

Highland County Joint Township District Hospital

Independent Auditor's Reports and Financial Statements

December 31, 2017 and 2016



Dave Yost • Auditor of State

Board of Trustees and Hospital Board of Governors
Highland County Joint Township District Hospital
1275 N. High Street
Hillsboro, Ohio 45133

We have reviewed the *Independent Auditor's Report* of the Highland County Joint Township District Hospital, Highland County, prepared by BKD, LLP, for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

April 26, 2018

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Highland County Joint Township District Hospital

December 31, 2017 and 2016

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Independent Auditor's Report

Board of Trustees
Highland County Joint Township District Hospital
Hillsboro, Ohio

Report on the Financial Statements

We have audited the accompanying balance sheets of Highland County Joint Township District Hospital, an enterprise fund of Highland County, Ohio, as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Highland County Joint Township District Hospital as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 March 28, 2018, on our consideration of Highland County Joint Township District Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Highland County Joint Township District Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Highland County Joint Township District Hospital's internal control over financial reporting and compliance.

BKD, LLP

Cincinnati, Ohio
March 28, 2018

Highland County Joint Township District Hospital

Management's Discussion and Analysis

December 31, 2017 and 2016

Introduction

This management's discussion and analysis of the financial performance of Highland County Joint Township District Hospital and its blended component units (collectively, the "Organization") provides an overview of the Organization's financial activities for the years ended December 31, 2017 and 2016. It should be read in conjunction with the accompanying financial statements of the Organization.

Financial Highlights

- Cash and investments increased in 2017 by \$3,736,536, or 17.12%, and in 2016 by \$1,731,881, or 8.62%.
- Assets limited as to use, net of amounts required to meet current obligations, decreased in 2017 by \$1,421,818, or 13.42% and in 2016 by \$425,957, or 3.87%.
- The Organization's net position increased by \$41,438 or 0.14% in 2017 and by \$3,010,857 or 11.55% in 2016.
- The Organization reported operating income in 2017 of \$422,129 and in 2016 of \$3,410,915. The operating income in 2017 decreased by \$2,988,786 or 87.62% over the operating income reported in 2016. The operating income in 2016 decreased by \$2,501,013 or 42.30% over the operating income reported in 2015.
- Net nonoperating expenses decreased by \$415,862 or 34.63% in 2017 compared to 2016, and increased by \$57,762 or 5.05% in 2016 compared to 2015.

Using This Annual Report

The Organization's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Organization, including resources held by the Organization but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Organization is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any Organization's finances is "Is the Organization as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Organization's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all liabilities and all deferred inflows and outflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Organization’s net position and changes in it. The Organization’s total net position—the difference between assets, liabilities and deferred inflows and outflows of resources—is one measure of the Organization’s financial health or financial position. Over time, increases or decreases in the Organization’s net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Organization’s patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Organization.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Organization’s Net Position

The Organization’s net position is the difference between its assets, liabilities and deferred inflows and outflows of resources. The Organization’s net position increased by \$41,438 (0.14%) in 2017 over 2016, and increased by \$3,010,857 (11.55%) in 2016 over 2015, as shown in Table 1.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Patient accounts receivable, net	\$ 6,506,720	\$ 6,713,961	\$ 6,034,348
Other current assets	5,500,827	7,493,291	7,255,555
Capital assets, net	12,657,048	11,989,773	9,844,927
Net pension asset	59,434	57,957	48,698
Other noncurrent assets	<u>30,967,677</u>	<u>27,052,509</u>	<u>26,439,563</u>
Total assets	55,691,706	53,307,491	49,623,091
Deferred Outflows of Resources	<u>10,365,319</u>	<u>7,556,592</u>	<u>2,771,626</u>
Total assets and deferred outflows of resources	<u>\$ 66,057,025</u>	<u>\$ 60,864,083</u>	<u>\$ 52,394,717</u>
Liabilities			
Long-term debt	\$ 4,395,000	\$ 5,285,000	\$ 6,165,000
Net pension liability	25,379,250	18,858,523	13,072,514
Other current and noncurrent liabilities	6,976,968	7,251,724	6,848,278
Total liabilities	<u>36,751,218</u>	<u>31,395,247</u>	<u>26,085,792</u>
Deferred Inflows of Resources	<u>181,442</u>	<u>385,909</u>	<u>236,855</u>
Net Position			
Net investment in capital assets	8,262,048	6,704,773	3,679,927
Restricted expendable	1,402,920	1,561,204	1,604,079
Unrestricted	<u>19,459,397</u>	<u>20,816,950</u>	<u>20,788,064</u>
Total net position	<u>29,124,365</u>	<u>29,082,927</u>	<u>26,072,070</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 66,057,025</u>	<u>\$ 60,864,083</u>	<u>\$ 52,394,717</u>

The most significant changes in the Organization's financial position during 2017 and 2016 was the result of operations during the years and the effects of pension accounting standards. Other changes include an increase in other noncurrent assets due to an increase in investments, a decrease in long-term debt due to payment of scheduled principal amounts, and an increase in capital assets, net of depreciation due to purchases and construction costs during the year.

Operating Results and Changes in the Organization's Net Position

In 2017, the Organization's net position increased by \$41,438 or 0.14% compared to the increase of \$3,010,857 or 11.55% for 2016, as shown in Table 2. The increase in 2017 is made up of several components and represents a decrease of 98.62% when compared to the increase in net position for 2016. The increase in 2016 represents a decrease of 36.87% compared with the increase in net position of \$4,768,952 for 2015.

Table 2: Operating Results and Changes in Net Position

	2017	2016	2015
Operating Revenues			
Net patient service revenue	\$ 47,105,184	\$ 46,675,162	\$ 47,193,073
Other operating revenue	1,050,910	1,001,706	1,063,172
Total operating revenues	<u>48,156,094</u>	<u>47,676,868</u>	<u>48,256,245</u>
Operating Expenses			
Salaries, wages and employee benefits	30,006,444	26,415,522	23,863,651
Purchased services and professional fees	7,102,114	7,122,043	7,206,087
Depreciation and amortization	2,132,591	1,833,190	1,891,687
Other operating expenses	8,492,816	8,895,198	9,382,892
Total operating expenses	<u>47,733,965</u>	<u>44,265,953</u>	<u>42,344,317</u>
Operating Income	<u>422,129</u>	<u>3,410,915</u>	<u>5,911,928</u>
Nonoperating Revenues (Expenses)			
Investment income	346,041	207,825	241,154
Grant expense	(1,025,000)	(1,250,000)	(1,250,000)
Interest expense	(213,833)	(242,556)	(275,485)
Noncapital grants and gifts	107,916	83,993	141,355
Total nonoperating revenues (expenses)	<u>(784,876)</u>	<u>(1,200,738)</u>	<u>(1,142,976)</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts	<u>(362,747)</u>	<u>2,210,177</u>	<u>4,768,952</u>
Capital Gifts	<u>404,185</u>	<u>800,680</u>	<u>-</u>
Increase in Net Position	41,438	3,010,857	4,768,952
Net Position, Beginning of Year	<u>29,082,927</u>	<u>26,072,070</u>	<u>21,303,118</u>
Net Position, End of Year	<u>\$ 29,124,365</u>	<u>\$ 29,082,927</u>	<u>\$ 26,072,070</u>

Operating Income

The first component of the overall change in the Organization's net position is its operating income—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past two years, the Organization has reported operating income. This is consistent with the Organization's recent operating history as the Organization was formed and is operated primarily to serve residents of Highland County and the surrounding area.

The operating income for 2017 decreased by \$2,988,786, or 87.62% compared to the operating income for 2016. The operating income for 2016 decreased by \$2,501,013, or 42.30% compared to the operating income for 2015. The primary components of the changes in operating income are:

- An increase in net patient service revenue of \$430,022 or 0.92% for 2017, compared to a decrease of \$517,911 or 1.10%, for 2016 when compared to 2015.
- An increase in other operating revenue of \$49,204 or 4.91% for 2017, compared to a decrease of \$61,466 or 5.78% for 2016 when compared to 2015.
- An increase in salaries, wages and employee benefits for the Organization's employees of \$3,590,922 or 13.59% for 2017, compared to an increase of \$2,551,971 or 10.69% for 2016 when compared to 2015.
- A decrease in other operating expenses of \$402,382 or 4.52% for 2017, compared to a decrease of \$487,694 or 5.20% for 2016 when compared to 2015. The operating income for 2017 of \$422,129 decreased significantly compared to the operating income of \$3,410,915 recognized in 2016. The combined increases in employee salaries, wages and benefits costs, offset by a decrease in other operating expenses, was the cause for most of the decline.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense and grant expense, all of which remained relatively consistent in 2017 as compared to 2016. The Organization experienced an increase in investment return in 2017 compared to 2016 as a result of changing market conditions throughout the year, and had a decrease in interest expense due to a lower average debt balance throughout the year.

