Highland County Joint Township District Hospital

Independent Auditor's Reports and Financial Statements

December 31, 2016 and 2015

BKD LLP
CPAs & Advisors

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Highland County Joint Township District Hospital, Highland County, prepared by BKD, LLP, for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

May 24, 2017

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Highland County Joint Township District Hospital
December 31, 2016 and 2015

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying balance sheets of Highland County Joint Township District Hospital, an enterprise fund of Highland County, Ohio, as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Highland District Hospital Professional Services Corporation, Highland District Hospital Foundation, Inc., and Highland Joint Township District Hospital Foundation, component units which are included in Highland County Joint Township District Hospital's financial statements, were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Highland County Joint Township District Hospital as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2017 on our consideration of the Highland County Joint Township District Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Highland County Joint Township District Hospital's internal control over financial reporting and compliance.

BKD, LLP

Cincinnati, Ohio
March 24, 2017

Highland County Joint Township District Hospital

Management's Discussion and Analysis

Years Ended December 31, 2016 and 2015

Introduction

This management's discussion and analysis of the financial performance of Highland County Joint Township District Hospital and its blended component units (collectively, the "Organization") provides an overview of the Organization's financial activities for the years ended December 31, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of the Organization.

Financial Highlights

- Cash and investments increased in 2016 by $1,731,881, or 8.62%, and in 2015 by $5,012,387, or 33.24%.
- The Organization's net position increased by $3,010,857 or 11.55% in 2016 and by $4,768,952, or 22.39% in 2015.
- The Organization reported operating income in 2016 of $3,410,915 and in 2015 of $5,911,928. The operating income in 2016 decreased by $2,501,013 or 42.30% over the operating income reported in 2015. The operating income in 2015 increased by $842,588 or 16.62% over the operating income reported in 2014.
- Net nonoperating expenses increased by $57,762 or 5.05% in 2016 compared to 2015, and decreased by $77,406 or 6.34% in 2015 compared to 2014.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The Organization's Net Position

The Organization's net position is the difference between its assets, liabilities and deferred inflows and outflows of resources. The Organization's net position increased by $3,010,857 (11.55%) in 2016 over 2015, and increased by $4,768,952 (22.39%) in 2015 over 2014, as shown in Table 1.

Highland County Joint Township District Hospital

Management's Discussion and Analysis

Years Ended December 31, 2016 and 2015

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

	2016	2015	2014
Assets			
Patient accounts receivable, net	$ 6,713,961	$ 6,034,348	$ 5,611,623
Other current assets	7,493,291	7,255,555	6,116,065
Capital assets, net	11,989,773	9,844,927	10,303,216
Net pension asset	57,957	48,698	39,143
Other noncurrent assets	27,052,509	26,439,563	21,761,107
Total assets	53,307,491	49,623,091	43,831,154
Deferred Outflows of Resources	7,556,592	2,771,626	2,113,760
Total assets and deferred outflows of resources	$ 60,864,083	$ 52,394,717	$ 45,944,914
Liabilities			
Long-term debt	$ 5,285,000	$ 6,165,000	$ 7,040,000
Net pension liability	18,858,523	13,072,514	12,802,273
Other current and noncurrent liabilities	7,251,724	6,848,278	4,799,523
Total liabilities	31,395,247	26,085,792	24,641,796
Deferred Inflows of Resources	385,909	236,855	-
Net Position			
Net investment in capital assets	6,343,800	3,283,040	3,263,216
Restricted expendable	1,561,204	1,604,079	1,622,491
Unrestricted	21,177,923	21,184,951	16,417,411
Total net position	29,082,927	26,072,070	21,303,118
Total liabilities, deferred inflows of resources and net position	$ 60,864,083	$ 52,394,717	$ 45,944,914

The most significant changes in the Organization's financial position during 2016 and 2015 was the result of operations during the years and the effects of new pension accounting standards. Other changes include an increase in other noncurrent assets due to an increase in investments, a decrease in long-term debt due to payment of scheduled principal amounts, and an increase in capital assets, net of depreciation due to purchases and construction costs during the year.

Operating Results and Changes in the Organization's Net Position

In 2016, the Organization's net position increased by $3,010,857 or 11.55% compared to the increase of $4,768,952 or 22.39% for 2015, as shown in Table 2. The increase in 2016 is made up of several different components and represents a decrease of 36.87% when compared to the increase in net position for 2015. The increase in 2015 represents an increase of 23.90% compared with the increase in net position of $3,848,958 for 2014.

Table 2: Operating Results and Changes in Net Position

	2016	2015	2014
Operating Revenues			
Net patient service revenue	$ 46,675,162	$ 47,193,073	$ 44,979,540
Other operating revenue	1,001,706	1,063,172	1,488,130
Total operating revenues	47,676,868	48,256,245	46,467,670
Operating Expenses			
Salaries, wages and employee benefits	26,415,522	23,863,651	22,624,709
Purchased services and professional fees	7,122,043	7,206,087	7,154,329
Depreciation and amortization	1,833,190	1,891,687	2,190,971
Other operating expenses	8,895,198	9,382,892	9,428,321
Total operating expenses	44,265,953	42,344,317	41,398,330
Operating Income	3,410,915	5,911,928	5,069,340
Nonoperating Revenues (Expenses)			
Investment income	207,825	241,154	447,390
Grant expense	(1,250,000)	(1,250,000)	(1,225,000)
Interest expense	(242,556)	(275,485)	(305,869)
Noncapital grants and gifts	83,993	141,355	22,933
Other nonoperating losses	-	-	(159,836)
Total nonoperating revenues (expenses)	(1,200,738)	(1,142,976)	(1,220,382)
Excess of Revenues Over Expenses Before Capital Gifts	2,210,177	4,768,952	3,848,958
Capital Gifts	800,680	-	-
Increase in Net Position	3,010,857	4,768,952	3,848,958
Net Position, Beginning of Year	26,072,070	21,303,118	17,454,160
Net Position, End of Year	$ 29,082,927	$ 26,072,070	$ 21,303,118

Highland County Joint Township District Hospital
Management's Discussion and Analysis
Years Ended December 31, 2016 and 2015

Operating Income

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

The operating income for 2016 decreased by $2,501,013, or 42.30% compared to the operating income for 2015. The operating income for 2015 increased $842,588, or 16.62% compared to the operating income for 2014. The primary components of the changes in operating income are:

- A decrease in net patient service revenue of $517,911 or 1.10% for 2016, compared to an increase of $2,213,533 or 4.92% for 2015 when compared to 2014.

