the time of its creation, all contributions have since been returned to the respective counties and no future contributions by the counties are anticipated. Continued existence of the District is not dependent on the County's continued participation, no equity interest exists, and no debt is outstanding.

Buckeye Joint-County Self Insurance Council

The Buckeye Joint-County Self Insurance Council is a jointly governed organization that serves Athens, Hocking, Jackson, Meigs, Monroe, Morgan, Noble, Perry, Pike, Vinton, and Washington Counties and was formed as an insurance purchasing pool for the purpose of providing general liability, law enforcement, professional and fleet insurance. Member counties provide operating resources to the organization based on actuarially determined rates. The degree of control exercised by any participating government is limited to its representation on the Board. Hocking County does not have any ongoing interest or responsibility in the organization.

Ohio Government Risk Management Plan

The Buckeye Joint-County Self Insurance Council belongs to the Ohio Government Risk Management Plan; an unincorporated non-profit association with approximately 500 public entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services. Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

The Plan uses conventional insurance coverages and reinsures these coverages. The Plan retains a small portion of the risk as identified in the Plan's financials presented on the website at www.ohioplan.com. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

NOTE 17 – JOINT VENTURES

Corrections Commission of Southeastern Ohio

The County is a participant with Athens, Morgan and Perry Counties in the Corrections Commission of Southeastern Ohio (the Commission) which is a joint venture of the participating counties. The purpose of the Commission is to augment the county jail programs and facilities. The operation of the Commission allows for the humane and constitutional detention of persons who cannot be released to less restrictive alternatives. The participating Boards of County Commissioners established the Commission. The Commission is directed by the Sheriff of each participating county, the presiding Judge of the Court of Common Pleas of each participating county, and the current president of each participating Board of County Commissioners. Each county is obligated to provide financial support to this entity through per diem charges and assessments that are based on the number of beds contractually assigned to each county in proportion to the total number of beds of all participating counties. The County has an ongoing financial responsibility for this entity and, during 2015, contributed \$779,513 toward the operating and capital costs of this facility. However the County has no explicit equity interest in the Commission. Complete financial statements of the joint venture can be obtained from the Corrections Commission of Southeastern Ohio, 16678 Wolfe Bennett Road, Nelsonville, Ohio 45764.

South Central Ohio Job and Family Services

The County is a participant in the South Central Ohio Job and Family Services (SCOJFS) which is a joint county department of job and family services pursuant to Chapter 329 of the Ohio Revised Code. Hocking County services previously provided through the Job and Family Services, Children Services, and Child Support Enforcement Agency departments are being provided through the SCOJFS. The SCOJFS is treated by the County as a joint venture of its member counties which include Hocking, Vinton, and Ross.

NOTE 18 – CONTINGENT LIABILITIES

The County has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, the County Commissioners believe such disallowances, if any, will be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the County's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the County.

NOTE 19 – RELATED PARTY RELATIONSHIP

On May 8, 2008, the County guaranteed a loan for the Hocking County Agricultural Society restroom/shower facility construction project, using the fairgrounds as collateral. The original loan balance was \$140,000 with annual debt service principal requirements of \$9,333, plus interest, for a term of 15 years. This loan carries an interest rate of 6.25%. As of December 31, 2015, the outstanding balance on this loan was \$24,784. This balance is not recognized as a liability in the County's basic financial statements because the Agricultural Society is primarily liable and has not yet been in default of the debt agreement.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 20 – NEW ACCOUNTING PRINCIPLES/RESTATEMENT OF BEGINNING BALANCES

For 2015, the County implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2014:

| | Governmental Activities | Business -Type Activities/Sewer Fund |
|--|----------------------------|---|
| Net position December 31, 2014 | \$39,844,207 | \$919,871 |
| Adjustments: | | |
| Net Pension Liability | (8,499,702) | (65,847) |
| Deferred Outflow - Payments Subsequent to Measurement Date | 1,062,939 | 8,217 |
| Restated Net Position December 31, 2014 | \$32,407,444 | \$862,241 |

Other than employer contributions subsequent to the measurement date, the County made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 21 – FUND BALANCES

| Fund Balances | General | Motor Vehicle Gas Tax | Board of Developmental Disabilities | Emergency Medical Services | Other Governmental Funds | Total Governmental Funds |
|-------------------------------------|---------------------|--------------------------|---|----------------------------------|--------------------------------|--------------------------------|
| Nonspendable | | | | | | |
| Unclaimed Monies | \$ 152,863 | \$ - | \$ - | \$ - | \$ - | \$ 152,863 |
| Materials & Supplies Inventories | 4,323 | 399,978 | - | - | - | 404,301 |
| Total of Nonspendable | 157,186 | 399,978 | - | - | - | 557,164 |
| Restricted For: | | | | | | |
| Debt Service | - | - | - | - | 59,588 | 59,588 |
| Capital Projects | - | - | - | - | 743,136 | 743,136 |
| Family and Children First | - | - | - | - | 233,780 | 233,780 |
| Motor Vehicle Gas Tax | - | 2,067,688 | - | - | - | 2,067,688 |
| Municipal Court Special Projects | - | - | - | - | 208,174 | 208,174 |
| Senior Citizens | - | - | - | - | 311,937 | 311,937 |
| Hocking County 911 | - | - | - | - | 1,504,335 | 1,504,335 |
| Law Library | - | - | - | - | 172,804 | 172,804 |
| Board of Developmental Disabilities | - | - | 602,121 | - | - | 602,121 |
| Emergency Medical Services | - | - | - | 1,092,416 | - | 1,092,416 |
| Real Estate Assessment | - | - | - | - | 790,084 | 790,084 |
| Other Purposes | - | - | - | - | 1,324,884 | 1,324,884 |
| Total Restricted | - | 2,067,688 | 602,121 | 1,092,416 | 5,348,722 | 9,110,947 |
| Committed | 33,723 | - | - | - | - | 33,723 |
| Assigned | | | | | | |
| 2016 Appropriations | 1,460,063 | - | - | - | - | 1,460,063 |
| Encumbrances | 109,456 | - | - | - | - | 109,456 |
| Total Assigned | 1,569,519 | - | - | - | - | 1,569,519 |
| Unassigned (deficit) | 2,109,841 | - | - | - | (2,940) | 2,106,901 |
| Total Fund Balances | \$ 3,870,269 | \$ 2,467,666 | \$ 602,121 | \$ 1,092,416 | \$ 5,345,782 | \$ 13,378,254 |

NOTE 22 – ACCOUNTABILITY

As of December 31, 2015, the Sheriff LEBG, Help Me Grow, and High Visibility Enforcement Special Revenue Funds had deficit fund balances in the amount of \$1,796, \$861, and \$283, respectively due to the implementation of GAAP.

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL

As indicated in Note 1 to the basic financial statements, the following disclosures are made on behalf of Hocking Valley Community Hospital:

Note 1. Reporting Entity

Hocking Valley Community Hospital (the Hospital), located in Hocking County, Logan, Ohio, is organized as a county hospital under provisions of the general statutes of the State of Ohio requiring no specific articles of incorporation. The organization is exempt from Federal income taxes. The Board of Trustees, appointed by the county commissioners and the probate and common pleas court judges, is charged with the management and operation of the Hospital, its finances and staff. The Hospital is considered a component unit of Hocking County, Ohio and is included as a component unit in the basic financial statements of Hocking County.