Capital Gifts

In 2017, the Organization received gifts of \$404,185 compared to \$800,680 in 2016 from various organizations and individuals for use toward the Organization's Emergency Department expansion project. Gifts that have been expended are reflected in unrestricted net position as of December 31, 2017 and 2016.

The Organization's Cash Flows

Changes in the Organization's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2017, 2016 and 2015 discussed earlier. Cash provided by operating activities increased by \$1,085,527 or 17.91% in 2017 compared to the net cash provided by operating activities in 2016 due to the increase in the Organization's net patient service revenue and decrease in purchased services for 2017.

Capital Asset and Debt Administration

Capital Assets

At the end of 2017 and 2016, the Organization had \$12,657,048 and \$11,989,773, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2017, the Organization purchased new equipment and incurred construction costs totaling \$2,806,044 compared to the cost of additions in 2016 of \$3,978,202.

Debt

At December 31, 2017, the Organization had \$4,395,000 in revenue bonds outstanding compared to \$5,285,000 outstanding as of December 31, 2016. The Organization did not issue any new debt in 2017 or 2016. The Organization's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Organization's debt ratings in the past two years. In 2007, the Organization entered into a pay-fixed, receivable-variable interest rate swap with a fixed rate of 3.942% and which terminates on December 1, 2021. The fair value of the swap as of December 31, 2017 and 2016 was a liability of \$154,851 and \$250,892, respectively.

Other Economic Factors

The Organization may be impacted by outside factors in the future. Some of these factors may include:

- Changes in the local economy, which may cause volumes to significantly increase or decrease. Bad debts, charity care, financial mix and utilization may also be impacted.
- Federal and state government budget changes, which could change the funding for Medicare and Medicaid.
- The Patient Protection and Affordable Care Act (PPACA) continues to be scrutinized by Congress. Changes or delays in the law's provisions could have an impact on the Organization's net patient service revenue going forward.
- Physician relationships/alignment will continue to develop, which impacts the quality, cost and services provided to the community.

The Organization intends to meet these challenges in healthcare through improved efficiencies, continued quality improvement, physician and staff relations and technology.

Contacting the Organization's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Organization's finances. Questions about this report and requests for additional financial information should be directed to the Organization's President/CEO and Vice President of Finance/CFO at 1275 North High Street, Hillsboro, Ohio 45133.

Karen Shadowens
Chief Financial Officer

Highland County Joint Township District Hospital

Balance Sheets

December 31, 2017 and 2016

Assets and Deferred Outflows of Resources

	2017	2016
Current Assets		
Cash and cash equivalents	\$ 3,958,576	\$ 5,678,926
Assets limited as to use - current portion	292,519	288,485
Patient accounts receivable, net of allowance for uncollectible accounts; 2017 - \$4,465,886, 2016 - \$4,562,369	6,506,720	6,713,961
Contributions receivable	124,600	122,433
Other receivables	318,848	459,952
Estimated amounts due from third-party payers	-	97,352
Supplies	472,775	407,370
Prepaid expenses and other current assets	333,509	438,773
Total current assets	12,007,547	14,207,252
Assets Limited as to Use		
Internally designated for specific purpose	8,440,435	9,816,191
Restricted by donors for capital improvements	732,267	778,329
Held by trustee under bond indenture agreements	292,519	288,485
	9,465,221	10,883,005
Less amounts required to meet current obligations	(292,519)	(288,485)
	9,172,702	10,594,520
Long-Term Investments	21,600,875	16,143,989
Contributions Receivable	194,100	314,000
Capital Assets, net	12,657,048	11,989,773
Net Pension Asset	59,434	57,957
Total assets	55,691,706	53,307,491
Deferred Outflows of Resources	10,365,319	7,556,592
Total assets and deferred outflows of resources	\$ 66,057,025	\$ 60,864,083

Highland County Joint Township District Hospital
Balance Sheets (Continued)
December 31, 2017 and 2016

Liabilities, Deferred Inflows of Resources and Net Position

	2017	2016
Current Liabilities		
Current maturities of long-term debt	\$ 890,000	\$ 890,000
Accounts payable	1,757,011	2,590,755
Accrued expenses	3,030,821	3,075,275
Estimated amounts due to third-party payers	2,034,285	1,334,802
Total current liabilities	7,712,117	7,890,832
Long-Term Debt	3,505,000	4,395,000
Interest Rate Swap Agreement	154,851	250,892
Net Pension Liability	25,379,250	18,858,523
Total liabilities	36,751,218	31,395,247
Deferred Inflows of Resources - Pension	181,442	385,909
Net Position		
Net investment in capital assets	8,262,048	6,704,773
Restricted - expendable for		
Capital improvements	1,050,967	1,214,762
Debt service	292,519	288,485
Pensions	59,434	57,957
Unrestricted	19,459,397	20,816,950
Total net position	29,124,365	29,082,927
Total liabilities, deferred inflows of resources and net position	\$ 66,057,025	\$ 60,864,083

Highland County Joint Township District Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 - \$5,595,326, 2016 - \$4,681,166	\$ 47,105,184	\$ 46,675,162
Other	1,050,910	1,001,706
Total operating revenues	48,156,094	47,676,868
Operating Expenses		
Salaries and wages	20,129,696	18,867,153
Employee benefits	9,876,748	7,548,369
Purchased services	5,793,875	5,911,381
Supplies	6,155,247	6,587,283
Insurance	257,997	269,209
Utilities	879,655	827,902
Physician fees	1,183,394	1,101,076
Depreciation and amortization	2,132,591	1,833,190
Franchise fees	532,701	511,047
Rental and lease expenses	253,857	250,590
Professional fees	124,845	109,586
Other operating expenses	413,359	449,167
Total operating expenses	47,733,965	44,265,953
Operating Income	422,129	3,410,915
Nonoperating Revenues (Expenses)		
Investment income	346,041	207,825
Grant expense	(1,025,000)	(1,250,000)
Interest expense	(213,833)	(242,556)
Noncapital grants and gifts	107,916	83,993
Total nonoperating revenues (expenses)	(784,876)	(1,200,738)
Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts	(362,747)	2,210,177
Capital Gifts	404,185	800,680
Increase in Net Position	41,438	3,010,857
Net Position, Beginning of Year	29,082,927	26,072,070
Net Position, End of Year	\$ 29,124,365	\$ 29,082,927

Highland County Joint Township District Hospital

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 48,109,260	\$ 46,554,543
Payments to suppliers and contractors	(13,398,087)	(13,524,741)
Payments to employees	(26,640,883)	(25,268,165)
Other operating payments, net	<u>(922,558)</u>	<u>(1,699,432)</u>
Net cash provided by operating activities	<u>7,147,732</u>	<u>6,062,205</u>
Noncapital Financing Activities		
Noncapital grants and gifts	107,916	83,993
Other noncapital financing payments	<u>(1,025,000)</u>	<u>(1,250,000)</u>
Net cash used in noncapital financing activities	<u>(917,084)</u>	<u>(1,166,007)</u>
Capital and Related Financing Activities		
Capital gifts	404,185	364,247
Principal paid on long-term debt	(890,000)	(880,000)
Interest paid on notes payable to banks and long-term debt	(213,833)	(242,556)
Purchase of capital assets	<u>(3,558,289)</u>	<u>(3,036,443)</u>
Net cash used in capital and related financing activities	<u>(4,257,937)</u>	<u>(3,794,752)</u>
Investing Activities		
Interest and dividends on investments	346,041	207,825
Purchase of investments	(5,456,886)	(724,903)
Purchase of assets limited as to use	(572,245)	(866,497)
Proceeds from sale of assets limited as to use	<u>2,196,314</u>	<u>1,553,586</u>
Net cash provided by (used in) investing activities	<u>(3,486,776)</u>	<u>170,011</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,514,065)	1,271,457
Cash and Cash Equivalents, Beginning of Year	<u>6,055,194</u>	<u>4,783,737</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,541,129</u>	<u>\$ 6,055,194</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 3,958,576	\$ 5,678,926
Restricted cash	<u>582,553</u>	<u>376,268</u>
Total cash and cash equivalents	<u>\$ 4,541,129</u>	<u>\$ 6,055,194</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 422,129	\$ 3,410,915
Depreciation and amortization	2,132,591	1,833,190
Provision for uncollectible accounts	5,595,326	4,681,166
Changes in operating assets and liabilities:		
Patient accounts receivable	(5,388,085)	(5,360,779)
Estimated amounts due from and to third-party payers	796,835	558,994
Accounts payable and accrued expenses	(119,775)	343,898
Net pension asset and net pension liability	3,410,015	984,580
Other assets and liabilities	<u>298,696</u>	<u>(389,759)</u>
Net cash provided by operating activities	<u>\$ 7,147,732</u>	<u>\$ 6,062,205</u>
Supplemental Cash Flows Information		
Change in fair value of interest rate swap	\$ (96,041)	\$ (156,258)
Capital asset acquisitions in accounts payable	183,336	941,759

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Highland County Joint Township District Hospital (Hospital) is a critical access hospital located in Hillsboro, Ohio. The Hospital is a political subdivision of the State of Ohio and was formed under the provisions of the Ohio revised code. Trustees from each of the 17 townships of Highland County constitute the Highland County Joint Township District Hospital Board of Trustees who appoints the Hospital Board of Governors which is composed of one member from each township and three at-large members. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Highland County area. It also operates a home health agency in the same geographic area.