- A decrease in other operating revenue of $61,466, or 5.78% for 2016, compared to a decrease of $424,958 or 28.56% for 2015 when compared to 2014.

- An increase in salaries, wages and employee benefits for the Organization's employees of $2,551,871 or 10.69% for 2016, compared to an increase of $1,238,942 or 5.48% for 2015 when compared to 2014.

- A decrease in other operating expenses of $487,694 or 5.20% for 2016, compared to a decrease of $45,429 or 0.48% for 2015 when compared to 2014.

The operating income for 2016 of $3,410,915 decreased significantly compared to the operating income of $5,911,928 recognized in 2015. The combined decrease in net patient service revenue of $517,911 and the increases in employee salaries, wages and benefits costs, offset by a decrease in other operating expenses, was the cause for most of the decline.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense and grant expense, all of which remained relatively consistent in 2016 as compared to 2015. The Organization experienced a decrease in investment return in 2016 compared to 2015 as a result of changing market conditions throughout the year, but also had a decrease in interest expense due to a lower average debt balance throughout the year.

Capital Gifts

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

The Organization's Cash Flows

Changes in the Organization's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2016, 2015, and 2014 discussed earlier. Cash provided by operating activities decreased by $2,128,440 or 25.99% in 2016 compared to the net cash provided by operating activities in 2015 due to the decrease in the Organization's net patient service revenue and increase in patient accounts receivable as well as the increase in payments for employee salaries, wages and employee benefits for 2016**.**

Capital Asset and Debt Administration

Capital Assets

At the end of 2016 and 2015, the Organization had $11,989,773 and $9,844,927, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2016, the Organization purchased new equipment and incurred construction costs totaling $3,978,202 compared to the cost of additions in 2015 of $1,444,372.

Debt

At December 31, 2016, the Organization had $5,285,000 in revenue bonds outstanding compared to $6,165,000 outstanding as of December 31, 2015. The Organization did not issue any new debt in 2016 or 2015. The Organization's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Organization's debt ratings in the past two years. In 2007 the Organization entered into a pay-fixed, receivable-variable interest rate swap with a fixed rate of 3.942% and which terminates on December 1, 2021. The fair value of the swap as of December 31, 2016 and 2015 was a liability of $250,892 and $407,150, respectively.

Other Economic Factors

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

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

- Physician relationships/alignment will continue to develop, which impacts the quality, cost and services provided to the community.

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

Contacting the Organization's Financial Management

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

Randal Lennartz
President and CEO

Highland County Joint Township District Hospital
Balance Sheets
December 31, 2016 and 2015

Assets and Deferred Outflows of Resources

		2016		2015
Current Assets				
Cash and cash equivalents	$	5,678,926	$	4,671,948
Assets limited as to use - current portion		288,485		285,138
Patient accounts receivable, net of allowance for uncollectible accounts; 2016 - $4,562,369, 2015 - $4,177,327		6,713,961		6,034,348
Contributions receivable		122,433		-
Other receivables		459,952		179,119
Estimated amounts due from third-party payers		97,352		1,382,299
Supplies		407,370		411,564
Prepaid expenses and other current assets		438,773		325,487
Total current assets		14,207,252		13,289,903
Assets Limited as to Use				
Internally designated for specific purpose		9,816,191		9,750,234
Restricted by donors for capital improvements		778,329		1,270,243
Held by trustee under bond indenture agreements		288,485		285,138
Less amounts required to meet current obligations		(288,485)		(285,138)
		10,594,520		11,020,477
Long-term Investments		16,143,989		15,419,086
Contributions Receivable		314,000		-
Capital Assets, Net		11,989,773		9,844,927
Net Pension Asset		57,957		48,698
Total assets		53,307,491		49,623,091
Deferred Outflows of Resources		7,556,592		2,771,626
Total assets and deferred outflows of resources	$	60,864,083	$	52,394,717

Highland County Joint Township District Hospital
Balance Sheets (continued)
December 31, 2016 and 2015

Liabilities, Deferred Inflows of Resources and Net Position

	2016	2015
Current Liabilities		
Current maturities of long-term debt	$ 890,000	$ 880,000
Accounts payable	2,590,755	1,467,875
Accrued expenses	3,075,275	2,912,498
Estimated amounts due to third-party payers	1,334,802	2,060,755
Total current liabilities	7,890,832	7,321,128
Long-term Debt	4,395,000	5,285,000
Interest Rate Swap Agreement	250,892	407,150
Net Pension Liability	18,858,523	13,072,514
Total liabilities	31,395,247	26,085,792
Deferred Inflows of Resources	385,909	236,855
Net Position		
Net investment in capital assets	6,343,800	3,283,040
Restricted - expendable for		
Capital improvements	1,214,762	1,270,243
Debt service	288,485	285,138
Pensions	57,957	48,698
Unrestricted	21,177,923	21,184,951
Total net position	29,082,927	26,072,070
Total liabilities, deferred inflows of resources and net position	$ 60,864,083	$ 52,394,717

Highland County Joint Township District Hospital

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2016 - $4,681,166, 2015 - $4,653,593	$ 46,675,162	$ 47,193,073
Other	1,001,706	1,063,172
Total operating revenues	47,676,868	48,256,245
Operating Expenses		
Salaries and wages	18,867,153	17,841,878
Employee benefits	7,548,369	6,021,773
Purchased services	5,911,381	6,124,514
Supplies	6,587,283	6,962,380
Insurance	269,209	268,397
Utilities	827,902	843,529
Physician fees	1,101,076	972,587
Depreciation and amortization	1,833,190	1,891,687
Franchise fees	511,047	528,813
Rental and lease expenses	250,590	256,754
Professional fees	109,586	108,986
Other operating expenses	449,167	523,019
Total operating expenses	44,265,953	42,344,317
Operating Income	3,410,915	5,911,928
Nonoperating Revenues (Expenses)		
Investment income	207,825	241,154
Grant expense	(1,250,000)	(1,250,000)
Interest expense	(242,556)	(275,485)
Noncapital grants and gifts	83,993	141,355
Total nonoperating revenues (expenses)	(1,200,738)	(1,142,976)
Excess of Revenues Over Expenses Before Capital Gifts	2,210,177	4,768,952
Capital Gifts	800,680	-
Increase in Net Position	3,010,857	4,768,952
Net Position, Beginning of Year	26,072,070	21,303,118
Net Position, End of Year	$ 29,082,927	$ 26,072,070