In accordance with GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units,” The Hocking Valley Community Hospital Memorial Fund, Inc. (Foundation) is included as a discretely presented component unit in a separate column in the Hospital’s financial statements to emphasize that it is legally separate from the Hospital. The Foundation is a legally separate not-for-profit corporation. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the Hospital in support of its programs. Although the Hospital does not control the timing or the amounts of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to support the activities of the Hospital. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the Hospital, it is considered a component unit of the Hospital. For reporting purposes, Hocking County has included the financial statements of the Foundation within the financial statements of the Hospital on the County’s Statement of Net Position and Statement of Activities.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The Hospital reports a single business-type activity, which requires the following financial statements and required supplementary information:

- Management’s Discussion and Analysis
- Basic Financial Statements including a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows, for the Hospital as a whole
- Notes to Financial Statements
- Schedules of Hospital’s Contributions and Schedules of Hospital’s Proportionate Share of Net Pension Asset/Liability

Additional information regarding the Hospital and the Foundation may be obtained from Hocking Valley Community Hospital, 601 State Route 664 North, Logan, Ohio 43138.

The Hospital is accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the Hospital’s operations are included in the Statement of Net Position. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

The Hospital's fiscal year is the calendar year. Pursuant to Ohio law, the Hospital submits a budget to the County for approval by November 1 of each year. The fundamental purpose of the budget is to plan for an expected level of operations and to provide management with a tool to control deviation from such a plan. The budget is prepared on an accrual basis.

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 2. Summary of Significant Accounting Policies (Continued)

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Revenues, Expenses and Changes in Net Position: The Hospital recognizes as operating revenues those transactions that are major or central to the provision of health care services. Operating revenues include those revenues received for direct patient care, grants received from organizations as reimbursement for patient care, and other incidental revenue associated with patient care. Operating expenses include those costs associated with providing patient care including costs of professional care, operating the hospital facilities, administrative expenses, and depreciation and amortization. Nonoperating revenues include investment income and grants and contributions received for purposes other than capital asset acquisition. Nonoperating expenses include interest expense and expenses for funding to the foundation which represent amounts paid to the foundation for the benefit of Hocking Valley Medical Group (see Note 14 within Note 23).

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

Patient accounts receivable: Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts and contractual allowances. Contractual allowances are recorded on the basis of preliminary estimates of the amounts to be received from third party payors. Final adjustments are recorded in the period such amounts are finally determined. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectability. Management also reviews troubled, aged accounts to determine collection potential. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts (reported within net patient service revenue) 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 written off against the allowance for doubtful accounts. Recoveries of accounts previously written off are recorded as a reduction of the provision for bad debts when received. Interest is not charged on patient accounts receivable.

Inventories: Inventories are stated at the lower of cost (first-in, first-out) or market value.

Deposits with South Central Ohio Insurance Consortium: The Hospital participates in an insurance consortium for employee health insurance costs. The amount reflected on the statements of net position represents assets held by the consortium to cover unpaid claims at year-end.

Capital assets: Capital assets are reported at historical cost. Contributed capital assets are recorded at their estimated fair value at the time of their donation. Expenditures for capital assets must exceed \$1,000 in order for them to be capitalized. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

| | |
|------------------------------------|----------------|
| Buildings and related improvements | 10 to 40 years |
| Fixed equipment | 10 to 20 years |
| Moveable equipment | 3 to 20 years |
| Land improvements | 10 to 20 years |

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 2. Summary of Significant Accounting Policies (Continued)

Depreciation expense on capital leases is included in depreciation and amortization in the statement of activities. The asset and accumulated depreciation are removed from the related accounts when the asset is disposed. Any gain or loss resulting from this disposal is recorded in the statement of activities.

Costs of borrowings: Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Hospital's interest cost was capitalized in 2015 because management determined that the overall impact to the Hospital's financial statements is immaterial.

Grants and contributions: From time to time, the Hospital receives grants and contributions from governmental organizations, private individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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.

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 reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position results when constraints placed on the use of the net position are either externally imposed by creditors, grantors, contributors and the like, or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is remaining net position that does not meet the previously stated criterion.

Risk management: The Hospital is exposed to various risks of loss related to torts; theft of or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital is self-insured for employee health insurance. For the employee health claims, a historical analysis has been performed of incurred but not reported claims to determine the liability at December 31, 2015. For medical malpractice, the Hospital has professional liability insurance with a commercial carrier.

Restricted investments: Restricted investments consist of assets maintained by the Foundation whose use is restricted by a donor.

Investments: The Hospital records its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Unrealized gains and losses on investments are included in net investment income in the statement of activities.

The Foundation records its investments at fair value in accordance with the *Investments Topic* of the Accounting Standards Codification. Differences between cost and fair value are recognized as unrealized gains or losses in the period in which they occur. The realized gain or loss on investment is the difference between the proceeds received and the cost of investments sold.

Certificates of deposit: The Hospital and Foundation record their investments in certificates of deposit at cost, while the Foundation records their investments in certificates of deposit at cost plus accrued interest. The certificates of deposit are classified on the statement of net position based on maturity date.

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 2. Summary of Significant Accounting Policies (Continued)

Concentration risk: Financial instruments that potentially subject the Hospital and the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and for the Hospital, patient accounts receivable. The Hospital and the Foundation place their cash and cash equivalents with high credit quality financial institutions. As it relates to the Hospital, concentration of credit risk relating to patient accounts receivable is limited to some extent by the diversity and number of the patients and payors. Patient accounts receivable consists of amounts due from government programs, commercial insurance companies, private pay patients, and other group insurance programs. Excluding governmental programs, no payor source represents more than 10% of the patient accounts receivable. The Hospital maintains an allowance for uncollectible accounts based on the expected collectability of patient accounts receivable.

Upper payment limit: In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the Centers for Medicare and Medicaid Services (CMS). This program provides access to available federal funding up to 100% of the Medicare upper payment limits for services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. The Hospital received \$753,504 in UPL payments in 2015 which are reflected in net patient service revenue.

Franchise fee: Effective July 1, 2009, the State of Ohio began assessing a franchise fee to hospitals to fund health care programs. The Hospital incurred franchise fee expense of \$469,761 in 2015, and recorded the amount in supplies and other expenses in the statement of activities. There was no franchise fee liability payable to the State of Ohio at December 31, 2015.

Hospital Care Assurance Program (HCAP): As a public health care provider, the Hospital renders services to residents of Hocking County and others regardless of ability to pay. HCAP is the Ohio Department of Job and Family Services' mechanism for meeting the federal requirement to provide additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. HCAP amounts included in net patient service revenue amount to \$1,096,146 for the year ended December 31, 2015 which represents the difference between the Hospital's 2015 allocation in the amount of \$1,316,962 and the assessments paid by the Hospital in the amount of \$220,816. Included in prepaid expense and other assets at December 31, 2015 is \$1,316,962 related to HCAP.

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. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. Charges forgone under the Hospital's charity care policy were \$823,479 in 2015.

Note 3. Changes in Accounting Principles and Recent Accounting Pronouncements

GASB has issued the following statements that have been recently implemented by the Hospital:

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 27. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement resulted from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The adoption of this statement, further detailed in Note 12 within Note 23, required restatement of prior year net position to conform to the 2015 presentation.

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 3. Changes in Accounting Principles and Recent Accounting Pronouncements (Continued)

Effective January 1, 2015, the Corporation adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68*. The objective of this Statement is address contributions made by a state or local government employer or nonemployer contributing entity to a defined benefit plan after the measurement date of the government’s beginning net pension liability. The impact of the adoption of Statement No. 71 has been reflected in Note 12 within Note 23.

GASB has recently issued the following statements not yet implemented by the Hospital:

GASB Statement No. 72, *Fair Value Measurement and Application*.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68*.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

GASB Statement No. 77, *Tax Abatement Disclosures*.

