HOCKING VALLEY COMMUNITY HOSPITAL

(A COMPONENT UNIT OF HOCKING COUNTY, STATE OF OHIO)

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

CPAs / ADVISORS

blue

Board of Trustees
Hocking Valley Community Hospital
P. O. Box 966
601 State Route 664
Logan, Ohio 43138

We have reviewed the *Report of Independent Auditors* of the Hocking Valley Community Hospital, Hocking County, prepared by Blue & Co., LLC, 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 Hocking Valley Community Hospital is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

May 24, 2018

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov

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HOCKING VALLEY COMMUNITY HOSPITAL
(A COMPONENT UNIT OF HOCKING COUNTY, STATE OF OHIO)

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CPAS / ADVISORS

blue

Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240
main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

blueandco.com

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Hocking Valley Community Hospital
Logan, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Hocking Valley Community Hospital (the Hospital), a component unit of Hocking County, Ohio, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. 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 requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Hospital's internal control. Accordingly, we express no opinion. An audit includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

To the Board of Trustees
Hocking Valley Community Hospital
Logan, Ohio

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Hospital as of December 31, 2017, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Prior Period Financial Statements

The financial statements of the Hospital as of December 31, 2016 were audited by other auditors and their report thereon, dated April 28, 2017, expressed an unmodified opinion. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* on pages i through viii and the Supplemental Information on GASB 68 Pension Liabilities on page 40 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting 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 opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2018, on our consideration of the 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Blue & Co., LLC

Columbus, Ohio
May 2, 2018

Management's Discussion and Analysis

The discussion and analysis of Hocking Valley Community Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the years ended December 31, 2017, 2016, and 2015. The discussion and analysis is based on Hospital only activity and does not include The Hocking Valley Community Hospital Memorial Funds, Inc. activity. Please read in conjunction with the Hospital's financial statements, which begin on page 3.

Financial Highlights

- The Hospital's net position decreased by $4,513,321 or 108% in 2017.
- The Hospital reported an operating loss of $1,261,220 in 2017.
- Total operating revenues decreased from 2016 to 2017 by $1,954,391 or 5%.
- The Hospital expended $3,340,000 in support of Hocking Valley Medical Group, Inc. during 2017.
- The Hospital had an increase in operating expense of $2,361,181 or 7% in 2017.

Using This Annual Report

The Hospital's financial statements consist of three statements – Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; and Statements of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or rose off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These Statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. 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 Hospital's net position and related changes. You can think of the Hospital's net position – the difference between assets and liabilities – as one way to measure the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Statements of Cash Flows

The final required statement is the Statements of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, noncapital related financing and capital related financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?" and "What was the change in cash balance during the reporting period?"

Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Statements of Net Position on page 4. The Hospital's net position decreased by $4,513,321 or 108% in 2017.

Condensed Financial Information

The following is a comparative analysis of major components of the balance sheet of the Hospital as of December 31, 2017, 2016 and 2015:

	2017	2016	2015
Assets and Deferred Outflows of Resources			
Current assets and other assets	$ 8,742,385	$ 13,624,770	$ 9,447,931
Noncurrent assets	271,324	268,148	258,823
Capital assets, net	12,154,195	10,525,940	10,042,894
Total assets	21,167,904	24,418,858	19,749,648
Deferred outflows of resources	8,226,907	6,195,439	2,048,395
Total Assets and Deferred Outflows of Resources	$ 29,394,811	$ 30,614,297	$ 21,798,043
Liabilities, Deferred Inflows of Resources and Net Position			
Current liabilities	$ 5,504,510	$ 6,829,409	$ 5,126,608
Noncurrent liabilities	23,800,230	18,813,324	13,632,285
Total liabilities	29,304,740	25,642,733	18,758,893
Deferred inflows of resources	410,155	778,326	218,472
Net Position			
Net investment in capital assets	8,351,063	6,859,994	7,864,627
Unrestricted	(8,671,147)	(2,666,756)	(5,043,949)
Total net position	(320,084)	4,193,238	2,820,678
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 29,394,811	$ 30,614,297	$ 21,798,043

A significant component of the Hospital's assets are capital assets. Capital assets, net, increased by $1,628,255, or 15% in 2017. Fixed assets acquired by the Hospital were $3,236,561 in 2017. These additions were offset by depreciation and amortization of $1,608,306. Capital assets, net, increased by $483,046, or 5% in 2016. Fixed assets acquired by the Hospital were $2,097,663 in 2016. These additions were offset by depreciation and amortization of $1,614,617.

Operating Results and Changes in the Hospital's Net Position

The following is a comparative analysis of the statements of operations and changes in net position for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
Revenues			
Net patient service revenue	$ 34,818,981	$ 36,616,313	$ 34,767,271
Other	533,613	690,672	670,867
Total operating revenue	35,352,594	37,306,985	35,438,138
Expenses			
Salaries and wages	12,953,986	12,957,148	12,432,936
Employee benefits	8,255,925	5,767,380	5,162,035
Supplies and other expenses	7,753,949	8,230,283	7,247,002
Professional fees and services	5,942,510	5,540,660	5,004,472
Depreciation and amortization	1,608,306	1,614,617	1,645,743
Insurance	99,139	142,545	261,395
Total operating expenses	36,613,815	34,252,633	31,753,583
Operating income (loss)	(1,261,221)	3,054,352	3,684,555
Nonoperating revenues (expenses)	(3,252,101)	(1,681,792)	(2,155,987)
Change in net position	$ (4,513,322)	$ 1,372,560	$ 1,528,568

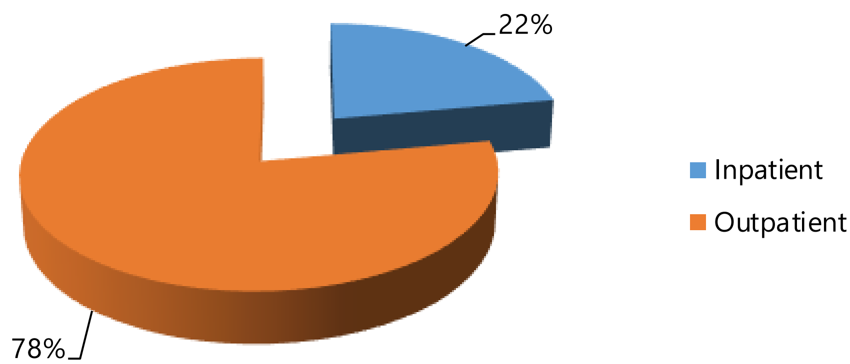
Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as inpatient services, outpatient services, physician offices, and the cafeteria.

Operating revenue changes were a result of the following factors:

- Net patient service revenue decreased $1,797,332 or 5% from 2016 to 2017. This decrease was primarily due to a 5% decrease in outpatient and emergency department volumes from 2016.

- Net patient service revenue increased $1,849,042 or 5% from 2015 to 2016. This increase was primarily due to a 3% price increase that was effective January 1, 2016 as well as an increase in outpatient and emergency department volumes over 2015.