Highland County Joint Township District Hospital
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	$ 46,554,543	$ 47,335,230
Payments to suppliers and contractors	(13,524,741)	(13,633,710)
Payments to employees	(25,268,165)	(24,444,764)
Other operating payments, net	(1,699,432)	(1,066,111)
Net cash provided by operating activities	6,062,205	8,190,645
Noncapital Financing Activities		
Noncapital grants and gifts	83,993	141,355
Other noncapital financing payments	(1,250,000)	(1,250,000)
Net cash used in noncapital financing activities	(1,166,007)	(1,108,645)
Capital and Related Financing Activities		
Capital gifts	364,247	-
Principal paid on long-term debt	(880,000)	(875,000)
Interest paid on notes payable to banks and long-term debt	(242,556)	(275,485)
Purchase of capital assets	(3,036,443)	(1,444,372)
Net cash used in capital and related financing activities	(3,794,752)	(2,594,857)
Investing Activities		
Interest and dividends on investments	207,825	241,154
Purchase of investments	(724,903)	(4,966,716)
Net change in assets limited as to use	422,610	284,090
Net cash used in investing activities	(94,468)	(4,441,472)
Increase in Cash and Cash Equivalents	1,006,978	45,671
Cash and Cash Equivalents, Beginning of Year	4,671,948	4,626,277
Cash and Cash Equivalents, End of Year	$ 5,678,926	$ 4,671,948
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 3,410,915	$ 5,911,928
Depreciation and amortization	1,833,190	1,891,687
Provision for uncollectible accounts	4,681,166	4,653,953
Changes in operating assets and liabilities:		
Patient accounts receivable	(5,360,779)	(5,076,678)
Estimated amounts due from and to third-party payers	558,994	564,882
Accounts payable and accrued expenses	343,898	196,474
Net pension asset and net pension liability	984,580	10,896,195
Cumulative effect effect of change in accounting principle	-	(11,151,420)
Other assets and liabilities	(389,759)	303,624
Net cash provided by operating activities	$ 6,062,205	$ 8,190,645
Supplemental Cash Flows Information		
Change in fair value of interest rate swap	(156,258)	(94,900)
Capital asset acquisitions in accounts payable	941,759	-

Highland County Joint Township District Hospital
Notes to Financial Statements
December 31, 2016 and 2015

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

Nature of Operations and Reporting Entity

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

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

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

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted primarily of money market accounts.

Risk Management

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

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

Investments, Investment Income and Assets Limited as to Use

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

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

Patient Accounts Receivable

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

Supplies

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

Contributions Receivable

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

Capital Assets

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

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

Deferred Outflows of Resources

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

	2016	2015
Deferred outflows related to pensions	$ 7,305,700	$ 2,364,476
Deferred outflows related to the interest rate swap	250,892	407,150
	$ 7,556,592	$ 2,771,626

Compensated Absences

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

Cost-Sharing Multiple-Employer Defined Benefit Pension Plans

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

Deferred Inflows of Resources

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

Net Position

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

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

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

Foundations

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

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

Electronic Health Records Incentive Program

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

The Organization recognizes incentive payment revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements for the reporting period. In 2015, the Organization recorded revenue of approximately $150,000, which is included in other operating revenue in the statements of revenues, expenses and changes in net position.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. The reclassifications had no effect on the changes in net position.

Note 2: Net Patient Service Revenue

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

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

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

Approximately 50% and 56% of net patient service revenue was from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2016 and 2015, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits, Investments and Investment Income

Deposits

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

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

At December 31, 2016 and 2015, $4,849,342 and $4,939,692 of the Organization's bank balances of $7,353,187 and $7,347,976, respectively, were exposed to custodial credit risk as follows:

	2016	2015
Uninsured and uncollateralized	$ 263,584	$ 36,781
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Organization's name	4,585,758	4,902,911
	$ 4,849,342	$ 4,939,692

Investments

The Organization may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities. At December 31, 2016 and 2015, the Organization had the following investments and maturities:

	2016		
		Maturities in Years	
Type	Fair Value	Less Than 1	More Than 1
Certificates of deposit	$ 2,654,972	$ 682,463	$ 1,972,509
U.S. Treasury obligations	330,825	316,464	14,361
U.S. government agency bonds	23,530,401	-	23,530,401
		$ 998,927	$ 25,517,271
Corporate stocks	134,528		
	$ 26,650,726		

	2015		
		Maturities in Years	
Type	Fair Value	Less Than 1	More Than 1
Certificates of deposit	$ 2,617,442	$ 674,896	$ 1,942,546
U.S. Treasury obligations	370,455	358,209	12,246
U.S. government agency bonds	23,497,959	-	23,497,959
		$ 1,033,105	$ 25,452,751
Corporate stocks	127,056		
	$ 26,612,912		

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

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2016 and 2015, the credit quality ratings of U.S. government agency bonds not directly guaranteed by the U. S. government were as follows:

Type	Fair Value	Rating	Rating Organization
December 31, 2016			
U.S. government agency bonds	$ 22,630,219	AA+	Standard & Poor's
December 31, 2015			
U.S. government agency bonds	$ 17,441,125	AA+	Standard & Poor's

Concentration of Credit Risk - The Organization places no limit on the amount that may be invested in any one issuer. The Organization’s investment in U.S. government agency bonds of Federal Home Loan Mortgage Corporation and Federal National Mortgage Association constituted 47% and 23%, respectively, of its total investments at December 31, 2016 and 45% and 21%, respectively, at December 31, 2015. Amounts invested in these government sponsored agencies are not backed by the full faith and credit of the U.S. government. Additionally, the Organization’s investments in U.S. government agency bonds of Government National Mortgage Association constituted 14% and 23% of its total investments at December 31, 2016 and 2015, respectively. Amounts invested in this federal government agency are backed by the full faith and credit of the U.S. government.