GASB Statement No. 78, *Pension Provided through Certain Multi-Employer Defined Benefit Pension Plans*.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 80, *Blending Requirements for Certain Component Units*.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*.

The above listed GASB Statements are described in detail within the audit report of the Hospital. The Hospital is evaluating the impact these Statements will have on the financial statements, note disclosures, and required supplementary information and believe the impact of implementing the various GASB Statements will not be significant with the exception of GASB Statement No 75, which the Hospital expects to be material.

Note 4. Deposits and Investments

Deposits

State law requires insurance or collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

Custodial credit risk: Custodial credit risk is the risk that, in the event of bank failure, the Hospital’s deposits might not be recovered. Through December 31, 2015, FDIC insurance for funds held in interest bearing accounts is \$250,000 per depositor per category of legal ownership. Ohio Revised Code requires that deposits in excess of FDIC insured amounts are collateralized. The Hospital’s investment policy does not address custodial credit risk.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 4. Deposits and Investments (Continued)

The bank balances of the Hospital's deposits at December 31, 2015, totaled \$1,681,776, and were subject to the following categories of custodial credit risk:

| | | |
|--|----|--------------|
| Uncollateralized | \$ | - |
| Collateralized held by the counterparty's agent, but not in the Hospital's name | | 1,372,203 |
| Total amount subject to custodial risk | | 1,372,203 |
| Amount insured | | 309,573 |
| Total bank balances | | \$ 1,681,776 |

Investments

The Hospital has adopted an investment policy that is consistent with the allowable investments provided by the Auditor of State (Ohio). The policy authorizes the Hospital to invest in the following:

- United States obligations or any other obligation guaranteed as to principal and interest by the United States.
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality.
- Interim deposits in the eligible institutions applying for interim monies as provided in Ohio Revised Code Section 135.08.
- Bonds or other obligations of the State of Ohio.
- The Ohio Subdivisions Fund (Star Ohio) as provided in Ohio Revised Code Section 135.45.
- Certificates of Deposit.

The Hospital's investments generally are reported at fair value, as discussed in Note 2 within Note 23. At December 31, 2015, the Hospital had the following investments and maturities, and ratings (per Standard & Poor's), all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

| | Investment Maturities | | | |
|--------------------------|-----------------------|----|-----------|----------|
| | Less than 1 Year | | 1-5 Years | |
| U.S. Government Agencies | | | | |
| AA+ | \$ 1,756 | \$ | - | \$ 1,756 |
| Money Market Funds | | | | |
| AAA | 119,899 | | 119,899 | - |
| Not rated | 347,915 | | 347,915 | - |
| | \$ 469,570 | \$ | 467,814 | \$ 1,756 |

Interest Rate Risk: The Hospital's investment policies limit investment portfolios to maturities of five years or less. All of the Hospital's investments at December 31, 2015, have effective maturity dates of less than five years.

Custodial Credit Risk: For an investment, 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's investment policy does not address custodial credit risk.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 23– COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 4. Deposits and Investments (Continued)

The Foundation: As of December 31, 2015, the fair values of the Foundation’s investments were as follows:

| | |
|-----------------------|------------------|
| Mutual funds | \$364,422 |
| Exchange traded funds | 85,877 |
| Money market funds | <u>624</u> |
| Total investments | <u>\$450,923</u> |

The Foundation’s investments are reflected in the statement of net position as follows at December 31, 2015:

| | |
|--|-------------------|
| Investments - current assets | \$ 208,882 |
| Restricted investments - noncurrent assets | <u>242,041</u> |
| Total | <u>\$ 450,923</u> |

The Foundation’s investment income for the year ended December 31, 2015 consisted of the following:

| | |
|---|-----------------|
| Interest and dividends, net of investment management fees | \$ 7,475 |
| Net change in unrealized losses | <u>(1,585)</u> |
| Total | <u>\$ 5,890</u> |

Fair value measurements: Generally Accepted Accounting Principles for the Foundation establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are those that market participants would use in measuring investments at fair value based on market data obtained from sources independent of the agency. Unobservable inputs reflect the Foundation’s assumptions about the inputs market participants would use in measuring investments at fair value based on the best information available in the circumstances. Investments are measured and disclosed in one of the three levels based on the reliability of inputs:

- Level 1 – Valuations based on quoted market prices in active markets for identical investments as of the reporting date.
- Level 2 – Valuations based on other than quoted market prices in active markets, dealer or broker markets. Fair values are primarily obtained from third party pricing services for similar investments as of the reporting date.
- Level 3 – Valuations derived from other methodologies, including pricing models, discounted cash flow models and similar techniques, and not based on market, dealer, or broker-traded transactions. The determination of fair value requires significant management judgment or estimation.

Level 3 valuations incorporate certain assumptions and projections that are not observable in the market in determining the fair value for investments and assets held by others as of the reporting date. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosures purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 23– COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 4. Deposits and Investments (Continued)

The Foundation’s policy is to recognize transfers between levels as of the actual date of the event or change in circumstances that caused the transfer.

The following is a description of the valuation techniques used for the Foundation’s investments measured at fair value:

Mutual funds and exchange traded funds: The Foundation’s investments in these securities are traded on a public exchange. The valuation techniques for securities have been consistent year over year.

The following investments of the Foundation were measured at fair value on a recurring basis as of December 31, 2015, using unadjusted quote prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------|-------------------|-------------|-------------|-------------------|
| Exchange traded funds | | | | |
| Bonds, Aa | \$ 45,504 | \$ - | \$ - | \$ 45,504 |
| Domestic | 34,736 | - | - | 34,736 |
| International | 5,637 | - | - | 5,637 |
| Mutual funds | | | | |
| Domestic | 267,391 | - | - | 267,391 |
| International | 97,031 | - | - | 97,031 |
| | <u>\$ 450,299</u> | <u>\$ -</u> | <u>\$ -</u> | <u>450,299</u> |
| Money market funds | | | | 624 |
| Total | | | | <u>\$ 450,923</u> |

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 5. Capital Assets

Capital assets additions, transfers, retirements and balances as of and for the year ended December 31, 2015:

| | Beginning Balance | Additions | Transfers/ Retirements | Ending Balance |
|--|----------------------|---------------------|---------------------------|----------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 255,120 | \$ - | \$ - | \$ 255,120 |
| Construction in progress | 190,460 | 100,496 | (169,884) | 121,072 |
| Total nondepreciated capital assets | 445,580 | 100,496 | (169,884) | 376,192 |
| Depreciable capital assets: | | | | |
| Land improvements | 310,524 | 175,705 | - | 486,229 |
| Buildings and improvements | 14,983,701 | 100,211 | - | 15,083,912 |
| Equipment | 13,201,624 | 587,080 | 169,884 | 13,958,588 |
| Total depreciated capital assets | 28,495,849 | 862,996 | 169,884 | 29,528,729 |
| Less accumulated depreciation | | | | |
| Land improvements | (214,623) | (23,593) | - | (238,216) |
| Buildings and improvements | (8,174,131) | (452,728) | - | (8,626,859) |
| Equipment | (9,827,530) | (1,169,422) | - | (10,996,952) |
| Total accumulated depreciation | (18,216,284) | (1,645,743) | - | (19,862,027) |
| Total depreciable capital assets, net | 10,279,565 | (782,747) | 169,884 | 9,666,702 |
| Total capital assets, net | \$ 10,725,145 | \$ (682,251) | \$ - | \$ 10,042,894 |

Total depreciation expense related to the Hospital's capital assets for 2015 was \$1,645,743.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 5. Capital Assets (Continued)