Operating Expenses

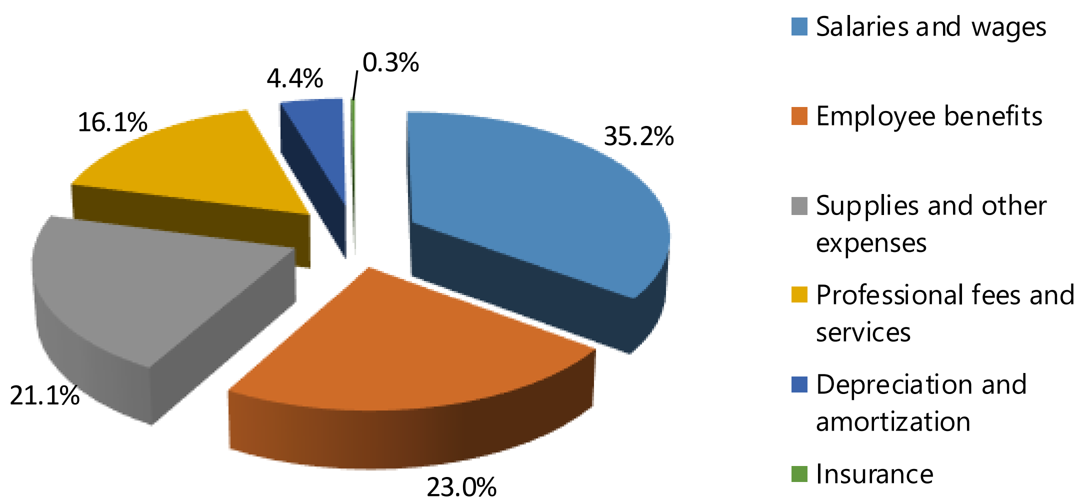
Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The significant operating expense changes were the result of the following factors:

- Salaries and wages decreased $3,162 from 2016 to 2017. Salaries and wages increased $524,212 or 4% from 2015 to 2016. The increase in salaries and wages between 2016 and 2015 was due to market adjustments made to wages.

- Employee benefits increased $2,488,544 or 43% from 2016 to 2017. This increase was related to increased expenses associated with the Ohio Public Employees Retirement System (OPERS) plans. Employee benefits increased $605,345 or 12% from 2015 to 2016, relating to increased expenses associated with the OPERS Plan.

- Professional fees and services increased by 7% from 2016 to 2017. This was related to the outsourcing of certain business office and patient accounts staff in the 3rd quarter of 2016. Professional fees and services increased by 11% from 2015 to 2016. This was related to a change in the hours of operation of the Urgent Care department to open an hour earlier and close an hour later each day.

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



Sources of Revenue

The Hospital derives substantially all of its revenue from patient services and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

The Hospital provides care to patients under payment arrangements with Medicare, Medicaid, and various managed care programs. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs as defined by the related Federal and State regulations. Provisions have been made in the financial statements for contractual adjustments which represent the difference between the standard charges for services and the actual or estimated reimbursement.

Operating Income (loss)

The first component of the overall change in the Hospital's net position is its operating income (loss). Generally, operating income (loss) is the difference between net patient service revenue and the expenses incurred to perform those services. The Hospital reported operating income (loss) of $(1,261,220) in 2017, $3,054,352 in 2016 and $3,684,555 in 2015.

The decrease in the Hospital's total operating income (loss) in 2017 of $4,315,572 from 2016 is the result of an increase in employee benefits expense of $2,488,544 and a decrease in operating revenue of $1,954,391.

The decrease in the Hospital's total operating income in 2016 of $630,203 from 2015 is the result of restructuring the pay scale to reflect up to 10 years of experience, an increase in the pension liability and an increase in supply cost related to higher outpatient volumes. Some of the increase in operating expense was offset by the fact that the Hospital increased gross charge rates 3% in 2016.

The Hospital provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals of the Hospital when it was established. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Hospital and represents unreimbursed charges incurred by the Hospital in providing uncompensated care to indigent patients. Based on established rates, charges of $653,582 were waived under the Hospital's charity care policy during 2017 as compared to $735,649 in 2016.

Nonoperating Revenues (Expenses)

The Hospital's net investment income amounted to $20,781 and $7,591 in 2017 and 2016, respectively. The Hospital provided funding to the Hocking Valley Medical Group, Inc. of $3,340,000 and $2,285,000 in 2017 and 2016, respectively.

Statements of Cash Flows

The primary purpose of the statements of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows helps assess:

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

	2017	2016	2015
Cash provided by (used in):			
Operating activities	$ 6,013,291	$ 3,580,182	$ 3,821,707
Non-capital and related financing activities	(3,531,731)	(2,075,812)	(2,059,324)
Investing activities	(289,736)	(269,409)	10,446
Capital and related financing activities	(3,240,526)	(390,295)	(1,212,797)
Total	(1,048,702)	844,666	560,032
Cash - beginning of year	1,709,109	864,443	304,411
Cash - end of year	$ 660,407	$ 1,709,109	$ 864,443

Capital Assets and Debt Administration

Capital Assets

The Hospital had $12,154,195 and $10,525,940 net investment in capital assets at December 31, 2017 and 2016, respectively. The Hospital acquired or constructed capital assets in the amount of $3,236,561 and $2,097,693 during 2017 and 2016, respectively.

Debt

The Hospital had $3,803,132 and $3,665,946 in bond, notes and capital lease obligations outstanding at December 31, 2017 and 2016, respectively. Additionally, the Hospital has a line of credit with a local bank. The amount borrowed on the line of credit was $0 and $400,000 at December 31, 2017 and 2016, respectively.

GASB No. 68 (Accounting and Financial Reporting for Pensions), as amended by GASB Statement No. 71

In 2015, the Hospital implemented Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71. GASB Statement No. 68 requires employers participating in cost-sharing multiple-employer pension plans to recognize a proportionate share of the net pension liabilities of the plans. The Organization participates in the OPERS. A proportionate share of the net pension liabilities of OPERS has been allocated to the Hospital, based on retirement plan contributions for Hospital employees. The cumulative impact of adopting GASB Statement No. 68 has been a $12,963,252 reduction in the Hospital's net position through December 31, 2017.

These standards fundamentally change the future accounting and financial reporting requirements for public pensions. The new standards require each public employer to account for a portion of its public pension plan's unfunded liabilities on their balance sheets. As part of this accounting recognition, there will be operating income/loss impacts into the future. However, since the impact is dependent upon the OPERS investment portfolio performance via market investments, it is uncertain as to the performance of these investments in future years.

The chart below summarizes our 2017 activity with and without the impact of GASB Statement No. 68.

	Impact in accordance with Generally Accepted Accounting Principles	Impact in w/o GASB 68
Operating results		
Operating income (loss)	$ (1,261,221)	$ 1,262,740
Net position		
Assets and deferrals	$ 29,394,811	$ 21,118,438
Liabilities and deferrals	29,714,895	8,475,270
Net position	(320,084)	12,643,168
Total liabilities and net position	$ 29,394,811	$ 21,118,438

Contacting the Hospital's Financial Management

The financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Vice President of Finance, 601 State Route 664, P.O. Box 966, Logan, OH 43138.