In 1999, the Hospital formed Highland District Hospital Foundation, Inc. (HDH Foundation) and Highland District Hospital Professional Services Corporation (PSC) as not-for-profit corporations under Internal Revenue Code Section 501(c)(3). HDH Foundation is controlled by the Hospital's Board of Trustees and was formed to promote health in Highland County, Ohio and surrounding areas and serve for the exclusive benefit of the Hospital. PSC was formed under HDH Foundation to further the charitable purposes of HDH Foundation and the Hospital. During 2001, the Hospital formed Highland Joint Township District Hospital Foundation (HJTDH Foundation) as a not-for-profit corporation under Internal Revenue Code Section 501(c)(3) to raise and hold contributions for the benefit of the Hospital. The financial statements of these organizations have been presented as blended component units.

Collectively, the Hospital, HDH Foundation, PSC and HJTDH Foundation are referred to as the Organization.

Basis of Accounting and Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Organization first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

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, liabilities and deferred inflows and outflows of resources 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.

Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted primarily of money market accounts.

Risk Management

The Organization is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims.

The Organization is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments, Investment Income and Assets Limited as to Use

Investments in equity securities, negotiable certificates of deposit and U.S. government asset-backed securities are carried at fair value. Fair value is determined using quoted market prices. Investment income includes dividend and interest income and realized and unrealized gains and losses on investments carried at fair value.

Assets limited as to use include (1) assets internally designated by the Board of Trustees for future capital improvements and special operating needs over which the Board retains control and may at its discretion subsequently use for other purposes (2) assets externally restricted by donors and (3) assets held by trustee. Amounts required to meet current obligations are recognized as current assets.

Highland County Joint Township District Hospital

Notes to Financial Statements

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Patient Accounts Receivable

The Organization reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Organization provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Contributions Receivable

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Organization:

Land improvements	5 - 30 years
Buildings and leasehold improvements	10 - 40 years
Equipment	3 - 10 years

Deferred Outflows of Resources

The Organization reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its balance sheets. At December 31, 2017 and 2016, deferred outflows of resources were:

	2017	2016
Deferred outflows related to pensions	\$ 10,210,468	\$ 7,305,700
Deferred outflows related to the interest rate swap	154,851	250,892
	<u>\$ 10,365,319</u>	<u>\$ 7,556,592</u>

Highland County Joint Township District Hospital

Notes to Financial Statements

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Compensated Absences

Organization policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Cost-Sharing Multiple-Employer Defined-Benefit Pension Plans

The Hospital participates in two cost-sharing multiple-employer defined-benefit pension plans administered by the Ohio Public Employees Retirement System, the Traditional Pension Plan and the Combined Plan (Plans). For purposes of measuring the net pension liability and net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

The Organization reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its balance sheets.

Net Position

Net position of the Organization is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Organization, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Organization provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Organization does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As a political subdivision of the State of Ohio, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The HDH Foundation, PSC and HJTDH Foundation are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. However, the Organization is subject to federal income tax on any unrelated business taxable income.

Foundations

PSC, the HDH Foundation and HJTDH Foundation (Foundations) are legally separate, tax-exempt blended component units of the Hospital. Collectively, their functions are to further the charitable purposes of the Hospital and to raise and hold funds to support the Hospital and its programs. The boards of these organizations are self-perpetuating.

The Foundations are private nonprofit organizations that report under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations' statements in the Hospital's financial reporting entity for these differences.

Highland County Joint Township District Hospital

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December 31, 2017 and 2016

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Organization's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Organization is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes incentive payment revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements for the reporting period.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. The reclassifications had no effect on the change in net position.

Note 2: Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. Effective December 1, 2005, the Organization received full accreditation from the Center for Medicare and Medicaid Services for the critical access hospital designation. As a critical access hospital, the Hospital receives reasonable, cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The Organization is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicaid administrative contractor.

Highland County Joint Township District Hospital

Notes to Financial Statements

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Approximately 52% and 50% of net patient service revenue was from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Organization's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Ohio; bonds of any city, county, school district or special road district of the state of Ohio; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2017 and 2016, \$4,245,119 and \$4,849,342 of the Organization's bank balances of \$6,673,251 and \$7,353,187, respectively, were exposed to custodial credit risk as follows:

	<u>2017</u>	<u>2016</u>
Uninsured and uncollateralized	\$ 210,023	\$ 263,584
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Organization's name	<u>4,035,096</u>	<u>4,585,758</u>
	<u>\$ 4,245,119</u>	<u>\$ 4,849,342</u>

Highland County Joint Township District Hospital

Notes to Financial Statements

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Investments

The Organization may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities. At December 31, 2017 and 2016, the Organization had the following investments and maturities:

Type	2017		
	Fair Value	Maturities in Years	
		Less Than 1	More Than 1
Certificates of deposit	\$ 2,684,097	\$ 948,098	\$ 1,735,999
U.S. Treasury obligations	446,290	446,290	-
U.S. government agency bonds	27,206,148	-	27,206,148
	30,336,535	\$ 1,394,388	\$ 28,942,147
Corporate stocks	147,008		
	<u>\$ 30,483,543</u>		
Type	2016		
	Fair Value	Maturities in Years	
		Less Than 1	More Than 1
Certificates of deposit	\$ 2,654,972	\$ 682,463	\$ 1,972,509
U.S. Treasury obligations	330,825	316,464	14,361
U.S. government agency bonds	23,530,401	-	23,530,401
	26,516,198	\$ 998,927	\$ 25,517,271
Corporate stocks	134,528		
	<u>\$ 26,650,726</u>		

Highland County Joint Township District Hospital

Notes to Financial Statements

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Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Organization has a formal investment policy that meets the compliance requirements of the provisions of state law. The investment policy guides the investments of funds in order to mitigate risk and generate investment income while preserving and maintaining sufficient liquidity to meet the Organization's obligations.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2017 and 2016, the credit quality ratings of U.S. government agency bonds not directly guaranteed by the U. S. government were as follows:

Type	Fair Value	Rating	Rating Organization
December 31, 2017			
U.S. government agency bonds	\$ 22,581,501	AA+	Standard & Poor's
December 31, 2016			
U.S. government agency bonds	\$ 22,630,219	AA+	Standard & Poor's

Concentration of Credit Risk - The Organization places no limit on the amount that may be invested in any one issuer. The Organization's investment in U.S. government agency bonds of Federal Home Loan Mortgage Corporation and Federal National Mortgage Association constituted 39% and 34%, respectively, of its total investments at December 31, 2017 and 47% and 23%, respectively, at December 31, 2016. Amounts invested in these government-sponsored agencies are not backed by the full faith and credit of the U.S. government. Additionally, the Organization's investments in U.S. government agency bonds of Government National Mortgage Association constituted 13% and 14% of its total investments at December 31, 2017 and 2016, respectively. Amounts invested in this federal government agency are backed by the full faith and credit of the U.S. government.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Organization will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Organization's investment policy meets the compliance requirements of the provisions of state law.

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	<u>2017</u>	<u>2016</u>
Carrying value:		
Deposits and money market accounts	\$ 4,541,129	\$ 6,055,194
Certificates of deposit	2,684,097	2,654,972
U.S. government securities	27,652,438	23,861,226
Stocks	147,008	134,528
	<u>\$ 35,024,672</u>	<u>\$ 32,705,920</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 3,958,576	\$ 5,678,926
Assets limited as to use	9,465,221	10,883,005
Long-term investments	21,600,875	16,143,989
	<u>\$ 35,024,672</u>	<u>\$ 32,705,920</u>

Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The U.S. government securities, negotiable certificates of deposit and interest rate swap are considered Level 2 investments, and stocks and money market accounts are considered Level 1 investments within the fair value hierarchy.