The Foundation: The Foundation's capital asset activity for the year ended December 31, 2015 was as follows:

| 2015 | Beginning Balance | Additions | Transfers/ Retirements | Ending Balance |
|--|----------------------|--------------------|---------------------------|-------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 161,834 | \$ - | \$ - | \$ 161,834 |
| Total nondepreciated capital assets | <u>161,834</u> | <u>-</u> | <u>-</u> | <u>161,834</u> |
| Depreciable capital assets: | | | | |
| Buildings and improvements | 778,490 | - | - | 778,490 |
| Equipment | 12,421 | - | - | 12,421 |
| Total depreciated capital assets | <u>790,911</u> | <u>-</u> | <u>-</u> | <u>790,911</u> |
| Less accumulated depreciation | | | | |
| Buildings and improvements | (303,687) | (28,557) | - | (332,244) |
| Equipment | (12,421) | - | - | (12,421) |
| Total accumulated depreciation | <u>(316,108)</u> | <u>(28,557)</u> | <u>-</u> | <u>(344,665)</u> |
| Total depreciable capital assets, net | <u>474,803</u> | <u>(28,557)</u> | <u>-</u> | <u>446,246</u> |
| Total capital assets, net | <u>\$ 636,637</u> | <u>\$ (28,557)</u> | <u>\$ -</u> | <u>\$ 608,080</u> |

Total depreciation expense related to the Foundation's capital assets for 2015 was \$28,557.

The cost of equipment under capital lease included in capital assets as of December 31, 2015 was as follows:

| | |
|---------------------------------------|--------------------|
| Cost of equipment under capital lease | \$4,145,901 |
| Accumulated amortization | <u>(2,818,362)</u> |
| Net carrying amount | <u>\$1,327,539</u> |

Note 6. Line of Credit

The Hospital has a \$1,000,000 line of credit with a bank that is collateralized by all patient accounts receivable. The line of credit was amended in 2015 from an annual renewal to due on demand. There was a \$375,500 balance outstanding at December 31, 2015. Interest on the line of credit is payable at a variable rate of prime plus 1.04% (4.54% at December 31, 2015).

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 7. Long-Term Debt and Capital Lease Obligations

Information regarding the Hospital’s long-term debt and capital lease activity and balances as of and for the year ended December 31, 2015 is as follows:

| | Beginning Balance | Additions | Payments/ Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-------------------|-------------------------|---------------------|------------------------|
| 1999 County Hospital Refunding and Improvement Bond Series | \$ 875,000 | \$ - | \$ (160,000) | \$ 715,000 | \$ 165,000 |
| Note payable, Hocking Valley Community Hospital Memorial Fund, Inc. | 344,985 | - | - | 344,985 | 344,985 |
| Capital lease obligations | 1,072,279 | 484,395 | (429,034) | 1,127,640 | 362,643 |
| | 2,292,264 | 484,395 | (589,034) | 2,187,625 | 872,628 |
| Bond discount | (11,756) | - | 2,398 | (9,358) | - |
| Long-term debt | \$ 2,280,508 | \$ 484,395 | \$ (586,636) | \$ 2,178,267 | \$ 872,628 |

Capital lease obligations have varying rates of imputed interest ranging from 0.6% to 18.3%. The obligations are collateralized by leased equipment and mature at varying amounts through 2020.

Effective March 1, 1999, Hocking County, Ohio, acting by and through the Board of Trustees of Hocking Valley Community Hospital, issued \$2,610,000 of County Hospital Improvement Bonds, Series 1999 (1999 Bonds). The proceeds of the 1999 Bonds were used to acquire and finance certain Hospital improvements. The bonds bear interest at rates ranging from 3.30% to 4.75%. The bonds mature in varying amounts each June 1 and December 1 through December 1, 2019. The 1999 Bonds are unvoted general obligations of the County.

The Hospital’s note payable to the Foundation requires quarterly payments of \$25,000 commencing March 2012 through December 2016, when a final payment of \$25,002 is due. The proceeds of the note were used to construct certain Hospital improvements. The note is uncollateralized and has a service fee payable with each quarterly payment at a rate equal to 0.25% plus the highest certificate of deposit rate of any certificate of deposit held by the Foundation. Interest per the agreement was 1.75% at December 31, 2015 and management determined that imputed interest was immaterial. The Foundation has reflected this balance as a corresponding note receivable on its statement of net position at December 31, 2015. For purposes of reporting on Hocking County’s basic financial statements the note payable and note receivable have been eliminated from the Statement of Net Position.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 7. Long-Term Debt and Capital Lease Obligations (Continued)

Long-term debt and capital lease obligation payment requirements for fiscal years subsequent to December 31, 2015, are as follows:

| | Capital Lease Obligations | | | Long-Term Debt | | |
|------|----------------------------------|-------------------|---------------------|-----------------------|------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2016 | \$ 362,643 | \$ 65,517 | \$ 428,160 | \$ 509,985 | \$ 33,963 | \$ 543,948 |
| 2017 | 361,864 | 38,711 | 400,575 | 175,000 | 26,125 | 201,125 |
| 2018 | 231,087 | 19,423 | 250,510 | 185,000 | 17,813 | 202,813 |
| 2019 | 109,609 | 10,202 | 119,811 | 190,000 | 9,025 | 199,025 |
| 2020 | 62,437 | 1,918 | 64,355 | - | - | - |
| | <u>\$ 1,127,640</u> | <u>\$ 135,771</u> | <u>\$ 1,263,411</u> | <u>\$ 1,059,985</u> | <u>\$ 86,926</u> | <u>\$ 1,146,911</u> |

| | |
|---------------------------|---------------------|
| Bond discount | <u>(9,358)</u> |
| Total long-term debt, net | <u>\$ 1,050,627</u> |

Note 8. Estimated Amounts Due to Third-Party Payors

The Hospital has agreements with third-party payors that provide for payment of amounts different from established rates. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods, as final settlements are determined. See Note 11 within Note 23 for additional information. As of December 31, 2015, management has determined that there is \$80,000 due to third-party payors.

Note 9. Other Long-Term Liabilities

Compensated absences: The Hospital's employees earn vacation time at varying rates depending on years of service. Employees may accumulate vacation time, up to 400 hours, to be carried over to the subsequent year. The Hospital's employees also earn sick leave on an annual basis at a flat rate regardless of years of service. Upon retirement, employees with a minimum of 10 years of service have sick leave balances paid out at 25% of eligible hours at their current rate of pay. The maximum payout is 240 hours. As of December 31, 2015, the liability for accrued vacation and sick leave was \$878,872.

Other Long-Term Liabilities: Information regarding the Hospital's other long-term liabilities activity and balances as of and for the year ended December 31, 2015 is as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance | Due Within One Year |
|--------------------|----------------------|-------------------|---------------------|-------------------|------------------------|
| Accrued vacation | \$ 847,296 | \$ 473,108 | \$ (526,307) | \$ 794,097 | \$ 277,934 |
| Accrued sick leave | 132,778 | 348,776 | (396,779) | 84,775 | 29,671 |
| | <u>\$ 980,074</u> | <u>\$ 821,884</u> | <u>\$ (923,086)</u> | <u>\$ 878,872</u> | <u>\$ 307,605</u> |

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 9. Other Long-Term Liabilities (Continued)

Risk management: The Hospital is exposed to various risks of loss related to torts; theft of or destruction of assets; errors and omissions; injuries to employees; and natural disasters as well as being self-insured for employee health insurance.

Medical malpractice: For medical malpractice, the Hospital has professional liability insurance with a commercial carrier. Coverage is \$1,000,000 per occurrence and \$3,000,000 in the annual aggregate. In addition, the Hospital has umbrella coverage of \$2,000,000 per occurrence and \$2,000,000 in the annual aggregate. The policy also requires that certain members of the medical staff carry professional liability coverage of no less than \$1,000,000 per occurrence and \$3,000,000 in the annual aggregate. The Hospital's coverage is on a claims made basis. Settled claims for medical malpractice have not exceeded insurance coverage in any of the past three years. Losses from asserted and unasserted claims identified under the Hospital's incident reporting systems are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. There is no liability for medical malpractice at December 31, 2015.