HOCKING VALLEY COMMUNITY HOSPITAL
(A COMPONENT UNIT OF HOCKING COUNTY, STATE OF OHIO)

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2017	2016	2017	2016
Assets and Deferred Outflows of Resources				
Current assets				
Cash and cash equivalents	$ 660,407	$ 1,709,109	$ 212,700	$ 496,135
Patient accounts receivable, net of uncollectible accounts of $2,323,000 and $2,191,000 in 2017 and 2016, respectively	5,632,695	7,071,611	-	-
Certificates of deposit	35,036	34,727	599,914	-
Investments	1,054,570	746,570	288,758	252,549
Inventories	440,092	316,067	-	-
Deposits for South Central Ohio Insurance Consortium	437,357	460,256	-	-
Estimated amounts due from third-party payors	43,279	878,919	-	-
Prepaid expenses and other assets	438,949	2,407,511	-	-
Total current assets	8,742,385	13,624,770	1,101,372	748,684
Noncurrent assets				
Certificates of deposit	221,858	219,650	-	295,176
Net pension asset	49,466	48,498	-	-
Restricted investments	-	-	274,804	262,340
Total noncurrent assets	271,324	268,148	274,804	557,516
Capital assets				
Land and construction in progress	1,135,685	1,110,466	161,834	161,834
Buildings, land improvements and equipment, net	11,018,510	9,415,474	389,373	417,688
Capital assets, net	12,154,195	10,525,940	551,207	579,522
Total assets	21,167,904	24,418,858	1,927,383	1,885,722
Deferred outflows of resources	8,226,907	6,195,439	-	-
Total assets and deferred outflows of resources	$ 29,394,811	$ 30,614,297	$ 1,927,383	$ 1,885,722

HOCKING VALLEY COMMUNITY HOSPITAL
(A COMPONENT UNIT OF HOCKING COUNTY, STATE OF OHIO)

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2017	2016	2017	2016
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities				
Line of credit	$ -	$ 400,000	$ -	$ -
Current portion of capital lease obligations	534,031	472,606	-	-
Current portion of long-term debt	298,341	284,917	-	-
Accounts payable and accrued expenses	2,551,488	3,410,214	-	3,036
Accrued payroll and related liabilities	515,964	548,221	-	-
Unearned revenue	403,267	534,463	-	-
Self-insurance liabilities	327,456	284,912	-	-
Accrued vacation and sick leave	873,963	894,076		
Total current liabilities	5,504,510	6,829,409	-	3,036
Noncurrent liabilities, net of current portions				
Capital lease obligations	1,134,434	773,790	-	-
Net pension liability	20,829,470	15,904,901	-	-
Long-term debt	1,836,326	2,134,633	-	-
Total noncurrent liabilities	23,800,230	18,813,324	-	-
Total liabilities	29,304,740	25,642,733	-	3,036
Deferred inflows of resources	410,155	778,326	-	-
Net Position				
Net investment in capital assets	8,351,063	6,859,994	551,207	579,522
Restricted, nonspendable	-	-	139,236	139,236
Restricted, program activities	-	-	135,568	123,104
Unrestricted	(8,671,147)	(2,666,756)	1,101,372	1,040,824
Total net position	(320,084)	4,193,238	1,927,383	1,882,686
Total liabilities, deferred inflows of resources and net position	$ 29,394,811	$ 30,614,297	$ 1,927,383	$ 1,885,722

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL
(A COMPONENT UNIT OF HOCKING COUNTY, STATE OF OHIO)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2017	2016	2017	2016
Operating revenues				
Net patient service revenue	$ 34,818,981	$ 36,616,313	$ -	$ -
Other operating revenue	533,613	690,672	-	50,050
Total operating revenues	35,352,594	37,306,985	-	50,050
Operating expenses				
Salaries and wages	12,953,986	12,957,148	-	-
Employee benefits	8,255,925	5,767,380	-	-
Supplies and other expenses	7,753,949	8,230,283	31,509	28,933
Professional fees and service	5,942,510	5,540,660		
Depreciation and amortization	1,608,306	1,614,617	28,315	28,558
Insurance	99,139	142,545	-	-
Total operating expenses	36,613,815	34,252,633	59,824	57,491
Operating income (loss)	(1,261,221)	3,054,352	(59,824)	(7,441)
Nonoperating revenues (expenses)				
Grants to Hocking Valley Medical Group, Inc.	(3,340,000)	(2,285,000)	-	-
Net investment income	20,781	7,591	55,655	41,182
Interest expense	(141,151)	(125,296)	-	-
Other nonoperating income	59,441	536,225	-	-
Grant expenses and support	-	-	(95,540)	(530,452)
Noncapital grants and contributions	148,828	184,688	144,406	101,657
Total nonoperating revenues (expenses)	(3,252,101)	(1,681,792)	104,521	(387,613)
Increase (decrease) in net position	(4,513,322)	1,372,560	44,697	(395,054)
Net position, beginning of year	4,193,238	2,820,678	1,882,686	2,277,740
Net position, end of year	$ (320,084)	$ 4,193,238	$ 1,927,383	$ 1,882,686

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL
(A COMPONENT UNIT OF HOCKING COUNTY, STATE OF OHIO)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2017	2016	2017	2016
Cash flows from operating activities				
Cash received from patients and third party payors	$ 37,093,537	$ 34,604,590	$ -	$ -
Cash paid to employees for wages and benefits	(18,869,515)	(18,514,664)	-	-
Cash paid to vendors for goods and services	(12,744,344)	(13,200,418)	(34,545)	(28,933)
Other receipts	533,613	690,674	-	50,050
Net cash provided by operating activities	6,013,291	3,580,182	(34,545)	21,117
Cash flows from noncapital financing activities				
Contributions	208,269	184,688	144,406	101,657
Grant expenses and support	-	-	(95,540)	(79,111)
Payments on line of credit	(400,000)	(375,500)	-	-
Borrowings on line of credit	-	400,000	-	-
Grants to The Hocking Valley Community Hospital Memorial Fund, Inc.	(3,340,000)	(2,285,000)	-	-
Net cash used in noncapital financing activities	(3,531,731)	(2,075,812)	48,866	22,546
Cash flows from capital and related financing activities				
Proceeds from issuance of long-term debt	-	1,918,748	-	-
Repayment of long-term debt	(284,883)	(207,239)	-	-
Repayment of capital lease obligations	(543,825)	(498,325)	-	-
Interest paid on long-term debt	(141,151)	(122,897)	-	-
Purchase of capital assets	(2,270,667)	(1,480,582)	-	-
Net cash used in capital and related financing activities	(3,240,526)	(390,295)	-	-
Cash flows from investing activities				
Interest income	20,781	7,591	5,026	4,689
Investment purchases and reinvestments	(310,517)	(277,000)	(302,782)	(31,873)
Net cash (used in) provided by investing activities	(289,736)	(269,409)	(297,756)	(27,184)
Net increase (decrease) in cash and cash equivalents	(1,048,702)	844,666	(283,435)	16,479
Cash and cash equivalents:				
Beginning of year	1,709,109	864,443	496,135	479,656
End of year	$ 660,407	$ 1,709,109	$ 212,700	$ 496,135

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL
(A COMPONENT UNIT OF HOCKING COUNTY, STATE OF OHIO)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2017	2016	2017	2016
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	$ (1,261,221)	$ 3,054,352	$ (59,824)	$ (7,441)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	1,608,306	1,614,617	28,315	28,558
Provision for bad debt	3,384,143	2,954,238	-	-
Pension expense	2,523,962	553,007	-	-
Changes in:				
Patient accounts receivable	(1,945,227)	(4,541,505)	-	-
Inventories, prepaid expenses and other assets	1,867,436	(588,987)	-	-
Accounts payable, accrued expenses and unearned revenue	(989,922)	1,551,611	(3,036)	-
Accrued payroll and related liabilities	(32,257)	22,233	-	-
Self-insurance liabilities	42,544	(95,669)	-	-
Estimated amounts due to/from third-party payors	835,640	(958,919)	-	-
Accrued vacation and sick leave	(20,113)	15,204	-	-
Net cash provided by operating activities	$ 6,013,291	$ 3,580,182	$ (34,545)	$ 21,117
Supplemental disclosure of noncash operating activities				
Rent and interest expense forgiven by related party	$ -	$ 191,240	$ -	$ (191,240)
Supplemental disclosure of noncash capital financing activities				
Assets acquired under capital lease obligations	$ 965,894	$ 617,081	$ -	$ -
Current and long term related party debt forgiven	$ -	$ 344,985	$ -	$ (344,985)

See accompanying notes to financial statements.

