MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

Consolidated Financial and Compliance Report
December 31, 2017

Arnett Carbis Toothman llp
CPAs & Advisors

OHIO AUDITOR OF STATE
KEITH FABER

Board of Governors
Mark Milford Hicksville Joint Township Hospital District and Subsidiary
208 N. Columbus Street
Hicksville, Ohio 43526

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

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

Keith Faber
Auditor of State
Columbus, Ohio

February 12, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Governors
Mark Milford Hicksville Joint Township
Hospital District and Subsidiary
Hicksville, Ohio

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mark Milford Hicksville Joint Township Hospital District and Subsidiary (the Organization), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net position (deficit) and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the consolidated 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 entities' 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mark Milford Hicksville Joint Township Hospital District and Subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying consolidated financial statements have been prepared assuming that the Organization will continue as a going concern. The Organization has had significant operating losses for several years prior to 2017 and is incurring a significant operating loss in 2018 up to the report date. Fiscal 2017 showed improvements in operating results and financial condition resulting from specific clinical programs that were discontinued for various regulatory and legal reasons. The Organization continues to have a significant net position deficiency. Further discussion and management's plans in regard to these matters are described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2018, on our consideration of Mark Milford Hicksville Joint Township Hospital District and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Organization's internal control over financial reporting and compliance.

Arnett Carbis Toothman LLP

Charleston, West Virginia
October 1, 2018

Introduction

The discussion and analysis of Mark Milford Hicksville Joint Township Hospital District and Subsidiary's financial performance provides an overview of the consolidated activities and operations of Community Memorial Hospital and Community Memorial Hospital Foundation, Inc. (collectively, the Organization) for the fiscal years ended December 31, 2017 and 2016. Please read it in conjunction with the Organization's consolidated financial statements, which begin on page 8. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Organization's net position increased (decreased) in 2017 and 2016 by $1,143 and $(1,348), respectively.
- The Organization reported operating income (losses) of $1,957 and $(791) in 2017 and 2016, respectively.
- Total operating revenues increased from 2016 to 2017 by $4,798 or 19%.
- The Organization made capital additions in 2017 totaling $673, which was funded from operations.

Using This Annual Report

The Organization's consolidated financial statements consist of three statements – a Consolidated Balance Sheet; a Consolidated Statement of Operations and Changes in Net Position (Deficit); and a Consolidated Statement of Cash Flows. These consolidated financial statements and related notes provide information about the activities of the Organization.

The Consolidated Balance Sheet and Statement of Operations and Changes in Net Position (Deficit)

The analysis of the Organization's finances begins on page 4. One of the most important questions asked about the Organization's finances is, "Is the Organization as a whole better or worse off as a result of the year's activities?" The Consolidated Balance Sheet and Statement of Operations and Changes in Net Position (Deficit) 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 and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Organization's net position and related changes. You can think of the Organization's net position (deficit) – the difference between assets and liabilities – as one way to measure the Organization's financial health or financial position. Over time, increases or decreases in the Organization's net position (deficit) are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Organization's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Organization.

Consolidated Statement of Cash Flows

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

Net Position (Deficit)

The Organization's net position (deficit) is the difference between its assets, deferred outflows, liabilities, and deferred inflows reported on the Consolidated Balance Sheets on pages 8 and 9. The Organization's net position (deficit) improved by $1,144 and decreased by $1,348 in 2017 and 2016, respectively, as illustrated in Table 1.

Table 1: Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Deficit) (in thousands)

	2017	2016	2015
Assets			
Current assets	**$ 10,815**	$ 4,027	$ 4,318
Capital assets, net	**7,569**	8,266	9,259
Restricted and limited use assets	**959**	1,256	962
Other noncurrent assets	**482**	516	552
Total assets	**19,825**	14,065	15,091
Net pension asset	**82**	89	78
Deferred Outflows	**6,173**	5,035	2,284
Total assets and deferred outflows	**$ 26,080**	$ 19,189	$ 17,453
Liabilities			
Long-term obligations	**$ 9,502**	$ 10,258	$ 475
Net pension liability	**15,936**	10,980	7,677
Interest rate swap	**432**	612	845
Current liabilities	**8,044**	6,201	16,064
Total liabilities	**33,914**	28,051	25,061
Deferred Inflows	**136**	252	158
Net Position (Deficit)			
Unrestricted	**(6,474)**	(7,606)	(6,135)
Invested in capital assets, net of related debt	**(2,288)**	(2,696)	(2,538)
Restricted	**792**	1,188	907
Total net position (deficit)	**(7,970)**	(9,114)	(7,766)
Total liabilities, deferred inflows and net position (deficit)	**$ 26,080**	$ 19,189	$ 17,453