Employee health insurance: For the employee health claims, a historical analysis has been performed of incurred but unpaid claims to determine the liability at December 31, 2015. The liability for estimated self-insured employee health claims includes estimates of the ultimate costs for both reported claims and incurred but not reported claims, and activity and balances as of and for the years ended December 31, 2015 and 2014 are as follows:

| | Beginning Balance | Claims Incurred | Claims Paid | Ending Balance |
|------|----------------------|--------------------|----------------|-------------------|
| 2014 | \$ 293,298 | \$ 2,991,145 | \$ 2,953,520 | \$ 330,923 |
| 2015 | 330,923 | 2,842,068 | 2,792,410 | 380,581 |

Note 10. Endowment

Endowment funds: The Foundation's endowment consists of an individual donor restricted endowment fund established for operating purposes. Its endowment includes both a donor – restricted endowment fund and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net position associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor - imposed restrictions.

Interpretation of relevant law: The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as restricted, nonspendable net position as (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. In addition, UPMIFA introduced the concept of total return expenditure of endowment net position for charitable program purposes, expressly permitting prudent expenditure of endowment net position for charitable program purposes, expressly permitting prudent expenditure of both appreciation and income. Thus asset growth and income can be appropriated for program purposes, subject to the rule that a fund cannot be spent below "historic dollar value." The portion of the donor-restricted endowment fund that is not classified in restricted, nonspendable net position will be classified as restricted, program activities net position until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation will consider the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 10. Endowment (Continued)

- (1) The duration and preservation of the fund
- (2) The purposes of the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and appreciation of investments
- (6) Other resources
- (7) The investment policies

Changes in net position related to endowments for the year ended December 31, 2015 are as follows:

| | Unrestricted | Restricted | Restricted, Nonspendable | Total |
|------------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | Net Position | Net Position | Net Position | |
| Balance at January 1, 2015 | \$ 290,000 | \$ 104,581 | \$ 139,236 | \$ 533,817 |
| Net investment loss | - | (1,776) | - | (1,776) |
| Balance at December 31, 2015 | <u>\$ 290,000</u> | <u>\$ 102,805</u> | <u>\$ 139,236</u> | <u>\$ 532,041</u> |

Endowment net position composition by type of fund as of December 31, 2015 is as follows:

| | Unrestricted | Restricted | Restricted, Nonspendable | Total |
|--------------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | Net Position | Net Position | Net Position | |
| Funds functioning as endowment | \$ 290,000 | \$ - | \$ - | \$ 290,000 |
| Donor-restricted endowment | - | 102,805 | 139,236 | 242,041 |
| | <u>\$ 290,000</u> | <u>\$ 102,805</u> | <u>\$ 139,236</u> | <u>\$ 532,041</u> |

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, there are no deficiencies of this nature as of December 31, 2015.

Return objectives and risk parameters: The Foundation has adopted an investment policy for endowment assets that attempts to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor specified period as well as unrestricted net position designated as endowment. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a variety of indexes/benchmarks, which include the S&P 500 index, while assuming a moderate level of investment risk. Long term investment performance is expected to exceed the trailing three-year average of the appropriate benchmark.

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 10. Endowment (Continued)

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy: The Foundation seeks to maximize the long-term total return of its financial assets consistent with its current and future funding needs. In line with these objectives, it is the intent of the Foundation that all income and capital gains generated in the portfolio to be retained within the endowment fund and periodically reinvested in accordance with the Investment Policy. It will be the policy of the Foundation to transfer from the endowment funds to available funds an amount not to exceed 75% of the total return earned by the endowment. In this way, a portion of the total return will be added back to the principal of the fund to provide growth of the fund. The transfer of available funds shall also be limited in such a manner as to not decrease the designated principal of the fund. Available funds earned that are required to maintain the principal will not be transferred.

This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payment to the Hospital at amounts different from its established rates. The Hospital is designated as a Critical Access Hospital (CAH) under the Medicare and Medicaid programs. CAHs receive payments on a reasonable cost basis, for inpatient and most outpatient services provided to eligible Medicare and Medicaid patients. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

Medicare: On October 4, 2006, the Hospital became a Critical Access Hospital. After October 4, 2006, inpatient services and most outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. Other outpatient services are reimbursed based on fee schedules.

The Hospital and the Hospital's swing beds are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization.

Medicaid: Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospectively determined rates per discharge. Medicaid outpatient services are reimbursed based upon the lesser of the Hospital's charge or predetermined fee schedule amounts. Capital related expenditures are subject to annual cost report settlement.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 11. Net Patient Service Revenue (Continued)

Other payors: The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies.

In 2015, approximately 51% of the Hospital’s total net patient revenue was derived from Medicare payments while 11% was derived from Medicaid. The remaining revenue was derived primarily from commercial insurance payments.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between the estimated amounts accrued at interim and final settlements are reported in the statement of activities in the year of settlement. The Hospital had a favorable adjustment of \$29,001 in 2015.

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the year ended December 31, 2015 is as follows:

| | | |
|---|----|------------|
| Gross patient service revenue | \$ | 89,546,324 |
| Less third-party contractual allowances | | 52,585,020 |
| Less provision for bad debts | | 2,194,033 |
| Net patient service revenue | \$ | 34,767,271 |

Note 12. Net Pension Liability

For the year ended December 31, 2015, the Hospital implemented the provisions of GASB’s Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Among other changes, these Statements changed the manner in which governments account for their proportionate share of the net pension liability and deferred outflows of resources relating to contributions made by government employers. As a result of implementing these Statements, the Hospital was required to restate net pension to the earliest period presented. The effect of the restatement on net position is as follows:

| | | |
|---|--|--------------|
| Net position as previously reported, December 31, 2014 | | \$13,450,021 |
| Adjustment for net pension liability and deferred outflows of resources | | (10,000,644) |
| Restated Net Position December 31, 2014 | | \$3,449,377 |

The effect of the restatement of beginning net position includes the beginning deferred outflows of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability. Restatement for the beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions was not done because it was not practical to determine such amounts.

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 12. Net Pension Liability (Continued)

Pension: Employee retirement benefits are available for substantially all employees under three separate retirement plans administered by the Ohio Public Employees Retirement System (OPERS). The plans are the Traditional Pension Plan — a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan — a defined contribution pension plan in which the members invest both member and employee contributions (employer contributions vest over five years at 20% per year) and the Combined Plan — a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the Member-Directed Plan, members accumulate retirement assets equal to the value of (vested) member and employee contributions plus any investment earnings. OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Participants in the Member-Directed Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefits to the OPERS Board of Trustees. OPERS issues a stand-alone financial report and may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Legislation: Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire under law in effect prior to SB 343 or will be eligible to retire no later than five years after January 7, 2013, comprise transition Group A. Members who have 20 years of service credit prior to January 7, 2013, or will be eligible to retire no later than 10 years after January 7, 2013, are included in transition Group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013. Please see the Plan Statement in the OPERS 2014 CAFR for additional details.

Benefits in the Traditional Pension Plan for members are calculated on the basis of age, final average salary (FAS), and service credit. Members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplies by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Refer to the age-and-service tables located in the OPERS 2014 CAFR Plan Statement for additional information regarding the requirements for reduced and unreduced benefits. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation and annual cost-of-living adjustment.