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Note 4: Patient Accounts Receivable

The Organization grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2017 and 2016 consisted of:

	<u>2017</u>	<u>2016</u>
Medicare	\$ 6,212,663	\$ 6,184,490
Medicaid	4,373,242	3,824,424
Other third-party payers	4,013,112	4,661,606
Patients	5,881,595	6,209,981
	<u>20,480,612</u>	<u>20,880,501</u>
Less allowance for contractual adjustments	(9,508,006)	(9,604,171)
Less allowance for uncollectible accounts	(4,465,886)	(4,562,369)
	<u>\$ 6,506,720</u>	<u>\$ 6,713,961</u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2017 and 2016 was:

	<u>2017</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 40,137	\$ 6,769	\$ -	\$ -	\$ 46,906
Land improvements	711,241	22,982	-	114,131	848,354
Buildings and leasehold improvements	16,642,123	179,320	-	3,345,481	20,166,924
Equipment	27,827,903	937,509	356,029	1,135,896	29,545,279
Construction in progress	2,968,627	1,659,464	-	(4,517,069)	111,022
	<u>48,190,031</u>	<u>2,806,044</u>	<u>356,029</u>	<u>78,439</u>	<u>50,718,485</u>
Less accumulated depreciation:					
Land improvements	674,345	12,420	-	-	686,765
Buildings and leasehold improvements	12,721,817	693,619	-	293,739	13,709,175
Equipment	22,804,096	1,426,552	349,851	(215,300)	23,665,497
	<u>36,200,258</u>	<u>2,132,591</u>	<u>349,851</u>	<u>78,439</u>	<u>38,061,437</u>
Capital assets, net	<u>\$ 11,989,773</u>	<u>\$ 673,453</u>	<u>\$ 6,178</u>	<u>\$ -</u>	<u>\$ 12,657,048</u>

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 40,137	\$ -	\$ -	\$ -	\$ 40,137
Land improvements	711,241	-	-	-	711,241
Buildings and leasehold improvements	16,585,118	48,675	-	8,330	16,642,123
Equipment	26,691,172	985,532	93,450	244,649	27,827,903
Construction in progress	277,611	2,943,995	-	(252,979)	2,968,627
	44,305,279	3,978,202	93,450	-	48,190,031
Less accumulated depreciation:					
Land improvements	670,105	4,240	-	-	674,345
Buildings and leasehold improvements	12,178,801	543,016	-	-	12,721,817
Equipment	21,611,446	1,285,934	93,284	-	22,804,096
	34,460,352	1,833,190	93,284	-	36,200,258
Capital assets, net	\$ 9,844,927	\$ 2,145,012	\$ 166	\$ -	\$ 11,989,773

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31, 2017 and 2016 consisted of:

	2017	2016
Payable to suppliers and contractors	\$ 1,757,011	\$ 2,590,755
Payroll and related amounts	2,178,568	2,051,482
Employee health insurance	424,422	545,609
Workers' compensation premiums	-	77,194
Pension	404,397	379,001
Other	23,434	21,989
	\$ 4,787,832	\$ 5,666,030

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Note 7: Contributions Receivable

During 2017, the Organization continued a fundraising capital campaign that began in 2016 to raise money for the construction and renovation of the Hospital Emergency Department rooms. Total amounts fundraised in 2017 for the campaign approximated \$404,185, of which \$318,700 is recorded as contributions receivable at December 31, 2017. Contributions for 2016 were \$800,680, of which \$436,433 was recorded as contributions receivable at December 31, 2016. Contributions for the campaign were pledged for years through 2020. Amounts expected to be received within one year are classified as current within the accompanying balance sheets.

Note 8: Medical Malpractice Claims

The Organization purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Organization's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 9: Employee Health Claims

Substantially all of the Organization's employees and their dependents are eligible to participate in the Organization's employee health insurance plan. The Organization is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$70,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Organization's estimate will change by a material amount in the near term.

Activity in the Organization's accrued employee health care claims liability account during 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 545,609	\$ 567,261
Current year claims incurred and changes in estimates for claims incurred in prior years	3,403,076	3,640,582
Claims and expenses paid	<u>(3,524,263)</u>	<u>(3,662,234)</u>
Balance, end of year	<u>\$ 424,422</u>	<u>\$ 545,609</u>

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Note 10: Long-Term Debt

The following are summaries of long-term debt transactions for the Organization for the years ended December 31, 2017 and 2016:

	2017				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds payable:					
Series 2004	\$ 1,905,000	\$ -	\$ (210,000)	\$ 1,695,000	\$ 215,000
Series 2007	<u>3,380,000</u>	<u>-</u>	<u>(680,000)</u>	<u>2,700,000</u>	<u>675,000</u>
Total long-term debt	<u>\$ 5,285,000</u>	<u>\$ -</u>	<u>\$ (890,000)</u>	<u>\$ 4,395,000</u>	<u>\$ 890,000</u>
	2016				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds payable:					
Series 2004	\$ 2,105,000	\$ -	\$ (200,000)	\$ 1,905,000	\$ 210,000
Series 2007	<u>4,060,000</u>	<u>-</u>	<u>(680,000)</u>	<u>3,380,000</u>	<u>680,000</u>
Total long-term debt	<u>\$ 6,165,000</u>	<u>\$ -</u>	<u>\$ (880,000)</u>	<u>\$ 5,285,000</u>	<u>\$ 890,000</u>

Revenue Bonds Payable - Series 2004

The Series 2004 revenue bonds payable consist of Hospital Facilities Revenue and Refunding Bonds (2004 Bonds) in the original amount of \$3,905,000 dated August 15, 2004, which bear interest at a variable rate determined weekly. At December 31, 2017 and 2016, the interest rate was 1.87% and 0.85%, respectively. The 2004 Bonds are payable in varying annual installments through August 1, 2024. Proceeds from the issuance of the 2004 Bonds were used to finance the recladding of Organization facilities and to retire the Series 2001 bonds. The 2004 Bonds are secured by an irrevocable bank letter of credit which expires on July 1, 2019.

Revenue Bonds Payable - Series 2007

The Series 2007 revenue bonds payable consist of Hospital Facilities Revenue Refunding Bonds (2007 Bonds) in the original amount of \$10,180,000 dated June 7, 2007, which bear interest at a variable rate determined weekly. At December 31, 2017 and 2016, the interest rate was 1.86% and 0.85%, respectively. The 2007 Bonds are payable in varying annual installments through December 1, 2021. Proceeds from the issuance of the 2007 Bonds were used to retire the Series 1999 bonds. The 2007 Bonds are secured by an irrevocable bank letter of credit which expires on July 1, 2019.

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The variable rate 2004 Bonds and 2007 Bonds (collectively, the “Bonds”) are both remarketed on a weekly basis. Should the remarketing agent be unable to remarket the Bonds based on its best efforts, these Bonds would be “put” back to the bond trustee, who would draw down on the letter of credit to pay down the Bonds. The reimbursement agreement between the letter-of-credit bank and the Organization provides for the Organization to reimburse the letter-of-credit bank any principal or interest draws against the letter of credit on the date of any such drawing and remarketing draws upon maturity of the letter of credit.

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee in the balance sheets. The indenture agreements also require the Organization to comply with certain restrictive covenants including minimum insurance coverage, maintaining a historical debt-service coverage ratio of at least 1.25 to 1, days cash on hand of at least 60 days, maximum funded indebtedness to unrestricted net position not greater than 1:1, and restrictions on incurrence of additional debt.

The debt service requirements as of December 31, 2017, are as follows:

Years Ending December 31,	Total to be Paid	Principal	Interest (A)	Interest Rate Swap (B)
2018	\$ 1,060,652	\$ 890,000	\$ 50,425	\$ 120,227
2019	1,034,005	900,000	43,806	90,199
2020	1,007,038	910,000	36,925	60,113
2021	973,024	915,000	29,686	28,338
2022	272,305	250,000	22,305	-
Thereafter	551,258	530,000	21,258	-
	<u>\$ 4,898,282</u>	<u>\$ 4,395,000</u>	<u>\$ 204,405</u>	<u>\$ 298,877</u>

(A) Anticipated interest on the 2004 Bonds only, calculated at the variable rate as of December 31, 2017, includes letter of credit fees

(B) Anticipated interest on the 2007 Bonds only, adjusted for terms of interest rate swap (*Note 11*) and presented net of the variable rate as of December 31, 2017, includes letter of credit fees

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Note 11: Interest Rate Swap Agreement

Objective of the Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations and to lower its borrowing costs when compared against fixed-rate debt at the time of issuance, the Organization entered into an interest rate swap agreement for its 2007 Bonds. The intention of the swap is to effectively change the Organization's variable interest rate on this note to a synthetic fixed rate of 3.942%.

Terms

The agreement was entered into on June 1, 2007, is scheduled to end on December 1, 2021 and required no initial net cash receipt or payment by the Organization. The agreement provides for the Organization to receive interest from the counterparty at the Securities Industry and Financial Markets Association (SIFMA) municipal swap index and to pay interest to the counterparty at a fixed rate of 3.942% on a notional amount of \$2,700,000 and \$3,380,000 at December 31, 2017 and 2016. The notional amount of the swap and the principal amount of the associated debt were equal at inception of the swap, and the notional amount declines by a corresponding amount each time a principal payment becomes due on the associated debt. Under the agreement, the Organization pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

Fair Value

As of December 31, 2017 and 2016, the agreement had a fair value of \$154,851 and \$250,892, respectively, calculated using the par-value method, *i.e.*, the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the estimated market value of the fixed component from the established market value of the variable component. The fair value of the agreement is recognized within long-term liabilities in the Organization's balance sheets. As the swap is an effective hedging instrument, the offsetting balance is reflected as a deferred outflows of resources on the Organization's balance sheets. The change in fair value of the swap of \$96,041 and \$156,258 for the years ended December 31, 2017 and 2016, is shown as an adjustment to the carrying amount of the related deferred outflows of resources on the balance sheets.