A significant component of the Organization's assets is capital assets. Capital assets decreased by $697 or 8% in 2017 and decreased by $993 or 11% in 2016. Fixed assets acquired by the Organization either through direct purchase or capital lease were $673 in 2017 and $387 in 2016. These additions were offset by depreciation of $1,122 and $1,380 in 2017 and 2016, respectively. The decrease in assets from 2016 to 2017 primarily reflects depreciation expense in excess of capital expenditures.

Operating Results and Changes in the Organization's Net Position (Deficit)

Table 2 shows three years of revenues and expenses for 2017, 2016, and 2015.

Table 2: Operating Results and Changes in Net Position (Deficit) (in thousands)

	2017	2016	2015
Revenues:			
Net patient service revenue	**$ 29,851**	$ 24,581	$ 22,256
Other	**728**	1,200	878
Total operating revenues	**30,579**	25,781	23,134
Expenses:			
Salaries and wages	**12,007**	11,978	11,392
Employee benefits	**7,384**	4,464	3,348
Physician service	**1,409**	1,303	1,226
Purchased services	**2,701**	3,283	3,103
Supplies	**1,518**	1,971	1,703
Maintenance and repairs	**1,049**	755	821
Utilities	**630**	694	679
Depreciation and amortization	**1,123**	1,380	1,353
Insurance	**301**	316	314
Miscellaneous	**500**	428	650
Total operating expenses	**28,622**	26,572	24,589
Operating income (loss)	**1,957**	(791)	(1,545)
Net nonoperating expenses	**(939)**	(681)	(620)
Excess (deficiency) of revenue over expenses before capital appropriation	**1,018**	(1,472)	(2,165)
Capital appropriations	**125**	124	120
Increase (decrease) in net position	**1,143**	(1,348)	(2,045)
Net position, beginning of year, before cumulative effect adjustment	**(9,114)**	(7,766)	736
Cumulative effect adjustment for change in accounting principle	**-**	-	(6,457)
Net position (deficit), end of year	**$ (7,971)**	$ (9,114)	$ (7,766)

Net patient service revenue increased by $5,270 or 21% from 2016 and 2017 and increased by $2,325 or 10% from 2015 to 2016.

Salaries and wages increased 0.2% from 2016 to 2017 and 5% from 2015 to 2016 primarily due to an increase in FTEs. Employee benefits experienced an increase of 65% from 2016 to 2017 and a 33% increase from 2015 and 2016, due primarily to fluctuations in pension costs and employee health insurance claims.

Sources of Revenue

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

The table below presents the percentages of gross revenue for patient services by payor, for the years ended December 31, 2017 and 2016, respectively.

	2017	2016
Medicare	**24%**	32%
Commercial and other	**60%**	33%
Medicaid	**9%**	16%
Self-pay	**7%**	19%
	100%	100%

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

Operating Income (Loss)

The first component of the overall change in the Organization's net position (deficit) is its operating income (loss). Generally, operating income (loss) is the difference between net patient service revenue and the expenses incurred to perform those services. Operating income (loss) was $1,957 and $(791) in 2017 and 2016, respectively.

The increase in the Organization's total operating income in 2017 of $2,748 from 2016 is the result of a significant increase in other operating revenue due to an increase in lab referencing services provided in fiscal year 2017 and a decrease in patient service revenue as a result of decreased inpatient volumes. Excluded from net patient service revenue are charges for patient service waived under the Organization's charity care policy. Charity care represents unreimbursed charges incurred by the Organization in providing uncompensated care to indigent patients. Based on established rates, charges of $570 and $206 were waived during 2017 and 2016, respectively. The Organization participates in the Hospital Care Assurance Program (HCAP), which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services. The net amounts received under the HCAP program resulted in revenue of $2,472 and $914 in 2017 and 2016, respectively.

The Organization provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals of the Organization when it was established. Because there is no expectation of repayment, charity care is not reported as patient service revenue of the Organization.