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

Summary of Carrying Values

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

	2016	2015
Carrying value:		
Deposits and money market accounts	$ 6,055,194	$ 4,783,737
Certificates of deposits	2,654,972	2,617,442
U.S. government securities	23,861,226	23,868,414
Stocks	134,528	127,056
	$ 32,705,920	$ 31,396,649
Included in the following balance sheet captions:		
Cash and cash equivalents	$ 5,678,926	$ 4,671,948
Assets limited as to use	10,883,005	11,305,615
Long-term investments	16,143,989	15,419,086
	$ 32,705,920	$ 31,396,649

Disclosures About Fair Value of Assets and Liabilities

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

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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

Note 4: Patient Accounts Receivable

The Organization grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2016 and 2015 consisted of:

	2016	2015
Medicare	$ 6,184,490	$ 4,946,960
Medicaid	3,824,424	3,505,000
Other third-party payers	4,661,606	4,100,311
Patients	6,209,981	5,428,047
	20,880,501	17,980,318
Less allowance for contractual adjustments	(9,604,171)	(7,768,643)
Less allowance for uncollectible accounts	(4,562,369)	(4,177,327)
	$ 6,713,961	$ 6,034,348

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2016 and 2015 were:

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

	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 40,137	$ -	$ -	$ -	$ 40,137
Land improvements	711,241	-	-	-	711,241
Buildings and leasehold improvements	16,129,464	179,588	71,184	347,250	16,585,118
Equipment	26,056,234	651,161	134,647	118,424	26,691,172
Construction in progress	129,662	613,623	-	(465,674)	277,611
	43,066,738	1,444,372	205,831	-	44,305,279
Less accumulated depreciation:					
Land improvements	664,753	5,352	-	-	670,105
Buildings and leasehold improvements	11,658,804	585,166	65,169	-	12,178,801
Equipment	20,439,965	1,301,169	129,688	-	21,611,446
	32,763,522	1,891,687	194,857	-	34,460,352
Capital assets, net	$ 10,303,216	$ (447,315)	$ 10,974	$ -	$ 9,844,927

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31, 2016 and 2015 consisted of:

	2016	2015
Payable to suppliers and contractors	$ 2,590,755	$ 1,332,894
Payroll and related amounts	2,051,482	1,819,466
Employee health insurance	545,609	567,261
Workers' compensation premiums	77,194	167,816
Pension	379,001	68,352
Other	21,989	424,584
	$ 5,666,030	$ 4,380,373

Note 7: Contributions Receivable

During 2016, the Organization formed a fundraising capital campaign to raise money for the construction and renovation of the Hospital Emergency Department rooms. Total amounts fundraised for the campaign approximated $801,000, of which $436,433 is recorded as contributions receivable at December 31, 2016. Contributions for the campaign were pledged for years through 2020. Amounts expected to be received within one year are classified as current within the accompanying balance sheets.

Note 8: Medical Malpractice Claims

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

Note 9: Employee Health Claims

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

Activity in the Organization's accrued employee health care claims liability account during 2016 and 2015 are summarized as follows:

	2016	2015
Balance, beginning of year	$ 567,261	$ 639,939
Current year claims incurred and changes in estimates for claims incurred in prior years	3,640,582	3,347,788
Claims and expenses paid	(3,662,234)	(3,420,466)
Balance, end of year	$ 545,609	$ 567,261

Note 10: Long-Term Obligations

The following are summaries of long-term obligation transactions for the Organization for the years ended December 31, 2016 and 2015:

	2016				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds payable:					
Series 2004	$ 2,105,000	$ -	$ (200,000)	$ 1,905,000	$ 210,000
Series 2007	4,060,000	-	(680,000)	3,380,000	680,000
Total long-term debt	$ 6,165,000	$ -	$ (880,000)	$ 5,285,000	$ 890,000

	2015				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds payable:					
Series 2004	$ 2,300,000	$ -	$ (195,000)	$ 2,105,000	$ 200,000
Series 2007	4,740,000	-	(680,000)	4,060,000	680,000
Total long-term debt	$ 7,040,000	$ -	$ (875,000)	$ 6,165,000	$ 880,000

Revenue Bonds Payable - Series 2004

The Series 2004 revenue bonds payable consist of Hospital Facilities Revenue and Refunding Bonds (2004 Bonds) in the original amount of $3,905,000 dated August 15, 2004, which bear interest at a variable rate determined weekly. At December 31, 2016 and 2015, the interest rate was 0.85% and 0.12%, respectively. The 2004 Bonds are payable in varying annual installments through August 1, 2024. Proceeds from the issuance of the 2004 Bonds were used to finance the recladding of Organization facilities and to retire the Series 2001 bonds. The 2004 Bonds are secured by an irrevocable bank letter of credit which expires on July 1, 2018.

Revenue Bonds Payable - Series 2007

The Series 2007 revenue bonds payable consist of Hospital Facilities Revenue Refunding Bonds (2007 Bonds) in the original amount of $10,180,000 dated June 7, 2007, and which bear interest at a variable rate determined weekly. At December 31, 2016 and 2015, the interest rate was 0.85% and 0.10%, respectively. The 2007 Bonds are payable in varying annual installments through December 1, 2021. Proceeds from the issuance of the 2007 Bonds were used to retire the Series 1999 bonds. The 2007 Bonds are secured by an irrevocable bank letter of credit which expires on July 1, 2018.