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Credit Risk

The swap's fair value represented the Organization's credit exposure to the counterparty as of December 31, 2017 and 2016. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Organization has a maximum possible loss equivalent to the swap's fair value at that date. As of December 31, 2017 and 2016, the Organization was not exposed to credit risk because the swap had a negative fair value. The swap counterparty was rated AA- by Fitch Ratings, A+ by Standard & Poor's and Aa3 by Moody's Investors Service as of December 31, 2017 and 2016.

Basis Risk

The swap and Bonds interest rates are both tied to the SIFMA index, therefore, the Organization's management believes the basis risk relating to the swap is minimal.

Termination Risk

The Organization or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate notes would no longer have a synthetic fixed rate of interest. Also, if the swap has a negative fair value at the time of termination, the Organization would be liable to the counterparty for a payment equal to the swap's then fair value.

Note 12: Pension Plans

Plan Descriptions

The Hospital contributes to the Ohio Public Employees Retirement System (OPERS), which administers two cost-sharing multiple-employer defined-benefit pension plans and one defined-contribution pension plan, which together, cover substantially all Hospital employees. All employees are required to join the Ohio Public Employees Retirement System (OPERS). OPERS' three pension plans are described below and are discussed in greater detail in the following sections:

1. The Traditional Pension Plan - a cost-sharing, multiple-employer defined-benefit pension plan.
2. The Member-Directed (MD) Plan - a defined-contribution pension plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.

Highland County Joint Township District Hospital

Notes to Financial Statements

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3. The Combined Plan - a cost-sharing, multiple-employer defined-benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS issues a stand-alone financial report, these reports may be obtained by contacting the organization as follows:

OPERS
277 East Town Street
Columbus, Ohio 43215-4642
Telephone (800) 222-7377
www.opers.org

Benefits Provided

Plan benefits for OPERS are established under Chapter 145 of the Ohio Revised Code (ORC). Members are categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire on January 7, 2013 and those eligible to retire no later than five years after that date comprise transition group A. Members who have 20 years of service credit prior to January 7, 2013 or are 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. Additionally, OPERS has three separate divisions with varying degrees of benefits: (1) state and local, (2) law enforcement and (3) public safety. The Hospital does not have any employees included in the public safety or law enforcement divisions.

Benefits for state and local members are calculated on the basis of age, final average salary and service credit. State and local 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. State and local members of group C are 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 multiplied 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. Final average salary 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 benefit receive a percentage reduction in the benefit amount.

Highland County Joint Township District Hospital

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December 31, 2017 and 2016

OPERS offers a Combined Plan that has elements of both a defined-benefit and defined-contribution plan. In the Combined Plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Eligibility requirements under the Combined Plan for age and years of service are identical to the defined-benefit plan described earlier. The benefit formula for the defined benefit component of the plan for state and local members in transition groups A and B applies a factor of 1.0% to the member's final average salary 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 final average salary and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit.

A cost-of-living adjustment (COLA) is provided each year and 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% 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%.

All employees are required to become contributing members of OPERS when they begin employment at the Hospital unless they are exempted or excluded as defined by the ORC. For actuarial purposes, employees who have earned sufficient service credit (60 contributing months) are entitled to a future benefit from OPERS. As of December 31, 2017 and 2016, 362 and 356 employees participated in the OPERS defined-benefit pension plans, respectively, and 13 and 11 employees participated in the defined-contribution pension plan, respectively. The Hospital's proportionate share of inactive members is included in the net pension liability and net pension asset as discussed in the following notes.

Contributions

The ORC provides OPERS statutory authority over employee and employer contributions. The required statutorily determined contribution rates of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The statutorily required contribution rates for all three plans for the employee and the Hospital, stated as a percent of covered payroll, are as follows for the years ended December 31, 2017 and 2016:

	OPERS
Employee	10%
Hospital	14%

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

For the years ended December 31, 2017 and 2016, contributions to the defined-benefit pension plans from the Hospital were as follows:

	OPERS	
	2017	2016
Traditional Plan	\$ 1,913,519	\$ 1,734,265
Combined Plan	<u>65,166</u>	<u>50,022</u>
Total	<u>\$ 1,978,685</u>	<u>\$ 1,784,287</u>

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

As of December 31, 2017 and 2016, the Hospital reported a net pension liability and net pension asset for its share of the OPERS defined-benefit plans as follows:

	Net Pension Liability (Asset)	
	2017	2016
Traditional Plan	\$ 25,379,250	\$ 18,858,523
Combined Plan	(59,434)	(57,957)

The net pension liabilities and net pension assets were measured as of December 31, 2016 and December 31, 2015 and the total pension liability and total pension asset used to calculate the net pension liability and net pension asset were determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability and net pension asset were based on the Hospital's share of contributions to the respective defined-benefit pension plans relative to the contributions of all participating employers during the measurement period. At December 31, 2017, the Hospital's proportionate share was 0.111762% for the Traditional Plan and 0.106786% for the Combined Plan. At December 31, 2016, the Hospital's proportionate share was 0.108875% for the Traditional Plan and 0.11910% for the Combined Plan. The Hospital's change in proportionate share between the two years was an increase of 0.002887% and decrease of 0.012314% for the Traditional and Combined Plans, respectively.

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

For the years ended December 31, 2017 and 2016, the Hospital recognized pension expense related to the defined-benefit pension plans of \$5,652,408 and \$2,768,497 as follows:

	Pension Expense	
	2017	2016
Traditional Plan	\$ 5,600,523	\$ 2,715,175
Combined Plan	51,885	53,322
	<u>\$ 5,652,408</u>	<u>\$ 2,768,497</u>

At December 31, 2017 and 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to defined-benefit pensions from the following sources:

	2017					
	Traditional Plan		Combined Plan		Total Defined-Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 34,400	\$ 151,045	\$ -	\$ 30,397	\$ 34,400	\$ 181,442
Net difference between projected and actual earnings on pension plan investments	3,779,556	-	14,501	-	3,794,057	-
Change in actuarial assumption	4,025,460	-	14,485	-	4,039,945	-
Change in the Hospital's proportionate share of the net pension liability (asset)	362,189	-	1,192	-	363,381	-
Hospital's contributions subsequent to the measurement date	1,913,519	-	65,166	-	1,978,685	-
	<u>\$ 10,115,124</u>	<u>\$ 151,045</u>	<u>\$ 95,344</u>	<u>\$ 30,397</u>	<u>\$ 10,210,468</u>	<u>\$ 181,442</u>

	2016					
	Traditional Plan		Combined Plan		Total Defined-Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 361,268	\$ -	\$ 18,642	\$ -	\$ 379,910
Net difference between projected and actual earnings on pension plan investments	5,273,304	-	22,799	-	5,296,103	-
Change in the Hospital's proportionate share of the net pension liability (asset)	225,310	-	-	5,999	225,310	5,999
Hospital's contributions subsequent to the measurement date	1,734,265	-	50,022	-	1,784,287	-
	<u>\$ 7,232,879</u>	<u>\$ 361,268</u>	<u>\$ 72,821</u>	<u>\$ 24,641</u>	<u>\$ 7,305,700</u>	<u>\$ 385,909</u>

Highland County Joint Township District Hospital

Notes to Financial Statements

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At December 31, 2017 and 2016, the Hospital reported \$1,978,685 and \$1,784,287, respectively, as deferred outflows of resources related to pensions resulting from the Hospital's contributions subsequent to the measurement date and will be (were) recognized as a decrease (increase) in the net pension liability (asset) for the years ended December 31, 2017 and 2016, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2017, related to pensions will be recognized in pension expense as follows:

	2017		
	Traditional Plan	Combined Plan	Total Defined-Benefit Plans
2018	\$ 3,389,108	\$ 2,927	\$ 3,392,035
2019	3,418,625	2,927	3,421,552
2020	1,353,615	2,299	1,355,914
2021	(110,788)	(2,839)	(113,627)
2022	-	(2,297)	(2,297)
Thereafter	-	(3,236)	(3,236)
	\$ 8,050,560	\$ (219)	\$ 8,050,341

Actuarial Assumptions

The total pension liability and total pension asset for the years ended December 31, 2017 and 2016 were determined using the following actuarial valuations and actuarial assumptions for the respective plans:

OPERS Traditional Plan	2017	2016
Valuation date	December 31, 2016	December 31, 2015
Experience study	5-year period ended December 31, 2015	5-year period ended December 31, 2010
Actuarial cost method	Individual entry age	Individual entry age
Wage inflation	3.25%	3.75%
Projected salary increases	3.25% - 10.75% including wage inflation at 3.25%	4.25% - 10.05% including wage inflation at 3.75%
Investment rate of return	7.50%	8.00%
Cost-of-living adjustments	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.15% simple	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.80% simple

Highland County Joint Township District Hospital

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December 31, 2017 and 2016

OPERS Combined Plan	2017	2016
Valuation date	December 31, 2016	December 31, 2015
Experience study	5-year period ended December 31, 2015	5-year period ended December 31, 2010
Actuarial cost method	Individual entry age	Individual entry age
Wage inflation	3.25%	3.75%
Projected salary increases	3.25% - 8.25% including wage inflation at 3.25%	4.25% - 8.05% including wage inflation at 3.75%
Investment rate of return	7.50%	8.00%
Cost-of-living adjustments	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.15% simple	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.80% simple

Mortality rates for OPERS are the RP-2014 Healthy For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvements back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both health and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

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

Asset Class	OPERS Defined-Benefit Plans	
	Target Allocation	Long-Term Real Return
Domestic equities	20.70%	6.34%
International equities	18.30%	7.95%
Fixed income	23.00%	2.75%
Real estate	10.00%	4.75%
Private equities	10.00%	8.97%
Other investments	18.00%	4.92%
	<u>100.00%</u>	<u>5.66%</u>

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Discount Rate

The discount rate used to measure the total pension liability and total pension asset was 7.5% and 8.0% for the years ended December 31, 2017 and 2016, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total pension asset.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability and Net Pension Asset to Changes in the Discount Rate

The Hospital's proportionate share of the net pension liability and net pension asset as of December 31, 2017 has been calculated using a discount rate of 7.5%. The following presents the Hospital's proportionate share of the net pension liability and net pension asset calculated using a discount rate 1.0% higher and 1.0% lower than the current rate for each of the years as follows.