Net nonoperating (expenses)

Net nonoperating (expenses) increased due to a change in swap valuation. The Organization deemed an interest rate swap to be an ineffective hedge and the Organization recognized a change in the value of swap agreement of $(432) in 2017.

Cash Flows

Changes in the Organization's cash flows are consistent with changes in operating gains and non-operating gains and losses as discussed earlier. Non-cash expenses such as depreciation and bad debt expense represent primary reasons the net cash from operating activities is greater than the change in net position (deficit). The Organization generated positive cash flows from operations in 2017 and 2016 of $673 and $2,072, respectively.

Capital Asset and Debt Administration

Capital Assets

The Organization had $7,569 and $8,266 invested in capital assets, net of accumulated depreciation in 2017 and 2016, respectively. The Organization acquired or constructed capital assets in the amount of $673 and $387 during 2017 and 2016, respectively.

Debt

The Organization had $9,857 and $10,962 in bonds and capital lease obligations outstanding at December 31, 2017 and 2016, respectively.

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 and to show the Organization's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer at 208 N. Columbus Street, Hicksville, Ohio 43526.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP
HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS		2017		2016
CURRENT ASSETS				
Cash and cash equivalents	$	**4,667,202**	$	625,291
Patient accounts receivable, net of estimated uncollectible accounts of $2,790,000 in 2017 and $2,415,000 in 2016		**4,519,772**		2,518,039
Estimated third party settlement		**958,825**		232,471
Other receivable		**1,852**		12,095
Unconditional promises to give, current portion		**901**		3,268
Inventories		**420,357**		391,904
Prepaid expense and other assets		**245,494**		243,688
Total current assets		**10,814,403**		4,026,756
Assets limited as to use		**959,170**		1,256,239
Capital assets, net		**7,569,186**		8,266,264
Other assets				
Unconditional promises to give, long term		**972**		3,423
Other assets		**481,154**		512,028
Total other assets		**482,126**		515,451
Total assets		**19,824,885**		14,064,710
Net pension asset		**81,897**		88,803
Deferred outflows		**6,173,133**		5,035,485
Total assets and deferred outflows	**$**	**26,079,915**	$	19,188,998

See Notes to Consolidated Financial Statements

LIABILITIES, DEFERRED INFLOW AND NET POSITION (DEFICIT)	2017	2016
CURRENT LIABILITIES		
Current portion of long-term debt	**$ 355,311**	$ 704,552
Accounts payable and accrued expenses	**5,979,978**	4,028,165
Accrued salaries, wages, and employee benefits	**1,708,254**	1,467,942
Total current liabilities	**8,043,543**	6,200,659
LONG-TERM DEBT, net current portion	**9,502,030**	10,257,918
INTEREST RATE SWAP	**432,264**	611,707
NET PENSION LIABILITY	**15,936,003**	10,979,947
Total liabilities	**33,913,840**	28,050,231
DEFERRED INFLOWS	**136,728**	252,676
Total liabilities and deferred inflows	**34,050,568**	28,302,907
NET POSITION (DEFICIT)		
Net invested in capital assets	**(2,288,155)**	(2,696,206)
Restricted	**791,637**	1,188,758
Unrestricted	**(6,474,135)**	(7,606,461)
Total net position (deficit)	**(7,970,653)**	(9,113,909)
Total liabilities and net position (deficit)	**$ 26,079,915**	$ 19,188,998

See Notes to Consolidated Financial Statements

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION (DEFICIT)
Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of $1,430,703 in 2017 and $1,480,345 in 2016)	$ 29,851,317	$ 24,580,989
Other operating revenue	727,940	1,199,688
Total operating revenue	30,579,257	25,780,677
OPERATING EXPENSES		
Salaries and wages	12,007,450	11,977,994
Employee benefits	7,384,255	4,464,128
Purchased services	2,700,948	3,282,890
Supplies	1,518,062	1,970,744
Physician services	1,409,182	1,303,451
Depreciation and amortization	1,122,486	1,380,220
Maintenance and repairs	1,048,951	754,690
Utilities	629,826	693,709
Miscellaneous	499,615	428,393
Insurance	301,474	315,872
Total operating expenses	28,622,249	26,572,091
Operating income (loss)	1,957,008	(791,414)
NONOPERATING GAINS/(LOSSES)		
Investment and other income, net	118,392	76,761
Interest expense	(624,502)	(757,572)
Change in the value of swap agreement	(432,264)	-
Total net nonoperating (expenses)	(938,374)	(680,811)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE CAPITAL APPROPRIATIONS	1,018,634	(1,472,225)
Capital appropriations	124,622	124,302
INCREASE (DECREASE) IN NET POSITION	1,143,256	(1,347,923)
Net (deficit):		
Beginning of year	(9,113,909)	(7,765,986)
End of year	$ (7,970,653)	$ (9,113,909)