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

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

The debt service requirements as of December 31, 2016, are as follows:

Years Ending December 31,	Total to be Paid	Principal	Interest (A)	Interest Rate Swap (B)
2017	$ 1,077,935	$ 890,000	$ 37,429	$ 150,506
2018	1,043,363	890,000	33,136	120,227
2019	1,018,909	900,000	28,710	90,199
2020	994,237	910,000	24,124	60,113
2021	962,620	915,000	19,282	28,338
2022	264,349	250,000	14,349	-
Thereafter	543,098	530,000	13,098	-
	$ 5,904,511	$ 5,285,000	$ 170,128	$ 449,383

(A) Anticipated interest on the 2004 Bonds only, calculated at the variable rate as of December 31, 2016, includes letter of credit fees

(B) Anticipated interest on the 2007 Bonds only, adjusted for terms of interest rate swap (*Note 11*) and presented net of the variable rate as of December 31, 2016, includes letter of credit fees

Note 11: Interest Rate Swap Agreement

Objective of the Interest Rate Swap

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

Terms

The agreement was entered into on June 1, 2007, is scheduled to end on December 1, 2021 and required no initial net cash receipt or payment by the Organization. The agreement provides for the Organization to receive interest from the counterparty at the Securities Industry and Financial Markets Association (SIFMA) municipal swap index and to pay interest to the counterparty at a fixed rate of 3.942% on a notional amount of $3,380,000 and $4,060,000 at December 31, 2016 and 2015. The notional amount of the swap and the principal amount of the associated debt were equal at inception of the swap, and the notional amount declines by a corresponding amount each time a principal payment becomes due on the associated debt. Under the agreement, the Organization pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

Fair Value

As of December 31, 2016 and 2015, the agreement had a fair value of $250,892 and $407,150, respectively, calculated using the par-value method, *i.e.*, the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the estimated market value of the fixed component from the established market value of the variable component. The fair value of the agreement is recognized within long-term liabilities in the Organization’s balance sheets. As the swap is an effective hedging instrument, the offsetting balance is reflected as a deferred outflow of resources on the Organization’s balance sheets. The change in fair value of the swap of $156,258 and $94,900 for the years ended December 31, 2016 and 2015, is shown as an adjustment to the carrying amount of the related deferred outflows of resources on the balance sheets.

Credit Risk

The swap’s fair value represented the Organization’s credit exposure to the counterparty as of December 31, 2016 and 2015. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Organization has a maximum possible loss equivalent to the swap’s fair value at that date. As of December 31, 2016 and 2015, the Organization was not exposed to credit risk because the swap had a negative fair value. The swap counterparty was rated AA- by Fitch Ratings, A+ by Standard & Poor’s and Aa3 by Moody’s Investors Service as of December 31, 2016 and 2015.

Basis Risk

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

Termination Risk

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

Note 12: Pension Plans

Plan Descriptions

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

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

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

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

Benefits Provided

Plan benefits for OPERS are established under Chapter 145 of the Ohio Revised Code (ORC). Members are categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire on January 7, 2013 and those eligible to retire no later than five years after that date comprise transition group A. Members who have 20 years of service credit prior to January 7, 2013 or are eligible to retire no later than 10 years after January 7, 2013 are included in transition group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013. Additionally, OPERS has four separate divisions with varying degrees of benefits: (1) state and local, (2) law enforcement and (3) public safety. The Hospital does not have any employees included in the public safety or law enforcement divisions.

Benefits for state and local members are calculated on the basis of age, final average salary, and service credit. State and local members in transition groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. State and local members of group C are eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. Final average salary represents the average of the three highest years of earnings over a member's career for groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount.

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

A cost-of-living adjustment (COLA) is provided each year and is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

All employees are required to become contributing members of OPERS when they begin employment at the Hospital unless they are exempted or excluded as defined by the ORC. For actuarial purposes, employees who have earned sufficient service credit (60 contributing months) are entitled to a future benefit from OPERS. As of December 31, 2016 and 2015, 356 and 338 employees participated in the OPERS defined benefit pension plans, respectively, and 11 and 12 employees participated in the defined contribution pension plan, respectively. The Hospital's proportionate share of inactive members is included in the net pension liability and net pension asset as discussed in the following notes.

Contributions

The ORC provides OPERS statutory authority over employee and employer contributions. The required statutorily determined contribution rates of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The statutorily required contribution rates for all three plans for the employee and the Hospital, stated as a percent of covered payroll, are as follows for the years ended December 31, 2016 and 2015:

	OPERS
Employee	10%
Hospital	14%

For the years ended December 31, 2016 and 2015, contributions to the defined benefit pension plans from the Hospital were as follows:

	OPERS	
	2016	2015
Traditional Plan	$ 1,734,265	$ 1,628,902
Combined Plan	50,022	50,094
Total	$ 1,784,287	$ 1,678,996

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

As of December 31, 2016 and 2015, the Hospital reported a net pension liability and net pension asset for its share of the OPERS defined benefit plans as follows:

	Net Pension Liability (Asset) 2016	Net Pension Liability (Asset) 2015
Traditional Plan	$ 18,858,523	$ 13,072,514
Combined Plan	$ (57,957)	$ (48,698)

The net pension liabilities and net pension assets were measured as of December 31, 2015 and December 31, 2014 and the total pension liability and total pension asset used to calculate the net pension liability and net pension asset were determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability and net pension asset were based on the Hospital's share of contributions to the respective defined benefit pension plans relative to the contributions of all participating employers during the measurement period. At December 31, 2016, the Hospital's proportionate share was 0.108875% for the Traditional Plan and 0.11910% for the Combined Plan. At December 31, 2015, the Hospital's proportionate share was 0.106145% for the Traditional Plan and 0.101665% for the Combined Plan. The Hospital's change in proportionate share between the two years was 0.00273% and 0.017435% for the Traditional and Combined Plans, respectively.