1. REPORTING ENTITY

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hocking Valley Community Hospital Memorial Fund, Inc. (Foundation) is included as a discretely presented component unit in a separate column in the Hospital's financial statements to emphasize that it is legally separate from the Hospital. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the Hospital in support of its programs. Although the Hospital does not control the timing or the amounts of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to support the activities of the Hospital. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the Hospital, it is considered a component unit of the Hospital.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Use of Estimates

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

Proprietary Fund Accounting

The Hospital utilizes the propriety fund method of accounting whereby revenue and expenses are recognized on the full accrual basis. Substantially all revenue and expenses are subject to accrual.

Cash and Cash Equivalents

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

Inventories

Inventories, consisting primarily of medical supplies and drugs, are valued at the lower of cost, determined by the first-in, first-out method, or net realizable value.

Deposits for South Central Ohio Insurance Consortium

The Hospital participates in an insurance consortium for employee health insurance costs. The amount reflected on the statements of net position represents assets held for the consortium to cover unpaid claims at year-end.

Investments

The Hospital records its investments at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Unrealized gains and losses on investments are included in net investment income in the statements of revenues, expenses and changes in net position.

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

Certificates of Deposit

The Hospital records their investments in certificates of deposit at cost while the Foundation records their investments in certificates of deposit at cost plus accrued interest. The certificates of deposit are classified on the statements of net position based on maturity date.

Restricted Investments

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

Statements of Revenues, Expenses and Changes in Net Position

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

Capital Assets

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

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

Depreciation expense on capital leases is included in depreciation and amortization in the statements of revenues, expenses and changes in net position. The asset and accumulated depreciation are removed from the related accounts when the asset is disposed. Any gain or loss resulting from this disposal is recorded in the statements of revenues, expenses and changes in net position.

Compensated Absences

The Hospital's employees earn vacation time at varying rates depending on years of service. Employees may accumulate vacation time, up to 400 hours, to be carried over to the subsequent year. The Hospital's employees also earn sick leave on an annual basis at a flat rate regardless of years of service. Upon retirement, employees with a minimum of 10 years of service have sick leave balances paid out at 25% of eligible hours at their current rate of pay. The maximum payout is 240 hours. As of December 2017 and 2016, the liability for accrued vacation and sick leave was $873,963 and $894,076, respectively.

Costs of Borrowings

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Grants and Contributions

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

Restricted Resources

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

Net Position

Net Investment in Capital Assets: Consists of capital assets, net of accumulated depreciation, and is reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted Net Position: Results when constraints placed on the use of the net position are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provision or enabling legislation.

Unrestricted Net Position: Consists of remaining net position that does not meet the previously listed criteria.

Risk Management

The Hospital is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; business interruptions; errors and omissions; injuries to employees; and natural disasters. Commercial insurance coverage is purchased for claims arising in such matters.

Upper Payment Limit

In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the Centers for Medicare and Medicaid Services (CMS). This program provides access to available federal funding up to 100% of the Medicare upper payment limits for inpatient hospital services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. The Hospital received $1,068,927 and $890,707 in UPL payments in 2017 and 2016, respectively, which are reflected in net patient service revenue. Additionally, the Hospital received 2018 UPL payments in advance which are reflected in the Statements of Net Position as unearned revenue. These amounts will be recorded as revenue in the following year.

Franchise Fee

Effective July 1, 2009, the State of Ohio began assessing a franchise fee to hospitals to fund health care programs. The Hospital incurred franchise fee expenses of $499,160 and $453,323 in 2017 and 2016, respectively, and recorded the amount in supplies and other expenses in the Statements of Revenues, Expenses and Changes in Net Position. There was no franchise fee liability payable to the State of Ohio at December 31, 2017 and 2016.

Patient Accounts Receivable and Net Patient Service Revenue

The Hospital recognizes net patient service revenues on the accrual basis of accounting in the reporting period in which services are performed based on the current gross charge structure, less actual adjustments and estimated discounts for contractual allowances, principally for patients covered by Medicare, Medicaid, managed care and other health plans. The Hospital is designated as a critical access facility by the Medicare program. As a result, Medicare inpatient and outpatient services are reimbursed at the approximate cost plus 1% of providing those services subject to the federal sequestration provisions. Payment for the majority of Medicaid inpatient and outpatient services is based on a prospectively determined fixed price. Gross patient service revenue is recorded in the accounting records using the established rates for the type of service provided to the patient. The Hospital recognizes an estimated contractual allowance to reduce gross patient charges to the estimated net realizable amount for services rendered based upon previously agreed-to rates with a payor. The Hospital utilizes the patient accounting system to calculate contractual allowances on a payor-by-payor basis based on the rates in effect for each primary third-party payor. Another factor that is considered and could further influence the level of the contractual reserves includes the status of accounts receivable balances as inpatient or outpatient. The Hospital's management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms that result from contract renegotiations and renewals.

Payors include federal and state agencies, including Medicare, Medicaid, managed care health plans, commercial insurance companies, employers, and patients. These third-party payors provide payments to the Hospital at amounts different from its established rates based on negotiated reimbursement agreements. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and fee schedule payments. Retroactive adjustments under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Hospital estimates an allowance for doubtful accounts based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Of the Hospital's total operating expenses (approximately $36,614,000 and $34,253,000 during 2017 and 2016), an estimated $261,000 and $271,000 arose from providing services to charity patients during 2017 and 2016, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue. The Hospital participates in the Hospital Care Assurance Program (HCAP), which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled $1,292,069 and $1,390,618 for 2017 and 2016, respectively, and are reported as net patient service revenue in the financial statements.

New Accounting Standards

During 2017, the Hospital implemented GASB Statement No. 82 *Pension Issues* – an amendment of GASB Statements No. 67, No. 68, and No. 73. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. There was no material impact to these financial statement disclosures as a result of adoption of this standard as these disclosures have been provided historically.

Reclassification

Certain amounts in the 2016 financial statements have been reclassified to conform to the current year presentation. There were no changes in the net position as a result of these reclassifications.

Subsequent Events

The Hospital has evaluated subsequent events through May 2, 2018, the date the financial statements were available to be issued.

3. DEPOSITS AND INVESTMENTS

Deposits

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits might not be recovered. Through December 31, 2017, FDIC (Federal Deposit Insurance Corporation) insurance for funds held in interest bearing accounts is $250,000 per depositor per category of legal ownership. Ohio Revised Code requires that deposits in excess of FDIC insured amounts are collateralized. The Hospital's investment policy does not address custodial credit risk but it believes that the Hospital's depository bank carries sufficient collateral to cover the total amount of public funds on deposit with the bank (after FDIC coverage) and is in compliance with the requirements specified in Sections 135.18 and 135.181 of the Ohio Revised Code.