See Notes to Consolidated Financial Statements

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	$ 27,386,357	$ 25,023,991
Cash paid to employees for wages and benefits	(15,621,470)	(16,143,964)
Cash paid to vendors for goods and services	(6,155,630)	(8,007,567)
Other receipts, net	727,940	1,199,688
Net cash provided by operating activities	6,337,197	2,072,148
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Repayment of long-term debt and capital leases	(1,105,129)	(835,448)
Interest paid on long-term debt and capital leases	(1,056,766)	(757,572)
Capital appropriations	124,622	124,302
Purchase of capital assets	(673,474)	(387,007)
Net cash used in capital and related financing activities	(2,710,747)	(1,855,725)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	118,392	76,761
Net change in assets limited as to use	-	24,163
Net cash provided by investing activities	118,392	100,924
Net increase in cash and cash equivalents	3,744,842	317,347
Cash and cash equivalent:		
Beginning of year	1,882,130	1,564,183
End of year	$ 5,626,972	$ 1,882,130
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Cash and cash equivalents and investments	$ 4,667,202	$ 625,291
Cash and cash equivalents in assets limited as to use	959,170	1,256,239
Total cash and cash equivalents	$ 5,626,372	$ 1,881,530
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ 1,957,008	$ (791,414)
Adjustment to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,122,486	1,380,220
Loss on disposal of capital assets	248,066	-
Provision for bad debts	1,430,703	1,480,345
Changes in:		
Patient accounts receivable	(3,432,436)	(1,174,609)
Inventories, prepaid expenses, and other assets	15,676	(107,659)
Accounts payable and accrued expenses, accrued salaries, wages, and employee benefits	2,192,125	755,103
Estimated third-party payor settlements	(726,354)	128,572
Deferred outflow of resources	(1,317,091)	(2,984,280)
Deferred inflow of resources	(115,948)	94,056
Net pension asset	6,906	(10,980)
Net pension liability	4,956,056	3,302,794
Net cash provided by operating activities	$ 6,337,197	$ 2,072,148
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES CHANGE IN FAIR VALUE OF INTEREST RATE SWAP	$ (179,443)	$ (233,060)

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting entity: Mark Milford Hicksville Joint Township Hospital District doing business as Community Memorial Hospital (the Hospital), was established for the purpose of exercising the rights and privileges conveyed to it by law. The Hospital is a hospital district created under provisions of Section 513.07 of the Ohio Revised Code. The Hospital operates under the direction of a nine-member board consisting of the township trustees of Mark, Milford, and Hicksville Townships. The Hospital is responsible for establishing and maintaining a joint township district hospital or other hospital facilities for residents of the contiguous townships of Mark, Milford, and Hicksville.

Blended component unit: In order to comply with the provisions of *GASB Statement No. 61 The Financial Reporting Entity – An Amendment of GASB Statements No. 14 and No. 34, and No. 39, Determining Whether Certain Organizations are Component Units,* issued by the Governmental Accounting Standards Board (GASB), the accompanying consolidated financial statements include the accounts of Community Memorial Hospital Foundation, Inc. (the Foundation), a blended component unit of the Hospital (collectively, the Organization). The Foundation exists solely to support the operations of the Hospital. All significant inter-company transactions and balances have been eliminated in consolidation.

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

Enterprise fund accounting: The Organization is reported as an enterprise fund under *Governmental Accounting Standards Board* (GASB) pronouncements. The Organization utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

The Organization follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and AICPA Pronouncements*. This statement incorporated FASB and AICPA Pronouncements into the GASB authoritative literature issued on or before November 30, 1989, which did not conflict with or contradict GASB pronouncements.

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

Patient accounts receivable: Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectable accounts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectability. Management also reviews troubled, aged accounts to determine collection potential. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received. Interest is not charged on patient accounts receivable.