Benefits in the Combined Plan consist of both an age-and service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for members in transition Groups A and B applies a factor of 1.0% to the member's FAS for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS for the first 35 years of service. A factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions.

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 12. Net Pension Liability (Continued)

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS Board. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the members' contributions plus or minus the investment gains or losses resulting from the members' investment selections. Combined Plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. At retirement, members may select of several distribution options for payment of the vested balance of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

Other benefits: Once a benefit recipient retiring under the Traditional Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on a member's base benefit. Members retiring under the Combined Plan receive a 3% cost-of-living adjustment on the defined benefit portion of their benefit. A death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional Pension Plan and Combined Plan. Death benefits are not available to beneficiaries of Member-Directed Plan participants.

The Ohio Revised Code provides the statutory authority for employee and employer contributions. For the year ended December 31, 2015, the employee contribution rate was 10.0% of covered payroll and the Hospital was required to contribute 14.0% of covered payroll. For 2015, member and employee contribution rates were consistent across all three plans. The Hospital's contributions to OPERS for the year ended December 31, 2015 were \$1,689,006 equal to the required contribution for the year. The contribution for 2015 was made up of \$1,599,952 for the Traditional Pension Plan, \$50,544 for the Combined Plan, and \$38,510 for the Member Directed Plan.

Pension Liabilities, Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pensions: At December 31, 2015, the Hospital reported a liability of \$11,755,379 for its proportionate share of the net pension liability related to the Traditional Pension Plan and an asset of \$39,173 for its proportionate share of the net pension asset related to the Combined Plan. The net pension liability and asset were measured as of December 31, 2014, and the total pension liability/asset used to calculate the net pension liability/asset was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability/asset was based on the Hospital's contributions to the pension plan relative to contributions of all participating employers contributed to the Plan during the measurement period (year ended December 31, 2014). At December 31, 2014, the Hospital's proportion was 0.097461 percent for the Traditional Pension Plan and 0.001017 percent for the Combined Plan.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 12. Net Pension Liability (Continued)

For the year ended December 31, 2015, the Hospital recognized pension expense for the Traditional Pension Plan, the Combined Plan, and the Member-Directed Plan of \$114,360. At December 31, 2015, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$0 | \$206,518 |
| Net difference between projected and actual earnings on pension plan investments | 627,231 | 0 |
| Hospital contributions subsequent to the measurement date | 1,373,925 | 0 |
| Total Traditional Pension Plan | 2,001,156 | 206,518 |
| | | |
| Differences between expected and actual experience | 0 | 11,954 |
| Net difference between projected and actual earnings on pension plan investments | 2,391 | 0 |
| Hospital contributions subsequent to the measurement date | 44,848 | 0 |
| Total Combined Plan | 47,239 | 11,954 |
| | | |
| Total | \$2,048,395 | \$218,472 |

The Traditional Pension Plan and the Combined Plan reported \$1,373,925 and \$44,848, respectively, as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | Traditional Pension Plan | Combined Plan |
|--------------------------|-----------------------------|------------------|
| Year Ending December 31: | | |
| 2016 | \$61,519 | (\$824) |
| 2017 | 61,519 | (824) |
| 2018 | 140,866 | (824) |
| 2019 | 156,809 | (824) |
| 2020 | 0 | (1,422) |
| Thereafter | 0 | (4,845) |
| Total | \$420,713 | (\$9,563) |

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 12. Net Pension Liability (Continued)

Actuarial Assumptions – OPERS Traditional Pension Plan and Combined Plan

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability (Traditional Pension Plan) and pension asset (Combined Plan) were determined by actuarial valuations as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement in accordance with the requirements of GASB Statement No. 68. Key methods and assumptions used in the latest actuarial valuations are presented below and pertain to both the Traditional Pension Plan and the Combined Plan:

| | |
|--|--|
| Valuation Date | December 31, 2014 |
| Experience Study | 5 year period ended December 31, 2010 |
| Actuarial Cost Method | Individual entry age |
| Wage Inflation | 3.75 percent |
| Future Salary Increases, including inflation | 4.25 to 10.05 percent including wage inflation |
| COLA or Ad Hoc COLA | 3 percent, simple |
| Investment Rate of Return | 8 percent |
| Cost of Living Adjustments | 3.00 percent simple |

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The discount rate used to measure the total pension liability was 8 percent for both the Traditional Pension Plan and the Combined Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be sufficient to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for both the Traditional Pension Plan and the Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 12. Net Pension Liability (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return for both the Traditional Pension Plan and the Combined Plan:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|------------------------|--------------------------|---|
| Fixed Income | 23.00 % | 2.31 % |
| Domestic Equities | 19.90 | 5.84 |
| Real Estate | 10.00 | 4.25 |
| Private Equity | 10.00 | 9.25 |
| International Equities | 19.10 | 7.40 |
| Other investments | 18.00 | 4.59 |
| Total | 100.00 % | 5.28 % |

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investment portfolios for the Defined Benefits portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio.

Detailed information about the pension plan’s fiduciary net position is available in the separately issued OPERS financial report. Additional information supporting the preparation of the Schedules Collective Pension Amounts and Employer Allocations (including the disclosures of the net pension liability/(asset) required supplementary information on the net position liability/(asset), and the unmodified audit opinion on the combined financial statements) is located in the OPERS 2014 CAFR. This CAFR is available at www.opers.org, or by contacting OPERS at: OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (800)222-7377.

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 12. Net Pension Liability (Continued)

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

The following table presents the proportionate share of the net pension liability (asset) calculated using the current period discount rate assumption of 8 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

| Net Pension Liability/(Asset) | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|-------------------------------|------------------------|-------------------------------------|------------------------|
| Traditional Pension Plan | \$21,626,531 | \$11,755,379 | \$3,441,493 |
| Combined Plan | \$5,087 | (\$39,173) | \$74,272 |

The Member-Directed Plan is a defined contribution plan in which at retirement, members have the option to convert their defined contribution account to a defined benefit annuity.

Note 13. Other Post-Retirement Benefits

Post-retirement benefits: OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits including post employment healthcare coverage.

OPERS maintains two cost-sharing multiple-employer defined benefit post employment healthcare trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for post-employment healthcare coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Healthcare coverage of disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45. OPERS' eligibility requirements for post-employment healthcare coverage changed for those retiring on and after January 1, 2015. Details of the changes are available in the Plan Statement in the OPERS 2013 CAFR.

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

OPERS issues a stand-alone financial report. A copy may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, or by writing OPERS at 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provided the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post employment healthcare benefits.

Hocking County
Notes to the Basic Financial Statements
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NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 13. Other Post-Retirement Benefits (Continued)

The employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, the employer contribution was 14.0% of earnable salary. The Ohio Revised Code limits the employer contribution to a rate not to exceed 14.0% of earnable salary. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment HealthCare plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to healthcare for members in the Traditional Plan and Combined Plan was 2.0% during calendar year 2015. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the healthcare provided. Payment amounts vary depending on the coverage selected and the number of covered dependents. The Hospital's contributions for 2015, 2014, and 2013 used to fund post-retirement healthcare benefits were \$241,190, \$246,539 and \$503,116, respectively, which are included in the Hospital's contractually required contribution of \$1,689,006, \$1,760,205 and \$1,760,995 for the years ended December 31, 2015, 2014 and 2013, respectively.

Changes to the healthcare plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.0% of the employer contributions toward the healthcare fund after the end of the transition period.

Note 14. Related Parties

Hocking Valley Community Hospital Memorial Fund, Inc.: The Hospital is the primary beneficiary of The Hocking Valley Community Hospital Memorial Fund, Inc. (Foundation). The Foundation is a separate not-for-profit entity organized for the purpose of soliciting gifts for the benefit of the Hospital.