	2017		
	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Traditional Plan Net Pension Liability	\$ 38,772,473	\$ 25,379,250	\$ 14,218,362
Combined Plan Net Pension Liability (Asset)	(4,271)	(59,434)	(108,922)

Pension Plan Fiduciary Net Position

Detailed information about the pension plans' fiduciary net position is available in the separately issued OPERS financial report.

Payable to the Pension Plans

At December 31, 2017 and 2016, the Hospital had a payable for its employer share of approximately \$308,000 and \$257,000, respectively, for an outstanding amount of statutorily required contributions to the pension plans for the years ended December 31, 2017 and 2016.

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Defined-Contribution Plans

OPERS also offers a defined-contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

Pension expense recorded for the years ended December 31, 2017 and 2016 for employer contributions to the Member-Directed Plan was approximately \$162,000 and \$113,000.

Other Postemployment Benefits

OPERS provides postemployment health care benefits to retirees with ten or more years of qualifying service credit under the Traditional Pension and Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan benefits include a medical plan, prescription drug program and Medicare Part B premium reimbursement. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code (ORC) permits, but does not require OPERS to provide Other Postemployment Benefits (OPEB) to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the ORC.

Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For the calendar years ending December 31, 2017 and 2016, OPERS allocated 1.0% and 2.0%, respectively, of the employer contribution rate to fund the health care program for members in the Traditional Pension Plan and Combined Plan. The allocated percentages are the statutorily required contribution rates for OPERS, payment amounts vary depending on the number of covered dependents and the coverage selected. Hospital employer contributions to OPERS to fund OPEB for the years ended December 31, 2017 and 2016 approximated \$152,000 and \$316,000, respectively.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing on January 1, 2014. OPERS expects to be able to consistently allocate 4.0% of the employer contributions toward the health care fund after the end of the transition period.

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Note 13: Contingencies

Litigation

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

Note 14: Grants to Affiliated Organization

During 2014, the Hospital entered into a grant agreement with Highland Health Providers Corporation (HHPC), whereby HHPC's operating losses, not to exceed \$1,500,000 on an annual basis, will be funded for the next two years with renewal options for successive one year periods. Grant expense for 2017 and 2016 totaled \$1,025,000 and 1,250,000, respectively, and is included in the statements of revenues, expenses and changes in net position. The agreement was renewed and in effect as of the date of the independent auditor's report.

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Note 15: Blended Component Units

The financial statements of Highland County Joint Township District Hospital include the financial statements of Highland District Hospital Foundation, Highland District Hospital Professional Services Corporation and Highland Joint Township District Hospital Foundation, which are blended component units of the Hospital as determined by GASB Statements No. 61 and No. 80. The following is a summary of the combined, condensed financial statements of the Hospital and its blended component units as of and for the years ended December 31, 2017 and 2016:

Assets and Deferred Outflows of Resources

	December 31, 2017					
	Hospital	PSC	HDH		Eliminations	Total
			Foundation	Foundation		
Current Assets						
Cash and cash equivalents	\$ 3,777,884	\$ 74,599	\$ 556	\$ 105,537	\$ -	\$ 3,958,576
Assets limited as to use - current portion	292,519	-	-	-	-	292,519
Patient accounts receivable, net of allowances	5,950,247	556,473	-	-	-	6,506,720
Contributions receivable	-	-	-	124,600	-	124,600
Other receivables	262,329	56,519	-	-	-	318,848
Supplies	472,775	-	-	-	-	472,775
Prepaid expenses and other current assets	274,447	59,062	-	-	-	333,509
Due from affiliate	8,770	-	-	-	(8,770)	-
Total current assets	<u>11,038,971</u>	<u>746,653</u>	<u>556</u>	<u>230,137</u>	<u>(8,770)</u>	<u>12,007,547</u>
Assets Limited as to Use						
Internally designated for specific purpose	8,440,435	-	-	-	-	8,440,435
Restricted by donors for capital improvements	88,393	-	-	643,874	-	732,267
Held by trustee under bond indenture agreements	292,519	-	-	-	-	292,519
	8,821,347	-	-	643,874	-	9,465,221
Less amounts required to meet current obligations	(292,519)	-	-	-	-	(292,519)
	<u>8,528,828</u>	<u>-</u>	<u>-</u>	<u>643,874</u>	<u>-</u>	<u>9,172,702</u>
Long-Term Investments	<u>21,283,802</u>	<u>-</u>	<u>317,073</u>	<u>-</u>	<u>-</u>	<u>21,600,875</u>
Contributions Receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>194,100</u>	<u>-</u>	<u>194,100</u>
Capital Assets, Net	<u>12,299,898</u>	<u>350,381</u>	<u>6,769</u>	<u>-</u>	<u>-</u>	<u>12,657,048</u>
Net Pension Asset	<u>59,434</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,434</u>
Total assets	53,210,933	1,097,034	324,398	1,068,111	(8,770)	55,691,706
Deferred Outflows of Resources	<u>10,365,319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,365,319</u>
Total assets and deferred outflows of resources	<u>\$ 63,576,252</u>	<u>\$ 1,097,034</u>	<u>\$ 324,398</u>	<u>\$ 1,068,111</u>	<u>\$ (8,770)</u>	<u>\$ 66,057,025</u>

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Liabilities, Deferred Inflows of Resources and Net Position

	December 31, 2017					Total
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	
Current Liabilities						
Current maturities of long-term debt	\$ 890,000	\$ -	\$ -	\$ -	\$ -	\$ 890,000
Accounts payable	1,645,843	111,133	-	35	-	1,757,011
Accrued expenses	2,734,126	296,695	-	-	-	3,030,821
Estimated amounts due to third-party payers	2,034,285	-	-	-	-	2,034,285
Due to affiliate	-	8,727	-	43	(8,770)	-
	<u>7,304,254</u>	<u>416,555</u>	<u>-</u>	<u>78</u>	<u>(8,770)</u>	<u>7,712,117</u>
Total current liabilities						
	3,505,000	-	-	-	-	3,505,000
Long-Term Debt						
	154,851	-	-	-	-	154,851
Interest Rate Swap Agreement						
	25,379,250	-	-	-	-	25,379,250
Net Pension Liability						
Total liabilities	<u>36,343,355</u>	<u>416,555</u>	<u>-</u>	<u>78</u>	<u>(8,770)</u>	<u>36,751,218</u>
Deferred Inflows of Resources	<u>181,442</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>181,442</u>
Net Position						
Net investment in capital assets	7,904,898	350,381	6,769	-	-	8,262,048
Restricted - expendable for						
Capital improvements	88,393	-	-	962,574	-	1,050,967
Debt service	292,519	-	-	-	-	292,519
Pensions	59,434	-	-	-	-	59,434
Unrestricted	<u>18,706,211</u>	<u>330,098</u>	<u>317,629</u>	<u>105,459</u>	<u>-</u>	<u>19,459,397</u>
Total net position	<u>27,051,455</u>	<u>680,479</u>	<u>324,398</u>	<u>1,068,033</u>	<u>-</u>	<u>29,124,365</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 63,576,252</u>	<u>\$ 1,097,034</u>	<u>\$ 324,398</u>	<u>\$ 1,068,111</u>	<u>\$ (8,770)</u>	<u>\$ 66,057,025</u>

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Statement of Revenues, Expenses and Changes in Net Position