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

Capital assets: Capital assets are reported at historical cost. Contributed capital assets are recorded at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation over the expected useful lives of depreciable assets.

Amortization expense on capital leases is included in depreciation expense. The Organization recognizes a capital asset when the cost of the item purchased is (1) greater than $2,500 or a minimum useful life of 3 years, (2) a group of 3 or more like items costing more than $1,500, or (3) a building or remodeling project with total costs in excess of $10,000.

Costs of borrowings: Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Organization's interest cost was capitalized in 2017 and 2016.

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

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

Net position (deficit): Net position (deficit) of the Organization is classified in three components. *Net position invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* are noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Organization, including amounts deposited with trustees as required by revenue bond indentures and reimbursement agreement. *Unrestricted net position* are remaining net position that do not meet the definition of *invested in capital assets net of related debt or restricted*.

Compensated absences: The Organization's employees earn vacation time at varying rates depending on years of service. Employees may accumulate vacation time, up to a specified amount, to be carried over to the subsequent year. The estimated amount of vacation time payable for hours earned is reported as a current liability. The Organization's employees also earn sick leave on an annual basis at a flat rate regardless of years of service. The estimated amount of sick leave time payable for hours earned is reported as a current liability.

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. Settled claims have not exceeded this coverage in any of the three preceding years.

Investments: The Organization's policy is to invest available funds in obligations of the U.S. Government, certificates of deposit, mutual funds, and money market funds.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value on the consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in nonoperating gains/(losses) when earned.

Net patient service revenue and patient accounts receivable: Normal billing rates for patient services less contractual adjustments are included in patient service revenue. Patient accounts receivable is adjusted for contractual allowances which are recorded on the basis of preliminary estimates of the amounts to be received from third-party payors. Final adjustments are recorded in the period such amounts are finally determined.

Charity care: The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as net revenue. The Organization maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The amount of charity care not recorded as revenue was approximately $1,707,000 and $361,000 in 2017 and 2016, respectively. The cost of caring for charity care patient for the year ended December 31, 2017 and 2016, was approximately $570,000 and $206,000, respectively. The Organization participates in the Hospital Care Assurance Program (HCAP), which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately $2,472,000 and $914,000 in 2017 and 2016, respectively. These amounts are reported as net patient service revenue on the consolidated statement of operations and changes in net position (deficit).

Operating revenues and expenses: The Organization's consolidated statements of operations and changes in net position (deficit) distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Organization's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Reclassifications: Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation. The reclassifications have no impact on previously reported change in net assets.

Subsequent events: The Organization has evaluated subsequent events through October 1, 2018, the date on which the consolidated financial statements were available to be issued.

New or recent accounting statements: 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 GASB Postemployment Benefits Other Than Pensions and is effective for fiscal years beginning after June 15, 2017. Statement 75 requires governments to report a liability on the face of the financial statements for the Other Post-Employment Benefits (OPEB) that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Organization is currently evaluating the impact, if any, that adoption will have on its consolidated financial statements.

GASB Statement No. 82, *Pension Issues,* issued March 2017, relates to improving consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, the practice issues raised by stakeholders during implementation relate to GASB Statement No's 67, 68, and 73. The new guidance addresses the presentation of payroll-related measures in required supplementary information, selection of assumptions and the treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purposes, and classification of payments made by employers to satisfy plan member contribution requirements. The new standard is effective for financial statements for periods beginning after June 15, 2016. The Organization adopted the guidance during the year ended December 31, 2017. Adoption of this guidance did not have a material impact on the Organization's consolidated financial statements.

GASB No. 87, *Leases*, issued June 2017, relates to improving accounting and financial reporting for leases by governments. The new guidance increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principal that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activity. The new standard is effective for financial statements for periods beginning after December 15, 2019. The Hospital is currently evaluating the impact that adoption will have on its consolidated financial statements.

Note 2. Deposits and Investments and Investment Risks

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the Organization's deposits may not be returned to it. The Organization's deposit policy for custodial risk is to require all deposits with financial institutions to be entirely insured or collateralized by securities held by financial institutions. At December 31, 2017 and 2016, the carrying amount of the Organization's bank deposits for all funds is $5,964,971 and $1,878,754 as compared to a bank balance of $5,828,354 and $1,972,629. Of the bank balances at December 31, 2017 and 2016, $1,033,370 and $728,985 is covered by Federal insurance programs and $4,794,984 and $1,243,644 is collateralized with securities held by the financial institution or by its trust department or agent but not in the Organization's name.