The Hospital entered into a 10-year non-cancelable lease with the Foundation for the Medical Arts Building that expires in September 2018. The Hospital is responsible for utilities, taxes, maintenance and insurance in addition to the rental payments of \$6,256 per month. Future minimum rental payments for the years ending December 31 are as follows:

| | |
|--|-------------------------|
| 2016 | \$75,075 |
| 2017 | 75,075 |
| 2018 | <u>56,306</u> |
| Total future minimum lease payments | <u>\$206,456</u> |

Hocking Valley Medical Group, Inc. (HVMG): HVMG is organized as a separate not-for-profit stock professional corporation. The purpose of HVMG is to engage in the practice and to render the professional services of medicine and to further the charitable purposes of the Foundation and the Hospital. The financial activities of HVMG are not consolidated with that of the Foundation because of the absence of the criteria, control and economic interest, that would require consolidation.

During the year ended December 31, 2015, the Hospital disbursed funds totaling \$2,039,000 on behalf of HVMG to fund operating deficits, respectively. This amount was paid to the Foundation, who acting as fiscal agent, remitted the funds to HVMG. There were no amounts due to or receivable from HVMG at December 31, 2015.

NOTE 23 – COMPONENT UNIT DISCLOSURES – HOCKING VALLEY COMMUNITY HOSPITAL - (CONTINUED)

Note 14. Related Parties (Continued)

Hocking Valley Health Services: Hocking Valley Health Services (HVHS) is a not-for-profit membership corporation located in Logan, Ohio. The purpose of HVHS is to provide healthcare and physician services and to own, lease, operate and/or provide healthcare facilities for the promotion of health in the area served by the Hospital. Additionally, HVHS is to conduct strategic healthcare planning and otherwise operate exclusively for the benefit and support of the Board of Trustees of the Hospital. The Board of Trustees of HVHS is elected by HVHS' members. The Board of Trustees of the Hospital controls 50% of the voting rights of the HVHS Board. HVHS has not entered into any financial activities as of or for the years ended December 31, 2015. Therefore, the Hospital's financial statements exclude the activities of HVHS.

Note 15. Commitments and Contingencies

Regulatory environment including fraud and abuse matters: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or asserted at this time.

Centers for Medicare and Medicaid Services Recovery Audit Contractor Program: Congress passed the Medicare Modernization Act in 2003, which among other things established a three-year demonstration of the Medicare Recovery Audit Contractor Program (RAC) program. The RAC's identified and corrected a significant amount of improper payments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states by 2010. The Centers for Medicare and Medicaid Services (CMS) has rolled out this program nationally.

NOTE 24 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY INDUSTRIES, INC.

As indicated in Note 1 to the basic financial statements, the following disclosures are made on behalf of Hocking Valley Industries, Inc. as of December 31, 2015:

NOTE A ORGANIZATION AND OPERATIONS

Hocking Valley Industries, Inc. (hereafter referred to as "the Agency") is incorporated in the State of Ohio. The Agency provides employment opportunities and habilitation programming for the mentally and physically handicapped through a sheltered workshop as well as cleaning and lawn care services provided to local businesses and government.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America. Revenues are recognized when earned and expenses are recognized when incurred.

NOTE 24 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY INDUSTRIES, INC. -(CONTINUED)

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The financial statement presentation follows the recommendations of the FASB Accounting Standards Codification Financial Accounting Statements of Not-for-Profit Organizations. Under this standard, the Agency is required to report information regarding its financial position and activities according to three classes of net position as follows:

Unrestricted net position – Net position that is not subject to donor-imposed stipulations.

Temporarily restricted net position – Net position that is subject to donor-imposed restrictions that may or will be met, either by actions of the Agency and/or the passage of time.

Permanently restricted net position – Net position subject to donor-imposed stipulations that they be maintained permanently by the Agency.

There was no temporarily or permanently restricted net position as of December 31, 2015.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

In-kind contributions and related expense is estimated based on unaudited data utilizing cost report calculations.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Agency considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Accounts receivable for program service fees are reported at the amount the Organization expects to be reimbursed by Medicaid based on approved reimbursement rates in place at the time that service is provided. Management considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is reported. Management establishes an allowance for doubtful accounts when it determines amounts become uncollectible.

Inventory

Inventory consists primarily of janitorial and contract supplies and is priced at cost, principally first in, first out.

Property and Equipment

Property and equipment is stated at cost and includes expenditures for new equipment and those which significantly extend the useful lives of existing equipment. Maintenance, repairs and renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and allowance for depreciation are removed from respective accounts and any gain or loss is included in the statement of activities.

Depreciation

Depreciation is computed using the accelerated cost recovery system and the modified accelerated depreciation system (straight-line) as appropriate. The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Depreciation expense was \$7,049 for the year ended December 31, 2015. Estimated useful lives are 5-7 years for equipment and vehicles.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 24 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY INDUSTRIES, INC. - (CONTINUED)

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation Accrual

In September 2014, the Agency changed its policy for accruing vacation and the criteria in which an employee is eligible to receive this benefit. Those no longer eligible for vacation benefits were paid their accrued balances during 2014. Employees may earn vacation time if employed and scheduled full-time which constitutes more than thirty (30) scheduled hours in a weekly time period, per schedule and job description. Vacation leave will be accrued by calculation of hours worked determined by the following years of employment:

| <u>Years of Employment</u> | <u>Factor</u> |
|----------------------------|---------------|
| 1-3 years | .01923 |
| 3-8 years | .03846 |
| Over 8 years | .05769 |

Vacation time can carry over from year to year. The Agency accrued vacation benefits as of December 31, 2015 which amounted to \$9,250.

Sick – During 2015, the Agency began accruing earned sick time for full-time employees which constitutes (30) scheduled hours in a weekly time period. Sick leave will be accrued by calculation of hours worked multiplied by the rate .1923. Sick time accrual was \$9,961 at December 31, 2015.

Revenue Recognition

The Agency recognizes revenues when service is rendered or product is delivered. Program service revenue is recorded at established reimbursement rates at the time the services are provided, adjusted to net realizable amounts. Reimbursement rates established by Medicaid are subject to change. Audit and retroactive rate adjustments are recorded in the period the Agency is notified of the adjustments, as applicable.

Presentation of Sales Tax

The State of Ohio and counties within the State impose a sales tax on all of the Agency's sales to non-exempt customers. The Agency collects the sales tax from customers and remits the entire amount to the State. The Agency's accounting policy is to exclude the tax collected and remitted to the State from revenue and cost of sales.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$341 for the year ended December 31, 2015.

Income Taxes

The Agency follows accounting rules that prescribe when to recognize and how to measure the financial effects, if any, of income tax positions taken or expected to be taken on its income tax returns, including the position that the Agency continues to qualify to be treated as non-for-profit organization exempt from income tax provisions. Management is required to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained.

The Agency is a not-for-profit voluntary agency exempt from income tax under Section 501 (c) (3) of the Internal Revenue Code. Accordingly, no provision for federal income taxes has been made in the financial statements. The Agency's informational returns for tax years 2012 and beyond remain subject to examination by Internal Revenue Service.

The Agency did not have unrecognized tax benefits as of December 31, 2015 and does not expect this to change significantly over the next 12 months. The Agency will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2015, the Agency has not accrued interest or penalties related to uncertain tax positions.

NOTE 24 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY INDUSTRIES, INC. - (CONTINUED)

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments

Substantially all of the Agency's current assets and liabilities are considered financial instruments. These assets and liabilities are reflected at fair value, or at carrying amounts that approximate fair value because of the short maturity of the instrument. Other financial instruments consist of long term obligations. The fair value of long-term obligations is estimated based on current interest rates offered to the Agency for obligations with similar remaining maturities. The recorded value of these financial instruments approximated fair value at December 31, 2015.