For the years ended December 31, 2016 and 2015, the Hospital recognized pension expense related to the defined benefit pension plans of $2,768,497 and $1,423,771 as follows:

	Pension Expense 2016	Pension Expense 2015
Traditional Plan	$ 2,715,175	$ 1,397,760
Combined Plan	53,322	26,011
	$ 2,768,497	$ 1,423,771

At December 31, 2016 and 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to defined benefit pensions from the following sources:

2016

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

2015

	Traditional Plan		Combined Plan		Total Defined Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 224,911	$ -	$ 11,944	$ -	$ 236,855
Net difference between projected and actual earnings on pension plan investments	683,091	-	2,389	-	685,480	-
Change in the Hospital's proportionate share of the net pension liability (asset)	-	-	-	-	-	-
Hospital's contributions subsequent to the measurement date	1,628,902	-	50,094	-	1,678,996	-
	$ 2,311,993	$ 224,911	$ 52,483	$ 11,944	$ 2,364,476	$ 236,855

At December 31, 2016 and 2015, the Hospital reported $1,784,287 and $1,678,966, respectively, as deferred outflows of resources related to pensions resulting from the Hospital's contributions subsequent to the measurement date and will be (were) recognized as a decrease (increase) in the net pension liability (asset) for the years ending December 31, 2017 and 2016, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2016, related to pensions will be recognized in pension expense as follows:

	2016		
	Traditional Plan	Combined Plan	Total Defined Benefit Plans
2017	$ 1,248,739	$ 3,229	$ 1,251,968
2018	1,335,152	3,229	1,338,381
2019	1,358,208	3,229	1,361,437
2020	1,195,247	2,631	1,197,878
2021	-	(3,100)	(3,100)
Thereafter	-	(11,060)	(11,060)
	$ 5,137,346	$ (1,842)	$ 5,135,504

Actuarial Assumptions

The total pension liability and total pension asset for the years ended December 31, 2016 and 2015 were determined using the following actuarial valuations and actuarial assumptions for the respective plans:

OPERS Traditional Plan	**2016**	**2015**
Valuation date	December 31, 2015	December 31, 2014
Experience study	5 year period ended December 31, 2010	Period ended December 31, 2010
Actuarial cost method	Individual entry age	Individual entry age
Wage inflation	3.75%	3.75%
Projected salary increases	4.25% - 10.05% including wage inflation at 3.75%	4.25% - 10.05% including wage inflation at 3.75%
Investment rate of return	8.00%	8.00%
Cost-of-living adjustments	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.80% simple	3.00% simple

OPERS Combined Plan	2016	2015
Valuation date	December 31, 2015	December 31, 2014
Experience study	5 year period ended December 31, 2010	Period ended December 31, 2010
Actuarial cost method	Individual entry age	Individual entry age
Wage inflation	3.75%	3.75%
Projected salary increases	4.25% - 8.05% including wage inflation at 3.75%	4.25% - 8.05% including wage inflation at 3.75%
Investment rate of return	8.00%	8.00%
Cost-of-living adjustments	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.80% simple	3.00% simple

Mortality rates for OPERS are the RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used.

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

	OPERS Defined Benefit Plans	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	20.70%	5.84%
International equities	18.30%	7.40%
Fixed income	23.00%	2.31%
Real estate	10.00%	4.25%
Private equities	10.00%	9.25%
Other investments	18.00%	4.59%
	100.00%	5.27%

Discount Rate

The discount rate used to measure the total pension liability and total pension asset was 8% for the years ended December 31, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total pension asset.

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

The Hospital's proportionate share of the net pension liability and net pension asset as of December 31, 2016 has been calculated using a discount rate of 8%. The following presents the Hospital's proportionate share of the net pension liability and net pension asset calculated using a discount rate 1% higher and 1% lower than the current rate for each of the years as follows.

	2016		
	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Traditional Plan Net Pension Liability	$ 30,046,234	$ 18,858,523	$ 9,422,043
Combined Plan Net Pension Liability (Asset)	1,191	(57,957)	(103,617)

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plans

At December 31, 2016, the Hospital had a payable for its employer share of approximately $257,000 for an outstanding amount of statutorily required contributions to the pension plans for the year ended December 31, 2016. The Hospital did not have a payable for an outstanding amount of statutorily required contributions to the pension plans for the year ended December 31, 2015.

Defined Contribution Plans

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

Pension expense recorded for the years ended December 31, 2016 and 2015 for employer contributions to the Member-Directed Plan was approximately $113,000 and $92,000.

Other Postemployment Benefits

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

Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For the calendar years ending December 31, 2016 and 2015, OPERS allocated 2.0% of the employer contribution rate to fund the health care program for members in the Traditional Pension Plan and Combined Plan. The allocated 2.0% is the statutorily required contribution rates for OPERS, payment amounts vary depending on the number of covered dependents and the coverage selected. Hospital employer contributions to OPERS to fund OPEB for the years ended December 31, 2016 and 2015 approximated 2.0%, or approximately $316,000 and $280,000, respectively.

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

Note 13: Contingencies

Litigation

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

Note 14: Grants to Affiliated Organization

During 2014, the Hospital entered into a grant agreement with Highland Health Providers Corporation (HHPC), whereby HHPC's operating losses, not to exceed $1,500,000 on an annual basis, will be funded for the next two years with renewal options for successive one year periods. Grant expense for 2016 and 2015 totaled $1,250,000 and is included in the statements of revenues, expenses and changes in net position. The agreement was renewed and in effect as of the date of the independent auditor's report.

Note 15: Blended Component Units

The financial statements of Highland County Joint Township District Hospital include the financial statements of Highland District Hospital Foundation, Highland District Hospital Professional Services Corporation and Highland Joint Township District Hospital Foundation, which are blended component units of the Hospital as determined by GASB Statements No. 61 and No. 80. The following is a summary of the combined, condensed financial statements of the Hospital and its blended component units as of and for the years ended December 31, 2016 and 2015:

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2016 and 2015

Assets and Deferred Outflows of Resources

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

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2016 and 2015

Liabilities, Deferred Inflows of Resources and Net Position

	December 31, 2016					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Current Liabilities						
Current maturities of long-term debt	$ 890,000	$ -	$ -	$ -	$ -	$ 890,000
Accounts payable	2,472,796	117,959	-	-	-	2,590,755
Accrued expenses	2,768,042	307,233	-	-	-	3,075,275
Estimated amounts due to third-party payers	1,334,802	-	-	-	-	1,334,802
Due to affiliate	49,143	37,802	-	1,101	(88,046)	-
Total current liabilities	7,514,783	462,994	-	1,101	(88,046)	7,890,832
Long-Term Debt	4,395,000	-	-	-	-	4,395,000
Interest Rate Swap Agreement	250,892	-	-	-	-	250,892
Net Pension Liability	18,858,523	-	-	-	-	18,858,523
Total liabilities	31,019,198	462,994	-	1,101	(88,046)	31,395,247
Deferred Inflows of Resources	385,909	-	-	-	-	385,909
Net Position						
Net investment in capital assets	6,343,800	-	-	-	-	6,343,800
Restricted - expendable for						
Capital improvements	340,740	-	-	874,022	-	1,214,762
Debt service	288,485	-	-	-	-	288,485
Pensions	57,957	-	-	-	-	57,957
Unrestricted	20,090,351	692,444	312,840	82,288	-	21,177,923
Total net position	27,121,333	692,444	312,840	956,310	-	29,082,927
Total liabilities, deferred inflows of resources and net position	$ 58,526,440	$ 1,155,438	$ 312,840	$ 957,411	$ (88,046)	$ 60,864,083

Highland County Joint Township District Hospital
Notes to Financial Statements
December 31, 2016 and 2015

Statement of Revenues, Expenses and Changes in Net Position

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

Statement of Cash Flows

	Year Ended December 31, 2016					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Cash provided by (used in):						
Operating activities	$ 7,689,474	$ (1,478,041)	$ -	$ (146,348)	$ (2,880)	$ 6,062,205
Noncapital financing activities	(1,250,000)	-	-	81,113	2,880	(1,166,007)
Capital and related financing activities	(5,658,999)	1,500,000	-	364,247	-	(3,794,752)
Investing activities	168,932	-	2	(263,402)	-	(94,468)
Increase in Cash and Cash Equivalents	949,407	21,959	2	35,610	-	1,006,978
Cash - beginning of year	4,414,417	209,199	553	47,779	-	4,671,948
Cash - end of year	$ 5,363,824	$ 231,158	$ 555	$ 83,389	$ -	$ 5,678,926

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2016 and 2015

Assets and Deferred Outflows of Resources

	December 31, 2015					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Current Assets						
Cash and cash equivalents	$ 4,414,417	$ 209,199	$ 553	$ 47,779	$ -	$ 4,671,948
Assets limited as to use - current portion	285,138	-	-	-	-	285,138
Patient accounts receivable, net of allowances	5,486,248	548,100	-	-	-	6,034,348
Other receivables	135,258	43,861	-	-	-	179,119
Estimated amounts due from third-party payers	1,382,299	-	-	-	-	1,382,299
Supplies	411,564	-	-	-	-	411,564
Prepaid expenses and other current assets	278,885	46,602	-	-	-	325,487
Due from affiliate	12,972	-	-	-	(12,972)	-
Total current assets	12,406,781	847,762	553	47,779	(12,972)	13,289,903
Assets Limited as to Use						
Internally designated for specific purpose	9,750,234	-	-	-	-	9,750,234
Restricted by donors for capital improvements	1,097,133	-	-	173,110	-	1,270,243
Held by trustee under bond indenture agreements	285,138	-	-	-	-	285,138
Less amounts required to meet current obligations	(285,138)	-	-	-	-	(285,138)
	10,847,367	-	-	173,110	-	11,020,477
Long-term Investments	15,110,705	-	308,381	-	-	15,419,086
Capital Assets, Net	9,448,040	396,887	-	-	-	9,844,927
Net Pension Asset	48,698	-	-	-	-	48,698
Total assets	47,861,591	1,244,649	308,934	220,889	(12,972)	49,623,091
Deferred Outflows of Resources	2,771,626	-	-	-	-	2,771,626
Total assets and deferred outflows of resources	$ 50,633,217	$ 1,244,649	$ 308,934	$ 220,889	$ (12,972)	$ 52,394,717

Liabilities, Deferred Inflows of Resources and Net Position

	December 31, 2015					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Current Liabilities						
Current maturities of long-term debt	$ 880,000	$ -	$ -	$ -	$ -	$ 880,000
Accounts payable	1,277,043	190,832	-	-	-	1,467,875
Accrued expenses	2,636,771	275,727	-	-	-	2,912,498
Estimated amounts due to third-party payers	2,060,755	-	-	-	-	2,060,755
Due to affiliate	-	12,120	-	852	(12,972)	-
Total current liabilities	6,854,569	478,679	-	852	(12,972)	7,321,128
Long-Term Debt	5,285,000	-	-	-	-	5,285,000
Interest Rate Swap Agreement	407,150	-	-	-	-	407,150
Net Pension Liability	13,072,514	-	-	-	-	13,072,514
Total liabilities	25,619,233	478,679	-	852	(12,972)	26,085,792
Deferred Inflows of Resources	236,855	-	-	-	-	236,855
Net Position						
Net investment in capital assets	3,283,040	-	-	-	-	3,283,040
Restricted expendable for capital improvements, debt service and other						
Capital improvements	1,097,133	-	-	173,110	-	1,270,243
Debt service	285,138	-	-	-	-	285,138
Pensions	48,698	-	-	-	-	48,698
Unrestricted	20,063,120	765,970	308,934	46,927	-	21,184,951
Total net position	24,777,129	765,970	308,934	220,037	-	26,072,070
Total liabilities, deferred inflows of resources and net position	$ 50,633,217	$ 1,244,649	$ 308,934	$ 220,889	$ (12,972)	$ 52,394,717