The bank balances of the Hospital's deposits at December 31, 2017 and 2016 totaled $2,146,138 and $2,020,439, respectively, and were subject to the following categories of custodial credit risk:

	2017	2016
Uncollateralized and uninsured	$ -	$ -
Collateral held by the counterparty's agent but not in the name of the Hospital	764,803	1,505,931
Total amount subject to custodial risk	764,803	1,505,931
Amount insured	1,381,335	514,508
Total bank balances	$ 2,146,138	$ 2,020,439

Investments – The Hospital

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

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

The Hospital's investment generally are reported at fair value, as discussed in Note 2. At December 31, 2017 and 2016, the Hospital had the following investments, maturities and rates (per Standard & Poor's), all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

	2017		
		Investment Maturities	
	Carrying Amount	Less than 1 Year	1-5 Years
Certificates of deposits	$ 256,894	$ 35,036	$ 221,858
U.S. Government Agencies			
AA+	448	-	448
Money Market Funds			
AAA	703,783	703,783	-
Not rated	350,339	350,339	-
	$ 1,311,464	$ 1,089,158	$ 222,306

	2016		
		Investment Maturities	
	Carrying Amount	Less than 1 Year	1-5 Years
Certificates of deposits	$ 254,377	$ 34,727	$ 219,650
U.S. Government Agencies			
AA+	1,060	11	1,049
Money Market Funds			
AAA	396,792	396,792	-
Not rated	348,718	348,718	-
	$ 1,000,947	$ 780,248	$ 220,699

Interest Rate Risk

The Hospital's investment policies limit investment portfolios to maturities of five years or less. All of the Hospital's investments at December 31, 2017 and 2016 have effective maturity dates of less than five years.

Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Hospital's investment policy does not address custodial credit risk. For the years ended December 31, 2017 and 2016, the Hospital is not exposed to custodial credit risk as it relates to its investment portfolio.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of investments in any issuer. This does not apply to obligations and agencies of the United States Treasury which are deemed to be "risk-free". The Hospital's investment policy requires that the portfolio be structured to diversify investments to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific type of security. The Hospital believes that it is not exposed any significant credit risk on investments.

Investments – The Foundation

As of December 31, the fair values of the Foundation's investments were as follows:

	2017	2016
Mutual funds	$ 120,389	$ 375,645
Exchange traded funds	167,512	137,049
Certificates of deposit	874,718	295,176
Money market funds	857	2,195
	$ 1,163,476	$ 810,065

The Foundation's investments are reflected in the statements of net position as follows at December 31:

	2017	2016
Certificates of deposit - current assets	$ 599,914	$ -
Investments - current assets	288,758	252,549.0
Certificates of deposit - noncurrent assets	-	$ 295,176
Restricted investments - noncurrent assets	274,804	262,340
	$ 1,163,476	$ 810,065

The Foundation's investment income for the year ended December 31 consisted of the following:

	2017	2016
Interest and dividends, net of investment management fees	$ 5,026	$ 4,689
Net unrealized/realized gain	50,629	36,493
	$ 55,655	$ 41,182

4. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital and Foundation have the ability to access.

- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

- Money markets – Valued based at the subscription and redemption activity at a $1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

- U.S. government securities: Valued using pricing models maximizing the use of observable inputs for similar securities.

- Mutual funds - Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

- Exchange traded funds - Valued at the daily closing price as reported by the fund. Exchange traded funds held by the Foundation are funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The exchange traded funds held by the Foundation are deemed to be actively traded.

The following table sets forth by level, within the fair value hierarchy, the Hospital's assets at fair value as of December 31, 2017 and 2016. Classification within the fair value hierarchy table is based on the lowest level of any input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	Total
Money market funds	$ -	$ 1,054,122	$ -	$ 1,054,122
U.S. government agencies				
AA+ securities	-	448	-	448
	$ -	$ 448	$ -	1,054,570
Certificates of deposit				256,894
Total investments and certificates of deposit				$ 1,311,464

	Level 1	Level 2	Level 3	Total
Money market funds	$ -	$ 745,510	$ -	$ 745,510
U.S. government agencies				
AA+ securities	-	1,060	-	1,060
	$ -	$ 1,060	$ -	746,570
Certificates of deposit				254,377
Total investments and certificates of deposit				$ 1,000,947

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels during 2017 and 2016.

Foundation assets measured at fair value on a recurring basis as of December 31, 2017 are as follows:

	Level 1	Level 2	Level 3	Total
Money market	$ -	$ 857	$ -	$ 857
Mutual funds				
Money market	2,408	-	-	2,408
Fixed income	29,561	-	-	29,561
Foreign large blend	15,250	-	-	15,250
Foreign large growth	9,852	-	-	9,852
Large growth	36,664	-	-	36,664
Large value	10,828	-	-	10,828
Mid-cap growth	6,660	-	-	6,660
Small value	9,166	-	-	9,166
Exchange traded funds				
Fixed income	57,943	-	-	57,943
Foreign large blend	30,796	-	-	30,796
Foreign small/mid blend	9,675	-	-	9,675
Large growth	15,892	-	-	15,892
Large value	33,199	-	-	33,199
Mid-cap value	8,479	-	-	8,479
Small blend	11,528	-	-	11,528
	$ 287,901	$ 857	$ -	288,758
Certificates of deposit				874,718
Total investments and certificates of deposit				$ 1,163,476

Foundation assets measured at fair value on a recurring basis as of December 31, 2016 are as follows:

	Level 1	Level 2	Level 3	Total
Money market	$ -	$ 2,195	$ -	$ 2,195
Mutual funds				
Money market	4,804	-	-	4,804
Fixed income	142,337	-	-	142,337
Foreign large blend	25,168	-	-	25,168
Foreign large growth	8,120	-	-	8,120
Large growth	94,832	-	-	94,832
Large value	42,163	-	-	42,163
Mid-cap growth	49,963	-	-	49,963
Small value	8,258	-	-	8,258
Exchange traded funds				
Fixed income	54,477	-	-	54,477
Foreign large blend	25,286	-	-	25,286
Foreign small/mid blend	7,476	-	-	7,476
Large growth	12,378	-	-	12,378
Large value	27,447	-	-	27,447
Mid-cap value	4,957	-	-	4,957
Small blend	5,028	-	-	5,028
	$ 512,694	$ 2,195	$ -	514,889
Certificates of deposit				295,176
Total investments and certificates of deposit				$ 810,065

The Foundation's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels during 2017 and 2016.