Concentration of Credit Risk

The Agency maintains cash balances in financial institutions where account balances may, although typically do not, exceed federally insured limits of up to \$250,000. Management does not believe it is exposed to any significant credit risk on cash and cash equivalents. The Agency grants credit to its customers, who are located within the same geographic region, and credit is generally unsecured and requires no collateral.

In-Kind Support

The Agency recognizes services received from personnel of an affiliate that benefit the Agency and is measured at the cost recognized by the affiliate for personnel providing those services. The Agency recorded such services as In-kind contribution – Hocking County and expenses associated with the in-kind contributions.

Recent Accounting Pronouncements

In May 2015, the FASB issued Revenue from Contracts with Customers (Topic 606) (ASU 2015-09). The objective of the guidance in this Topic is to establish the principles that an entity shall apply to report useful information to users of the financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle is that the entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For nonpublic entities, the amendment is effective for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Early adoption and retrospective application is permitted with limitations. The Agency has not adopted the pronouncement.

In February 2016, the FASB issued Leases (Topic 842, ASU 2016-03). The guidance in this Update supersedes Topic 840, Leases. The amendments in this Update recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. A lessee should recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, unless the term of the lease 12 months or less. The Update specifies the requirements of lessees for recognition and classification for financial statements purposes for finance leases and operating leases. For lessors, the vast majority of operating leases should remain classified as operating leases, and lessors should continue to recognize lease income for those leases on a generally straight-line basis over the lease term. For nonpublic entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all entities. The Agency has not adopted the pronouncement.

NOTE C FUNCTIONAL EXPENSES

The costs of providing the Agency's various programs and supporting services have been summarized on a functional basis in the statement of activities. Expenses are charged directly to program, management and general, or fundraising based on a combination of specific identification and allocation by management.

NOTE 24 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY INDUSTRIES, INC. - (CONTINUED)

NOTE D RELATED PARTY TRANSACTIONS

Leases

The Agency is a component unit of the Hocking Valley Board of Developmental Disabilities (169 Board), and the Agency leases its premises from the 169 Board. The rental fees were waived by the 169 Board for 2015.

In-Kind Contributions - Hocking County

In-kind contributions represent the value of salaries, administrative services, and capital costs provided by 169 Board in the amount of \$236,300 for the year ended December 31, 2015. The amounts were estimated based on unaudited information. The Agency recognizes this as revenue and corresponding expense on the statement of activities

Other Related Party Transactions

The Agency receives grants and is reimbursed for expenses by the 169 Board which is recorded as revenue in the amount \$102,161 for the year ended December 31, 2015. The Agency provided cleaning services to the 169 Board during 2015 in the amount of \$6,811, of which the accounts receivable balance due from the 169 Board was \$1,991 as of December 31, 2015. Expenses paid by the Agency to 169 Board amounted to \$7,654 for the year ended December 31, 2015.

A board Member is principal in an organization that utilizes cleaning services proved by the Agency.

NOTE E NOTES PAYABLE

During 2015, the Agency purchased a vehicle that they financed a portion through the Citizens Bank of Logan in the amount of \$14,947, due in 60 monthly installments of \$374 with interest at an annual rate of 4.16%, due December 9, 2019 and secured by the vehicle purchased. Interest related to the noted totaled \$36 for the year ended December 31, 2015.

Future principal payments for the years ending December 31 are as follows:

| | |
|-------|-----------------|
| 2016 | \$3,604 |
| 2017 | 4,109 |
| 2018 | 4,283 |
| 2019 | <u>2,612</u> |
| Total | <u>\$14,608</u> |

NOTE F PRIVITIZATION

During 2014, the Hocking Valley Board of Developmental Disabilities (169 Board) and the Agency board of directors approved the Agency to begin the process of privatization. During 2015, the Agency directly hired an Executive Director and Facility Manager, Medicaid certification was obtained, and cleaning services and related transportation and Can-Do rehabilitation services was billed to Medicaid. The 169 Board will continue to support the entity thru this transition until the process is complete. The timing has not been determined as to the completion of this transition to privatization.

Hocking County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 24 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY INDUSTRIES, INC. - (CONTINUED)

NOTE G LEASE COMMITMENTS

The Agency entered into a non-cancelable lease agreement with Modern Office methods, Inc. for a copy machine during 2013. Monthly payments are \$408, plus overages. The 169 Board had been making the payments and include the amounts in in-kind contributions and expenses. The Agency started making payments in June 2014.

Future minimum lease payments are as follows:

| | |
|-------|-----------------|
| 2016 | \$4,896 |
| 2017 | 4,896 |
| 2018 | <u>2,448</u> |
| Total | <u>\$12,240</u> |

Hocking County
Required Supplementary Information
Schedule of the County's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System
Last Two Years

| | <u>2014</u> | <u>2013</u> |
|---|-----------------------|-----------------------|
| Total plan pension liability | \$ 89,017,348,266 | \$ 86,407,229,435 |
| Plan net position | <u>76,956,230,642</u> | <u>74,618,532,269</u> |
| Net pension liability | 12,061,117,624 | 11,788,697,166 |
| County's proportion of the net pension liability | 0.072659% | 0.072659% |
| County's proportionate share of the net pension liability | \$ 8,763,488 | \$ 8,565,549 |
| County's covered-employee payroll | \$ 8,591,101 | \$ 10,424,351 |
| County's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 102.00% | 82.20% |
| Plan fiduciary net position as a percentage of the total pension liability | 86.45% | 86.36% |

Hocking County
Required Supplementary Information
Schedule of County Contributions
Ohio Public Employees Retirement System
Last Ten Years

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Contractually required contribution | \$ 1,155,212 | \$ 1,071,156 | \$ 1,253,401 | \$ 1,442,139 | \$ 1,496,126 | \$ 1,437,885 | \$ 1,439,900 | \$ 1,508,236 | \$ 1,442,583 | \$ 1,285,621 |
| Contributions in relation to the contractually required contribution | (1,155,212) | (1,071,156) | (1,253,401) | (1,442,139) | (1,496,126) | (1,437,885) | (1,439,900) | (1,508,236) | (1,442,583) | (1,285,621) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| County's covered-employee payroll | \$ 9,279,396 | \$ 8,591,101 | \$ 10,424,351 | \$ 11,977,350 | \$ 12,393,394 | \$ 11,870,374 | \$ 11,833,248 | \$ 11,538,469 | \$ 11,358,921 | \$ 10,203,341 |
| Contributions as a percentage of covered employee payroll | 12.00% | 12.00% | 13.00% | 12.04% | 12.07% | 12.11% | 12.17% | 13.07% | 12.70% | 12.60% |

County rate includes Regular PERS employer rate and Public Safety employer rate combined.

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

Board of Commissioners
Hocking County
1 East Main Street
Logan, Ohio 43138

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 the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Hocking County, Ohio (the County) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 25, 2016. Our report includes a reference to other auditors who audited the financial statements of Hocking Valley Community Hospital and Hocking Valley Industries, Inc., as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Hocking Valley Industries, Inc. were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Hocking Valley Industries, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

July 25, 2016

Hocking County Financial Condition
Schedule of Prior Audit Findings
For the Year Ended December 31, 2015

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|------------------|---|------------------|--|
| Finding 2014-001 | Noncompliance/Significant Deficiency – Cash Management – Community Development Block Grants, CFDA #14.228 | Yes | |



Dave Yost • Auditor of State

HOCKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 18, 2016