	Year Ended December 31, 2017					
	Hospital	PSC	HDH		Eliminations	Total
			Foundation	HJTDH Foundation		
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts; \$5,595,326	\$ 43,392,523	\$ 4,235,089	\$ -	\$ -	\$ (522,428)	\$ 47,105,184
Other	1,453,935	50,737	-	-	(453,762)	1,050,910
Total operating revenues	<u>44,846,458</u>	<u>4,285,826</u>	<u>-</u>	<u>-</u>	<u>(976,190)</u>	<u>48,156,094</u>
Operating Expenses						
Salaries and wages	16,574,227	3,555,469	-	-	-	20,129,696
Employee benefits	9,322,530	554,218	-	-	-	9,876,748
Purchased services	4,656,111	1,178,974	-	52,454	(93,664)	5,793,875
Supplies	6,012,929	97,575	-	44,743	-	6,155,247
Insurance	205,680	52,317	-	-	-	257,997
Utilities	817,905	61,750	-	-	-	879,655
Physician fees	1,704,092	-	-	463	(521,161)	1,183,394
Depreciation and amortization	2,101,856	30,735	-	-	-	2,132,591
Franchise fees	532,701	-	-	-	-	532,701
Rental and lease expenses	119,489	200,733	-	-	(66,365)	253,857
Professional fees	124,845	-	-	-	-	124,845
Other operating expenses	295,556	116,020	-	1,783	-	413,359
Total expenses and losses	<u>42,467,921</u>	<u>5,847,791</u>	<u>-</u>	<u>99,443</u>	<u>(681,190)</u>	<u>47,733,965</u>
Operating Income (Loss)	<u>2,378,537</u>	<u>(1,561,965)</u>	<u>-</u>	<u>(99,443)</u>	<u>(295,000)</u>	<u>422,129</u>
Nonoperating Revenues (Expenses)						
Investment income	340,418	-	4,789	834	-	346,041
Grant expense	(1,025,000)	-	-	(295,000)	295,000	(1,025,000)
Interest expense	(213,833)	-	-	-	-	(213,833)
Noncapital grants and gifts	-	-	6,769	101,147	-	107,916
Total nonoperating revenues (expenses)	<u>(898,415)</u>	<u>-</u>	<u>11,558</u>	<u>(193,019)</u>	<u>295,000</u>	<u>(784,876)</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts and Transfers	1,480,122	(1,561,965)	11,558	(292,462)	-	(362,747)
Capital Gifts	-	-	-	404,185	-	404,185
Transfer From (To) Affiliates	(1,550,000)	1,550,000	-	-	-	-
Increase (Decrease) in Net Position	(69,878)	(11,965)	11,558	111,723	-	41,438
Net Position, Beginning of Year	27,121,333	692,444	312,840	956,310	-	29,082,927
Net Position, End of Year	<u>\$ 27,051,455</u>	<u>\$ 680,479</u>	<u>\$ 324,398</u>	<u>\$ 1,068,033</u>	<u>\$ -</u>	<u>\$ 29,124,365</u>

Statement of Cash Flows

	Year Ended December 31, 2017					
	Hospital	PSC	HDH		Eliminations	Total
			Foundation	HJTDH Foundation		
Cash Provided By (Used In):						
Operating activities	\$ 9,111,881	\$ (1,686,416)	\$ -	\$ 17,267	\$ (295,000)	\$ 7,147,732
Noncapital financing activities	(1,025,000)	-	6,769	(193,853)	295,000	(917,084)
Capital and related financing activities	(6,185,210)	1,529,857	(6,769)	404,185	-	(4,257,937)
Investing activities	(3,281,326)	-	1	(205,451)	-	(3,486,776)
Increase (decrease) in cash and cash equivalents	(1,379,655)	(156,559)	1	22,148	-	(1,514,065)
Cash and Cash Equivalents, Beginning of Year	5,740,092	231,158	555	83,389	-	6,055,194
Cash and Cash Equivalents, End of Year	<u>\$ 4,360,437</u>	<u>\$ 74,599</u>	<u>\$ 556</u>	<u>\$ 105,537</u>	<u>\$ -</u>	<u>\$ 4,541,129</u>

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Assets and Deferred Outflows of Resources

	December 31, 2016					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Current Assets						
Cash and cash equivalents	\$ 5,363,824	\$ 231,158	\$ 555	\$ 83,389	\$ -	\$ 5,678,926
Assets limited as to use - current portion	288,485	-	-	-	-	288,485
Patient accounts receivable, net of allowances	6,259,358	454,603	-	-	-	6,713,961
Contributions receivable	-	-	-	122,433	-	122,433
Other receivables	446,818	13,134	-	-	-	459,952
Estimated amounts due from third-party payers	97,352	-	-	-	-	97,352
Supplies	407,370	-	-	-	-	407,370
Prepaid expenses and other current assets	392,346	46,427	-	-	-	438,773
Due from affiliate	38,903	49,143	-	-	(88,046)	-
Total current assets	<u>13,294,456</u>	<u>794,465</u>	<u>555</u>	<u>205,822</u>	<u>(88,046)</u>	<u>14,207,252</u>
Assets Limited as to Use						
Internally designated for specific purpose	9,816,191	-	-	-	-	9,816,191
Restricted by donors for capital improvements	340,740	-	-	437,589	-	778,329
Held by trustee under bond indenture agreements	288,485	-	-	-	-	288,485
	<u>10,445,416</u>	<u>-</u>	<u>-</u>	<u>437,589</u>	<u>-</u>	<u>10,883,005</u>
Less amounts required to meet current obligations	(288,485)	-	-	-	-	(288,485)
	<u>10,156,931</u>	<u>-</u>	<u>-</u>	<u>437,589</u>	<u>-</u>	<u>10,594,520</u>
Long-Term Investments	<u>15,831,704</u>	<u>-</u>	<u>312,285</u>	<u>-</u>	<u>-</u>	<u>16,143,989</u>
Contributions Receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>314,000</u>	<u>-</u>	<u>314,000</u>
Capital Assets, Net	<u>11,628,800</u>	<u>360,973</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,989,773</u>
Net Pension Asset	<u>57,957</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,957</u>
Total assets	50,969,848	1,155,438	312,840	957,411	(88,046)	53,307,491
Deferred Outflows of Resources	<u>7,556,592</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,556,592</u>
Total assets and deferred outflows of resources	<u>\$ 58,526,440</u>	<u>\$ 1,155,438</u>	<u>\$ 312,840</u>	<u>\$ 957,411</u>	<u>\$ (88,046)</u>	<u>\$ 60,864,083</u>

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

**Liabilities, Deferred Inflows of Resources
and Net Position**

	December 31, 2016					Total
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	
Current Liabilities						
Current maturities of long-term debt	\$ 890,000	\$ -	\$ -	\$ -	\$ -	\$ 890,000
Accounts payable	2,472,796	117,959	-	-	-	2,590,755
Accrued expenses	2,768,042	307,233	-	-	-	3,075,275
Estimated amounts due to third-party payers	1,334,802	-	-	-	-	1,334,802
Due to affiliate	49,143	37,802	-	1,101	(88,046)	-
Total current liabilities	7,514,783	462,994	-	1,101	(88,046)	7,890,832
Long-Term Debt	4,395,000	-	-	-	-	4,395,000
Interest Rate Swap Agreement	250,892	-	-	-	-	250,892
Net Pension Liability	18,858,523	-	-	-	-	18,858,523
Total liabilities	31,019,198	462,994	-	1,101	(88,046)	31,395,247
Deferred Inflows of Resources	385,909	-	-	-	-	385,909
Net Position						
Net investment in capital assets	6,343,800	360,973	-	-	-	6,704,773
Restricted expendable for capital improvements, debt service and other						
Capital improvements	340,740	-	-	874,022	-	1,214,762
Debt service	288,485	-	-	-	-	288,485
Pensions	57,957	-	-	-	-	57,957
Unrestricted	20,090,351	331,471	312,840	82,288	-	20,816,950
Total net position	27,121,333	692,444	312,840	956,310	-	29,082,927
Total liabilities, deferred inflows of resources and net position	\$ 58,526,440	\$ 1,155,438	\$ 312,840	\$ 957,411	\$ (88,046)	\$ 60,864,083

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Statement of Revenues, Expenses and Changes in Net Position