5. CAPITAL ASSETS

The Hospital's capital asset additions, transfers, retirements, and balances as of and for the years ended December 31, were as follows:

	2017				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	$ 255,120	$ -	$ -	$ -	$ 255,120
Construction in process	855,346	1,995,650	(1,970,431)	-	880,565
Total non-depreciable capital assets	1,110,466	1,995,650	(1,970,431)	-	1,135,685
Depreciable capital assets:					
Land improvements	491,327	22,320	-	-	513,647
Buildings and improvements	15,443,547	94,839	1,802,059	-	17,340,445
Equipment	14,957,244	1,123,752	168,372	-	16,249,368
Total depreciable capital assets	30,892,118	1,240,911	1,970,431	-	34,103,460
Less accumulated depreciation:					
Land improvements	(272,869)	(36,241)	-	-	(309,110)
Buildings and improvements	(9,096,798)	(542,607)	-	-	(9,639,405)
Equipment	(12,106,977)	(1,029,458)	-	-	(13,136,435)
Total accumulated depreciation	(21,476,644)	(1,608,306)	-	-	(23,084,950)
Total depreciable capital assets, net	9,415,474	(367,395)	1,970,431	-	11,018,510
Total capital assets, net	$ 10,525,940	$ 1,628,255	$ -	$ -	$ 12,154,195

	2016				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	$ 255,120	$ -	$ -	$ -	$ 255,120
Construction in process	121,072	1,094,108	(359,834)	-	855,346
Total non-depreciable capital assets	376,192	1,094,108	(359,834)	-	1,110,466
Depreciable capital assets:					
Land improvements	486,229	5,098	-	-	491,327
Buildings and improvements	15,083,912	57,134	302,501	-	15,443,547
Equipment	13,958,588	941,323	57,333	-	14,957,244
Total depreciable capital assets	29,528,729	1,003,555	359,834	-	30,892,118
Less accumulated depreciation:					
Land improvements	(238,216)	(34,653)	-	-	(272,869)
Buildings and improvements	(8,626,859)	(469,939)	-	-	(9,096,798)
Equipment	(10,996,952)	(1,110,025)	-	-	(12,106,977)
Total accumulated depreciation	(19,862,027)	(1,614,617)	-	-	(21,476,644)
Total depreciable capital assets, net	9,666,702	(611,062)	359,834	-	9,415,474
Total capital assets, net	$ 10,042,894	$ 483,046	$ -	$ -	$ 10,525,940

Total depreciation expense related to the Hospital's capital assets for 2017 and 2016 was $1,608,306 and $1,614,617, respectively.

The Foundation's capital asset additions, transfers, retirements, and balances as of and for the years ended December 31, were as follows:

	2017				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	$ 161,834	$ -	$ -	$ -	$ 161,834
Total non-depreciable capital assets	161,834	-	-	-	161,834
Depreciable capital assets:					
Buildings and improvements	778,490	-	-	-	778,490
Equipment	12,421	-	-	-	12,421
Total depreciable capital assets	790,911	-	-	-	790,911
Less accumulated depreciation:					
Buildings and improvements	(360,802)	(28,315)	-	-	(389,117)
Equipment	(12,421)	-	-	-	(12,421)
Total accumulated depreciation	(373,223)	(28,315)	-	-	(401,538)
Total depreciable capital assets, net	417,688	(28,315)	-	-	389,373
Total capital assets, net	$ 579,522	$ (28,315)	$ -	$ -	$ 551,207

	2016				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	$ 161,834	$ -	$ -	$ -	$ 161,834
Total non-depreciable capital assets	161,834	-	-	-	161,834
Depreciable capital assets:					
Buildings and improvements	778,490	-	-	-	778,490
Equipment	12,421	-	-	-	12,421
Total depreciable capital assets	790,911	-	-	-	790,911
Less accumulated depreciation:					
Buildings and improvements	(332,244)	(28,558)	-	-	(360,802)
Equipment	(12,421)	-	-	-	(12,421)
Total accumulated depreciation	(344,665)	(28,558)	-	-	(373,223)
Total depreciable capital assets, net	446,246	(28,558)	-	-	417,688
Total capital assets, net	$ 608,080	$ (28,558)	$ -	$ -	$ 579,522

Total depreciation expense related to the Foundation's capital assets for 2017 and 2016 was $28,315 and $28,558, respectively.

6. LINE OF CREDIT

The Hospital has a $1,000,000 line of credit with a bank that is collateralized by all patient accounts receivable. The line of credit is due on demand. Interest is payable at a variable rate of prime plus 1.04% (5.54% and 4.79% at December 31, 2017 and 2016, respectively). Information relating to the Hospital's line of credit activity as of and for the years ended December 31, is as follows:

	2017			
	Beginning Balance	Borrowings	Payments	Ending Balance
Line of credit	$ 400,000	$ -	$ (400,000)	$ -

	2016			
	Beginning Balance	Borrowings	Payments	Ending Balance
Line of credit	$ 375,500	$ 400,000	$ (375,500)	$ 400,000

7. DEBT AND CAPITAL LEASE OBLIGATIONS

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

	2017				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
1999 County Hospital Refunding and Improvement Bond Series	$ 550,000	$ -	$ (175,000)	$ 375,000	$ 185,000
Note payable, OAQDA	1,876,509	-	(112,282)	1,764,227	115,706
Capital lease obligations	1,246,396	965,894	(543,825)	1,668,465	534,031
	3,672,905	965,894	(831,107)	3,807,692	834,737
Bond discount	(6,959)	-	2,399	(4,560)	(2,365)
Total debt	$ 3,665,946	$ 965,894	$ (828,708)	$ 3,803,132	$ 832,372

	2016				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
1999 County Hospital Refunding and Improvement Bond Series	$ 715,000	$ -	$ (165,000)	$ 550,000	$ 175,000
Note payable, Hocking Valley Community Hospital Memorial Fund, Inc.	344,985	-	(344,985)	-	-
Note payable, OAQDA	-	1,918,748	(42,239)	1,876,509	112,282
Capital lease obligations	1,127,640	617,081	(498,325)	1,246,396	472,606
	2,187,625	2,535,829	(1,050,549)	3,672,905	759,888
Bond discount	(9,358)	-	2,399	(6,959)	(2,365)
Total debt	$ 2,178,267	$ 2,535,829	$ (1,048,150)	$ 3,665,946	$ 757,523

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

In 2016, a resolution was made by the Foundation Board of Trustees to forgive the $344,985 owed by the Hospital for building improvements.

During 2016, the Hospital signed two note payable agreements with the Ohio Air Quality Development Authority (OAQDA) totaling $1,918,748 utilizing the proceeds to make energy efficient capital improvements to the Hospital. The first note, which totaled $1,000,000, bears interest at 4.25%, with interest payments through December 1, 2030 due semi-annually. Annual principal payments begin December 1, 2024 with the final payment due December 1, 2030. The second note, which totaled $918,748, bears interest at 3.05% with annual principal and interest payments beginning December 1, 2016 through December 1, 2024. At December 31, 2017 and 2016, the balance outstanding under these note payable agreements was $1,764,227 and $1,876,509, respectively.

Capital lease obligations have varying rates of imputed interest ranging from 1.00% to 8.20%. The obligations are collateralized by leased equipment and mature at varying amounts through 2021.

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

	2017	2016
Cost of equipment under capital lease	$ 2,966,498	$ 2,356,008
Accumulated amortization	(1,323,592)	(1,272,607)
	$ 1,642,906	$ 1,083,401

Long-term debt and capital lease obligation payment requirements for fiscal years subsequent to December 31, 2017, are as follows:

	Capital Lease Obligations			Long-Term Debt		
	Principal	Interest	Total	Principal	Interest	Total
2018	$ 534,031	$ 64,405	$ 598,436	$ 300,706	$ 83,327	$ 384,033
2019	411,734	42,740	454,474	309,236	71,002	380,238
2020	375,392	22,842	398,234	122,872	58,331	181,203
2021	212,719	9,791	222,510	126,620	54,574	181,194
2022	134,589	2,425	137,014	130,482	50,702	181,184
Thereafter	-	-	-	1,149,311	218,004	1,367,315
	$ 1,668,465	$ 142,203	$ 1,810,668	2,139,227	$ 535,940	$ 2,675,167

8. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2017	2016
Gross patient accounts receivable	$14,106,814	$17,845,663
Less allowance for:		
Uncollectible accounts	(2,323,216)	(2,190,538)
Contractual adjustments	(6,150,903)	(8,583,514)
Net patient accounts receivable	$ 5,632,695	$ 7,071,611

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

	2017		2016	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	31%	47%	33%	46%
Medicaid	19%	27%	21%	26%
Commercial	24%	23%	25%	25%
Self-pay	26%	3%	21%	3%
	100%	100%	100%	100%

9. ESTIMATED AMOUNTS DUE FROM THIRD-PARTY PAYORS

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

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

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

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

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

In 2017, approximately 47% of the Hospital's total gross patient revenue was derived from Medicare patients while 27% was derived from Medicaid. The remaining revenue was derived primarily from commercial insurance payments.