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2016 and 2015

Statement of Revenues, Expenses and Changes in Net Position

	Year Ended December 31, 2015					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts; $4,653,593	$ 43,599,192	$ 4,019,145	$ -	$ -	$ (425,264)	$ 47,193,073
Other	1,351,504	45,971	-	-	(334,303)	1,063,172
Total operating revenues	44,950,696	4,065,116	-	-	(759,567)	48,256,245
Operating Expenses						
Salaries and wages	15,092,018	2,749,860	-	-	-	17,841,878
Employee benefits	5,493,794	527,979	-	-	-	6,021,773
Purchased services	4,587,030	1,590,615	-	44,650	(97,781)	6,124,514
Supplies	6,832,375	103,763	-	26,242	-	6,962,380
Insurance	244,360	24,037	-	-	-	268,397
Utilities	775,864	67,665	-	-	-	843,529
Physician fees	1,386,785	-	-	25	(414,223)	972,587
Depreciation and amortization	1,820,336	71,351	-	-	-	1,891,687
Franchise fees	528,813	-	-	-	-	528,813
Rental and lease expenses	131,367	196,465	-	-	(71,078)	256,754
Professional fees	108,986	-	-	-	-	108,986
Other operating expenses	296,654	223,759	-	2,606	-	523,019
Total expenses and losses	37,298,382	5,555,494	-	73,523	(583,082)	42,344,317
Operating Income (Loss)	7,652,314	(1,490,378)	-	(73,523)	(176,485)	5,911,928
Nonoperating Revenues (Expenses)						
Investment income	237,426	-	3,078	650	-	241,154
Grant expense	(1,250,000)	-	-	(176,485)	176,485	(1,250,000)
Interest expense	(275,485)	-	-	-	-	(275,485)
Noncapital grants and gifts	-	-	-	141,355	-	141,355
Total nonoperating revenues (expenses)	(1,288,059)	-	3,078	(34,480)	176,485	(1,142,976)
Excess (Deficiency) of Revenues Over Expenses Before Transfers	6,364,255	(1,490,378)	3,078	(108,003)	-	4,768,952
Transfer from (to) Affiliates	(1,950,000)	1,950,000	-	-	-	-
Increase (Decrease) in Net Position	4,414,255	459,622	3,078	(108,003)	-	4,768,952
Net Position, Beginning of Year, As Previously Reported	31,514,294	306,348	305,856	328,040	-	32,454,538
Cumulative Effect of Change in Accounting Principle	(11,151,420)	-	-	-	-	(11,151,420)
Net Position, Beginning of Year, As Adjusted	20,362,874	306,348	305,856	328,040	-	21,303,118
Net Position, End of Year	$ 24,777,129	$ 765,970	$ 308,934	$ 220,037	$ -	$ 26,072,070

Statement of Cash Flows

	Year Ended December 31, 2015					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Cash provided by (used in):						
Operating activities	$ 10,000,034	$ (1,560,281)	$ -	$ (72,623)	$ (176,485)	$ 8,190,645
Noncapital financing activities	(1,250,000)	-	-	(35,130)	176,485	(1,108,645)
Capital and related financing activities	(4,222,222)	1,627,365	-	-	-	(2,594,857)
Investing activities	(4,529,684)	-	28	88,184	-	(4,441,472)
Increase (Decrease) in Cash and Cash Equivalents	(1,872)	67,084	28	(19,569)	-	45,671
Cash - beginning of year	4,416,289	142,115	525	67,348	-	4,626,277
Cash - end of year	$ 4,414,417	$ 209,199	$ 553	$ 47,779	$ -	$ 4,671,948

Note 16: Future Change in Accounting Principle

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

Required Supplementary Information

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

Traditional Defined Benefit Pension Plan	2016	2015
Hospital's proportion of the net pension liability	0.11%	0.11%
Hospital's proportionate share of the net pension liability	$ 18,858,523	$ 13,072,514
Hospital's covered-employee payroll	$ 13,574,182	$ 13,013,402
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	138.93%	100.45%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%

Combined Defined Benefit Pension Plan	2016	2015
Hospital's proportion of the net pension asset	0.12%	0.10%
Hospital's proportionate share of the net pension asset	$ 57,957	$ 48,698
Hospital's covered-employee payroll	$ 417,450	$ 356,105
Hospital's proportionate share of the net pension asset as a percentage of its covered-employee payroll	13.88%	13.68%
Plan fiduciary net position as a percentage of the total pension asset	116.90%	114.83%

For the years ended December 31, 2016 and 2015, the above amounts are presented as of the date of the actuarial valuation of December 31, 2015 and December 31, 2014, respectively.

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

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

Traditional Defined Benefit Pension Plan	2016	2015
Statutorily required contributions	$ 1,734,265	$ 1,628,902
Contributions in relation to the statutorily required contributions	(1,734,265)	(1,628,902)
Contribution deficiency (excess)	$ -	$ -
Hospital's covered-employee payroll	14,452,206	13,574,182
Contributions as a percentage of covered-employee payroll	12.00%	12.00%

Combined Defined Benefit Pension Plan	2016	2015
Statutorily required contributions	50,022	50,094
Contributions in relation to the statutorily required contributions	(50,022)	(50,094)
Contribution deficiency (excess)	$ -	$ -
Hospital's covered-employee payroll	416,850	417,450
Contributions as a percentage of covered-employee payroll	12.00%	12.00%

The above amounts are presented as of December 31, 2016 and December 31, 2015, respectively.

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

Changes of Benefit Terms

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

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

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

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

Changes of Assumptions

There were no changes of assumptions for OPERS for the fiscal years presented.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Highland County Joint Township District Hospital, an enterprise fund of Highland County, Ohio, and its component units (collectively the "Organization"), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 24, 2017. The financial statements of Highland District Hospital Professional Services Corporation, Highland District Hospital Foundation, Inc., and Highland Joint Township District Hospital Foundation, component units which are included in the financial statements, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control described in the accompanying schedule of findings and responses as item 2016-001 that we consider to be a significant deficiency in internal control.

Compliance and Other Matters

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

Organization's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Cincinnati, Ohio
March 24, 2017

Highland County Joint Township District Hospital

Schedule of Findings and Responses

Year Ended December 31, 2016

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2016-001	Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting.

Condition: The audit of the financial statements identified an unrecorded payable for construction in progress.

Context: Management is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

Effect: Potentially significant misstatements in the financial statements and disclosures.

Cause: Audit procedures identified an unrecorded liability for construction in process work performed through December 31, 2016.

Recommendation: Management should review all invoices surrounding year-end to determine that all liabilities are properly presented.

Views of responsible officials and planned corrective actions: Management's procedures for cut-off of liabilities focuses on those that affect the statements of revenues, expenses and changes in net position. Management will modify these procedures to incorporate review of all invoices for proper cut-off in the future.

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Dave Yost • Auditor of State

HIGHLAND JOINT TOWNSHIP DISTRICT HOSPITAL

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 6, 2017

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