	Year Ended December 31, 2016					Total
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts; \$4,681,166	\$ 42,843,035	\$ 4,332,475	\$ -	\$ -	\$ (500,348)	\$ 46,675,162
Other	1,166,553	-	-	-	(164,847)	1,001,706
Total operating revenues	<u>44,009,588</u>	<u>4,332,475</u>	<u>-</u>	<u>-</u>	<u>(665,195)</u>	<u>47,676,868</u>
Operating Expenses						
Salaries and wages	15,540,318	3,326,835	-	-	-	18,867,153
Employee benefits	7,021,519	526,850	-	-	-	7,548,369
Purchased services	4,473,712	1,418,616	-	107,786	(88,733)	5,911,381
Supplies	6,430,141	120,529	-	36,613	-	6,587,283
Insurance	233,888	35,321	-	-	-	269,209
Utilities	763,791	64,111	-	-	-	827,902
Physician fees	1,597,556	-	-	120	(496,600)	1,101,076
Depreciation and amortization	1,797,275	35,915	-	-	-	1,833,190
Franchise fees	511,047	-	-	-	-	511,047
Rental and lease expenses	119,422	208,150	-	-	(76,982)	250,590
Professional fees	109,586	-	-	-	-	109,586
Other operating expenses	277,415	169,674	-	2,078	-	449,167
Total expenses and losses	<u>38,875,670</u>	<u>5,906,001</u>	<u>-</u>	<u>146,597</u>	<u>(662,315)</u>	<u>44,265,953</u>
Operating Income (Loss)	<u>5,133,918</u>	<u>(1,573,526)</u>	<u>-</u>	<u>(146,597)</u>	<u>(2,880)</u>	<u>3,410,915</u>
Nonoperating Revenues (Expenses)						
Investment income	202,842	-	3,906	1,077	-	207,825
Grant expense	(1,250,000)	-	-	(2,880)	2,880	(1,250,000)
Interest expense	(242,556)	-	-	-	-	(242,556)
Noncapital grants and gifts	-	-	-	83,993	-	83,993
Total nonoperating revenues (expenses)	<u>(1,289,714)</u>	<u>-</u>	<u>3,906</u>	<u>82,190</u>	<u>2,880</u>	<u>(1,200,738)</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Gift Transfers	<u>3,844,204</u>	<u>(1,573,526)</u>	<u>3,906</u>	<u>(64,407)</u>	<u>-</u>	<u>2,210,177</u>
Capital Gifts	<u>-</u>	<u>-</u>	<u>-</u>	<u>800,680</u>	<u>-</u>	<u>800,680</u>
Transfer From (To) Affiliates	<u>(1,500,000)</u>	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>2,344,204</u>	<u>(73,526)</u>	<u>3,906</u>	<u>736,273</u>	<u>-</u>	<u>3,010,857</u>
Net Position, Beginning of Year	<u>24,777,129</u>	<u>765,970</u>	<u>308,934</u>	<u>220,037</u>	<u>-</u>	<u>26,072,070</u>
Net Position, End of Year	<u>\$ 27,121,333</u>	<u>\$ 692,444</u>	<u>\$ 312,840</u>	<u>\$ 956,310</u>	<u>\$ -</u>	<u>\$ 29,082,927</u>

Statement of Cash Flows

	Year Ended December 31, 2016					Total
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	
Cash Provided By (Used In):						
Operating activities	\$ 7,689,474	\$ (1,478,041)	\$ -	\$ (146,348)	\$ (2,880)	\$ 6,062,205
Noncapital financing activities	(1,250,000)	-	-	81,113	2,880	(1,166,007)
Capital and related financing activities	(5,658,999)	1,500,000	-	364,247	-	(3,794,752)
Investing activities	433,411	-	2	(263,402)	-	170,011
Increase in cash and cash equivalents	1,213,886	21,959	2	35,610	-	1,271,457
Cash and Cash Equivalents, Beginning of Year	<u>4,526,206</u>	<u>209,199</u>	<u>553</u>	<u>47,779</u>	<u>-</u>	<u>4,783,737</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,740,092</u>	<u>\$ 231,158</u>	<u>\$ 555</u>	<u>\$ 83,389</u>	<u>\$ -</u>	<u>\$ 6,055,194</u>

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Note 16: Future Change in Accounting Principle

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* (GASB 75), as they relate to governments that provide postemployment benefits other than pensions administered as trusts or similar arrangements that meet certain criteria. GASB 75 requires governments providing postemployment benefits to recognize their long-term obligation for postemployment benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of postemployment benefits. GASB 75 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB 75 are effective for fiscal years beginning after June 15, 2017; therefore, the Organization's fiscal year 2018. The impact of applying this Statement has not been determined.

Required Supplementary Information

Highland County Joint Township District Hospital
Schedules of the Hospital's Proportionate Share of the
Net Pension Liability (Asset)
Ohio Public Employees Retirement System (OPERS)

Traditional Defined-Benefit Pension Plan

	2017	2016	2015
Hospital's proportion of the net pension liability	0.11%	0.11%	0.11%
Hospital's proportionate share of the net pension liability	\$ 25,379,250	\$ 18,858,523	\$ 13,072,514
Hospital's covered-employee payroll	\$ 14,452,206	\$ 13,574,182	\$ 13,013,402
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	175.61%	138.93%	100.45%
Plan fiduciary net position as a percentage of the total pension liability	77.25%	81.08%	86.45%

Combined Defined-Benefit Pension Plan

	2017	2016	2015
Hospital's proportion of the net pension asset	0.11%	0.12%	0.10%
Hospital's proportionate share of the net pension asset	\$ 59,434	\$ 57,957	\$ 48,698
Hospital's covered-employee payroll	\$ 416,850	\$ 417,450	\$ 356,105
Hospital's proportionate share of the net pension asset as a percentage of its covered-employee payroll	14.26%	13.88%	13.68%
Plan fiduciary net position as a percentage of the total pension asset	116.55%	116.90%	114.83%

For the Hospital's fiscal years ended December 31, the above amounts are presented as of the date of the actuarial valuation as December 31 of the prior year, respectively.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information has been determined under the provisions of GASB Statements No. 68 and No. 71. Information in these schedules has been determined as of the measurement date (December 31 of the prior fiscal year) of the collective net pension liability (asset).

Highland County Joint Township District Hospital
Schedule of the Hospital's Contributions
Ohio Public Employees Retirement System (OPERS)

Traditional Defined-Benefit Pension Plan	2017	2016	2015
Statorily required contributions	\$ 1,913,519	\$ 1,734,265	\$ 1,628,902
Contributions in relation to the statorily required contributions	<u>(1,913,519)</u>	<u>(1,734,265)</u>	<u>(1,628,902)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's covered-employee payroll	14,719,380	14,452,206	13,574,182
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%
Combined Defined-Benefit Pension Plan	2017	2016	2015
Statorily required contributions	\$ 65,166	\$ 50,022	\$ 50,094
Contributions in relation to the statorily required contributions	<u>(65,166)</u>	<u>(50,022)</u>	<u>(50,094)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's covered-employee payroll	501,275	416,850	417,450
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%

The above amounts are presented as of December 31 of the respective fiscal years.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information has been determined under the provisions of GASB Statements No. 68 and No. 71. Information in these schedules has been determined as of the measurement date (December 31 of the prior fiscal year) of the collective net pension liability (asset).

Highland County Joint Township District Hospital

Notes to Required Supplementary Information

Changes of Benefit Terms

Amounts reported in 2016 for OPERS reflect the following plan changes:

- The minimum age and number of years of service required to receive an unreduced benefit were each increased by two years for members in the state and local divisions. The minimum retirement age required for law enforcement members did not change, however, the minimum retirement age was increased by two years.
- Final average salary (FAS) increased to the highest five years (up from three years).
- The benefit multiplier used for the first 30 years (2.2% of FAS) was increased to the first 35 years of service.
- Age and service reduction factors changed to represent actuarially determined rates for each year a member retires before attaining full retirement.
- The Cost of Living Adjustment (COLA) was changed for new retirees from a simple 3% applied to the benefit value at date of retirement, to a rate based on the change in the Consumer Price Index, not to exceed 3%.

Amounts reported in 2015 for OPERS reflect the following plan changes:

- No COLAs were granted for the fiscal year ended June 30, 2014 and reduced to 2% for future periods. COLA deferred until the fifth anniversary of retirement for members retiring after July 1, 2013.
- New members require five years of qualifying service credit to be eligible for survivor benefits and 10 years of service of qualifying service to be eligible for disability benefits.

Changes of Assumptions

In 2016, the OPERS' Board of Trustees' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions. Amounts reported in the Hospital's 2017 fiscal year for the OPERS pension plans reflect the following change of assumptions from the amounts reported for the 2016 fiscal year based on the experience study:

- Actuarially assumed expected rate of investment return decreased from 8.0% to 7.5%.
- Actuarially assumed wage inflation decreased from 3.75% to 3.25%.
- Projected salary increases range changed from 4.25% - 10.05% to 3.25% - 10.75% for the Traditional Pension Plan and changed from 4.25% - 8.05% to 3.25% - 8.25%.
- Mortality assumptions increased to reflect longer life expectancies.

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

Board of Trustees
Highland County Joint Township District Hospital
Hillsboro, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Highland County Joint Township District Hospital, an enterprise fund of Highland County, Ohio, and its component units (collectively the "Organization"), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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 Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Cincinnati, Ohio
March 28, 2018

Highland County Joint Township District Hospital
Schedule of Findings and Responses
Year Ended December 31, 2017

**Reference
Number**

Finding

No matters are reportable.

Highland County Joint Township District Hospital
Schedule of Prior Audit Findings and Responses
Year Ended December 31, 2017

Reference Number	Summary of Finding	Status
2016-001	The audit of the financial statements identified an unrecorded payable for construction in progress work performed through December 31, 2016.	Resolved



Dave Yost • Auditor of State

HIGHLAND JOINT TOWNSHIP DISTRICT HOSPITAL

HIGHLAND 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
MAY 10, 2018