In 2016, approximately 46% of the Hospital's total gross patient revenue was derived from Medicare payments while 26% was derived from Medicaid. The remaining revenue was derived primarily from commercial insurance payments.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods, as final settlements are determined. Management has determined that there was $43,279 and $879,919 due from third party payors as of December 31, 2017 and 2016, respectively. There is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between the estimated amounts accrued at interim and final settlements are reported in the statement of revenues, expenses and changes in net position in the year of settlement. The Hospital recorded favorable adjustments of $355,919 and $543,448 in 2017 and 2016, respectively.

10. NET PATIENT SERVICE REVENUES

Net patient service revenue consists of the following:

	2017	2016
Revenue:		
Inpatient	$ 20,268,145	$ 19,873,984
Outpatient	71,356,691	73,149,360
Total patient revenue	$ 91,624,836	$ 93,023,344
Revenue deductions:		
Contractual allowances	52,768,130	52,717,144
Provision for bad debts	3,384,143	2,954,238
Charity care	653,582	735,649
Total deductions	56,805,855	56,407,031
Total net patient service revenue	$ 34,818,981	$ 36,616,313

11. OTHER LIABILITIES

Risk Management

The Hospital is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; business interruptions; errors and omissions; injuries to employees; and natural disasters. The Hospital has purchased commercial insurance for malpractice, general liability and employee medical claims.

Medical Malpractice

For medical malpractice, the Hospital has professional liability insurance with a commercial carrier. Coverage is $1,000,000 per occurrence and $3,000,000 in the annual aggregate. In addition, the Hospital has umbrella coverage of $2,000,000 per occurrence. The policy also requires that certain members of the medical staff carry professional liability coverage of no less than $1,000,000 per occurrence and $3,000,000 in the annual aggregate. The Hospital's coverage is on a claims made basis. Settled claims for medical malpractice have not exceeded insurance coverage in any of the past four years. Losses from asserted and unasserted claims identified under the Hospital's incident reporting systems are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. There is no liability for medical malpractice at December 31, 2017 and 2016.

Employee Health Insurance

The Hospital provides health insurance to participating employees under a plan that is partially self-insured. The plan is covered by a stop-loss policy that covers specific items over $100,000. An estimate of incurred but unpaid claims has been determined as of December 31, 2017 and 2016 based on historical experience. The liability for estimated self-insured employee health claims includes estimates of the ultimate costs for both reported claims and incurred but not reported claims. Activity and balances as of and for the years ended December 31, 2017 and 2016 are as follows:

	Beginning Liability	Claims Incurred	Claims Paid	Ending Liability
2016	$ 380,581	$ 2,645,471	$ 2,741,140	$ 284,912
2017	$ 284,912	$ 3,487,069	$ 3,444,525	$ 327,456

12. ENDOWMENT

Endowment Funds

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

Interpretation of Relevant Law

The Board of Trustees of the Foundation have interpreted the State Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies restricted, nonspendable net position as (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. In addition, UPMIFA introduced the concept of total return expenditure of endowment net position for charitable program purposes, expressly permitting prudent expenditure of endowment net position for charitable program purposes, expressly permitting prudent expenditure of both appreciation and income. Thus, asset growth and income can be appropriated for program purposes, subject to the rule that a fund cannot be spent below "historic value."

The portion of the donor-restricted endowment fund that is not classified in restricted, nonspendable net position will be classified as restricted, program activities net position until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation will consider the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and appreciation of investments
- Other resources
- The investment policies

There were no changes in net position related to endowments for the years ended December 31, 2017 and 2016.

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

	2017	
	Unrestricted Net Position	Restricted, Nonspendable Net Position
Funds functioning as endowment	$ 290,000	$ -
Donor-restricted endowment	-	139,236
	$ 290,000	$ 139,236

	2016	
	Unrestricted Net Position	Restricted, Nonspendable Net Position
Funds functioning as endowment	$ 290,000	$ -
Donor-restricted endowment	-	139,236
	$ 290,000	$ 139,236

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported as unrestricted net assets. There are no deficiencies of this nature as of December 31, 2017 and 2016.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

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

13. DEFINED BENEFIT PENSION PLAN

Pension

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 Comprehensive Annual Financial Report for details.

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

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

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

In accordance with GASB Statement No. 68, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension liabilities of the plans. Although changes in the net pension liability generally are recognized as pension expense in the current period, GASB 68 requires certain items to be deferred and recognized as expense in future periods. Deferrals for differences between projected and actual investment returns are amortized to pension expense over five years. Deferrals for employer contributions subsequent to the measurement date are amortized in the following period (one year). Other deferrals are amortized over the estimated remaining service lives of both active and inactive employees (amortization periods range from 3 to 9 years).

The collective net pension asset and liability of the retirement systems and the Hospital's proportionate share of the net pension asset and liability as of December 31 are as follows:

	2017	2016
Net pension liability - all employers	$ 22,708,299,469	$ 17,321,260,626
Proportion of the net pension liability - Hospital	0.09173%	0.09182%
	$ 20,829,470	$ 15,904,901

	2017	2016
Net pension asset - all employers	$ 56,073,439	$ 49,044,245
Proportion of the net pension asset - Hospital	0.08822%	0.09889%
	$ 49,466	$ 48,498

Pension expense for the years ending December 31, 2017 and 2016 was $4,005,048 and $2,064,529, respectively.

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

Deferred outflows of resources:		
Net difference between projected and actual earnings on pension plan investments	$	3,137,697
Difference between expected and actual experience		30,132
Assumption changes		3,316,087
Change in proportionate share		116
Difference between Hospital contributions and proportionate share of contributions		98,271
Employer contributions subsequent to the measurement date		1,644,604
Total	$	8,226,907
Deferred inflows of resources:		
Difference between expected and actual experience		152,508
Change in proportionate share		257,647
Total	$	410,155

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

Deferred outflows of resources:		
Net difference between projected and actual earnings on pension plan investments	$	4,697,769
Employer contributions subsequent to the measurement date		1,497,670
Total	$	6,195,439
Deferred inflows of resources:		
Difference between expected and actual experience	$	329,343
Change in proportionate share		448,983
Total	$	778,326

Net deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending December 31 as follows:

2018	$ 2,447,098
2019	2,713,355
2020	1,109,577
2021	(93,359)
2022	(1,969)
2023 and Thereafter	(2,554)
Total	$ 6,172,148

Statutory Authority

Ohio Revised Code Chapter 145

Benefit Formula

Benefits are calculated on the basis of age, final average salary (FAS), 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. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary 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. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.

Contribution Rates

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2017 was 4.0%.

Cost-of-Living Adjustments

Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit.

Measurement Date

December 31, 2016

Actuarial Assumptions

Valuation Date: December 31, 2016
Actuarial Cost Method: Individual entry age
Investment Rate of Return: 7.50%
Inflation: 3.25%
Projected Salary Increases: 3.25% - 10.75%
Cost-of-Living Adjustments: 3.00% Simple

Mortality Rates

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. 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 improvement 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 healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale.

Date of Last Experience Study

December 31, 2015

Investment Return Assumptions

The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The following table displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

Asset Class	Target Alllocation	Long Term Expected Return *
Fixed Income	23.0%	2.75%
Domestic Equity	20.7%	6.34%
Real Estate	10.0%	4.75%
Private Equity	10.0%	8.97%
International Equity	18.3%	7.95%
Other Investments	18.0%	4.92%
Total	100.0%	

* Returns presented as arithmetic means

Discount Rate

The discount rate used to measure the total pension liability was 7.5% for both the Traditional Pension Plan, the Combined Plan and the Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Net Pension Liability to Changes in Discount Rate

1% Decrease (6.50%)	Current Rate (7.50%)	1% Increase (8.50%)
$ 31,821,668	$ 20,829,470	$ 11,669,412

Sensitivity of Net Pension Asset to Changes in Discount Rate

1% Decrease (6.50%)	Current Rate (7.50%)	1% Increase (8.50%)
$ 4,411	$ 49,466	$ (90,863)

14. RELATED PARTIES

Hocking Valley Community Hospital Memorial Fund, Inc.

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

The Hospital entered into a 10-year non-cancelable lease with the Foundation for the Medical Arts Building that was set to expire in September 2018. The Foundation Board of Trustees made a resolution in 2016 to forgive rent owed by the Hospital and forego charging rent moving forward.

Hocking Valley Medical Group, Inc. (HVMG)

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

During the years ended December 31, 2017 and 2016, the Hospital disbursed funds totaling $3,340,000 and $2,285,000 on behalf of HVMG to fund operating deficits, respectively. These amounts were paid to the Foundation, who acting as fiscal agent, remitted the funds to HVMG. There were no amounts due to or receivable from HVMG at December 31, 2017 and 2016.

Hocking Valley Health Services

Hocking Valley Health Services (HVHS) is a not-for-profit membership corporation located in Logan, Ohio. The purpose of HVHS is to provide healthcare and physician services and to own, lease, operate and/or provide healthcare facilities for the promotion of health in the area served by the Hospital. Additionally, HVHS is to conduct strategic healthcare planning and otherwise operate exclusively for the benefit and support of the Board of Trustees of the Hospital. The Board of Trustees of HVHS is elected by HVHS' members. The Board of Trustees of the Hospital controls 50% of the voting rights of the HVHS Board. HVHS has not entered into any financial activities as of or for the years ended December 31, 2017 and 2016. Therefore, the Hospital's financial statements exclude the activities of HVHS.

15. COMMITMENTS AND CONTINGENCIES

Electronic Medical Records

In December 2016, the Hospital entered into an agreement with The Ohio State University Wexner Medical Center (OSUWMC) to transition from the current Electronic Medical Record (EHR) to the Epic platform. This will include hardware, software, third-party applications and licensing, and will cost approximately $9,700,000 over the life of the 10 year agreement. The cost is expected to be offset with gained efficiencies by discontinuing the service agreement with the current EHR vendor and third party applications, as well as the ability to utilize OSUWMC resources due to the shared platform. As of December 31, 2017, approximately $751,000 included in the construction in process amounts disclosed in Note 5 related to this project.

16. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future financial statements:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, will be effective for periods beginning after June 15, 2017. This standard, which is the companion to Statement 74, establishes new reporting requirements for employers participating in OPEB plans. Similar to Statement 68, it will require employers in cost-sharing, multi-employer plans to record a liability (and related deferrals) for the employer's pro-rata share of net OPEB liabilities. It also expands disclosure and supplementary reporting requirements for employers participating in OPEB plans.

GASB Statement No. 84, *Fiduciary Activities*, issued January 2017, will be effective for periods beginning after December 15, 2018. This Statement established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement will enhance consistency and comparability of the consolidated financial statements.

GASB Statement No. 85, *Omnibus 2017*, issued March 2017, will be effective for periods beginning after June 15, 2017. This standard addresses a variety of practice issues identified during implementation and application of certain GASB Statements. It provides guidance on blending of component units (confirming limited applicability of blended presentation for business type activities), accounting for goodwill acquired prior to the issuance of GASB 69, accounting for real estate held for investment by insurance entities, clarification of circumstances in which money-market investments may be valued at amortized cost, and various technical fixes related to the implementation of the new OPEB standards.

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for periods beginning after December 15, 2019. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

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SUPPLEMENTARY INFORMATION

HOCKING VALLEY COMMUNITY HOSPITAL
(A COMPONENT UNIT OF HOCKING COUNTY, STATE OF OHIO)

SUPPLEMENTARY INFORMATION ON GASB 68 PENSION LIABILITIES (UNAUDITED)
DECEMBER 31, 2017 AND 2016, 2015, 2014 AND 2013

Schedule of Proportionate Share of the Net Pension Liability (rounded to the nearest 1,000)	2017	2016	2015	2014	2013
Hospital proportion of the collective net pension liability	0.09173%	0.09182%	0.09747%	*	*
Hospital proportionate share of the net pension liability	$ 20,829,000	$ 15,905,000	$ 11,755,000	*	*
Hospital proportion of the collective net pension asset	0.08822%	0.09889%	0.10021%	*	*
Hospital proportionate share of the net pension asset	$ 49,000	$ 48,000	$ 39,000	*	*
Hospital covered payroll	$ 12,515,000	$ 11,789,000	$ 12,692,000	*	*
Hospital proportionate share of the net pension liability as a percentage of its covered payroll	166.0%	134.5%	92.3%	*	*
Plan fiduciary net position as a percentage of the total pension liability	77.4%	81.2%	86.5%	*	*
Schedule of Hospital Contributions (rounded to the nearest 1,000)					
Contractually required contribution	$ 1,623,000	$ 1,502,000	$ 1,415,000	$ 1,523,000	$ 1,630,000
Contributions in relation to the contractually required contribution	$ 1,623,000	$ 1,502,000	$ 1,415,000	$ 1,523,000	$ 1,630,000
Contribution deficiency (excess)	-	-	-	-	-
Covered payroll	$ 12,481,000	$ 12,515,000	$ 11,789,000	$ 12,692,000	$ 12,537,000
Contributions as a percentage of covered payroll	13.0%	12.0%	12.0%	12.0%	13.0%

Note: This schedule is intended to present ten years of the proportionate share of the net pension liability and contributions. Currently, only those years with information available are presented.

*: For years 2014 and 2013 this information is not available.

CPAS / ADVISORS

Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240
main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

blueandco.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Hocking Valley Community Hospital
Logan, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities and the aggregate discretely presented component units of Hocking Valley Community Hospital (the "Hospital") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated May 2, 2018.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Hospital's internal control. Accordingly, we have not opined on it.

A deficiency in *internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Hospital's financial statements. 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.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS (continued)

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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Hospital's financial statements are free from material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Columbus, Ohio
May 2, 2018

Dave Yost · Auditor of State

HOCKING VALLEY COMMUNITY HOSPITAL

HOCKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 5, 2018