Assets Limited as to Use

The composition of assets limited as to use at December 31, 2017 and 2016, respectively, is set forth in the following table. The Organization's investments included in assets limited as to use are categorized to give an indication of the level of risk assumed by the Organization. Investments with limited use are comprised of the following:

	2017	2016
Internally designated for operations and capital improvements:		
Cash and cash equivalents	$ 167,533	$ 41,910
Certificates of depost	-	25,571
	167,533	67,481
Held by trustee under indenture agreement:		
Cash and cash equivalents	379,052	345,518
Externally restricted under reimbursement agreement:		
Cash and cash equivalents	260,123	721,174
Externally restricted by donors:		
Cash and cash equivalents	132,063	86,911
Mutual funds		-
	132,063	86,911
Externally restricted for capital improvements:		
Cash and cash equivalents	20,399	35,155
Total	$ 959,170	$ 1,256,239

Investments

Interest rate risk – The Organization has a formal investment policy that limits investment maturities to two years or less as a means of managing its exposure to fair value losses arising from changes in interest rates.

Credit risk – The Organization may invest in United States obligations or any other obligation guaranteed by the United States; bonds, notes, or any other obligations or securities issued by any federal government or instrumentality; time certificate of deposit or savings or deposit accounts, including passbook accounts, in eligible institutions; bonds and other obligations of the State of Ohio or the political subdivisions of the state provided that such political subdivisions are located wholly or partly within the same county; certain no load money market mutual funds; certain commercial paper; and certain repurchase agreements.

Concentration of credit risk – The Organization places no limit on the amount it may invest in any one issuer. The Organization maintains its investments, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes that it is not exposed to any significant credit risk on investments.

Note 3. Patient Accounts Receivable and Accrued Salaries, Wages and Employee Benefits

Patient accounts receivable and accrued expenses reported as current liabilities at December 31, 2017 and 2016, consisted of these amounts:

	2017	2016
Patient accounts receivable	$ 10,711,841	$ 7,036,781
Allowance for uncollectible accounts	(2,790,471)	(2,415,122)
Allowance for contractual adjustments	(3,401,598)	(2,103,620)
Patient accounts receivable, net	$ 4,519,772	$ 2,518,039

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2017 and 2016, is as follows:

	2017	2016
Other third-party payors	**61%**	44%
Self-pay	**27%**	39%
Medicare	**11%**	16%
Medicaid	**1%**	1%
Patient accounts receivable, net	**100%**	100%

Accrued salaries, wages, and employee benefits consist of the following as of December 31, 2017 and 2016:

	2017	2016
Payroll and related items	**$ 710,664**	$ 600,479
Self-insured benefits	**101,261**	88,137
Health insurance claims	**271,098**	153,551
Compensated absences	**625,231**	625,775
	$ 1,708,254	**$ 1,467,942**

Note 4. Capital Assets

Capital assets additions, retirements, and balances for the year ended December 31, 2017 and 2016 was as follows:

	2017				
	December 31, 2016	**Additions**	**Transfers**	**Retirements**	**December 31, 2017**
CAPITAL ASSETS					
Land improvements	**$ 329,346**	**$ 147,815**	**$ -**	**$ -**	**$ 477,161**
Buildings and equipment	**27,998,097**	**487,743**	**206,325**	**(702,089)**	**27,990,076**
Land	**176,778**	**-**	**-**	**-**	**176,778**
Construction in process	**206,325**	**37,916**	**(206,325)**	**-**	**37,916**
Total capital assets	**28,710,546**	**673,474**	**-**	**(702,089)**	**28,681,931**
Less accumulated depreciation and amortization for:					
Land improvements	**(316,008)**	**(74,742)**	**-**	**-**	**(390,750)**
Buildings and equipment	**(20,128,274)**	**(1,047,744)**	**-**	**454,023**	**(20,721,995)**
Total accumulated depreciation and amortization	**(20,444,282)**	**(1,122,486)**	**-**	**454,023**	**(21,112,745)**
CAPITAL ASSETS, net	**$ 8,266,264**	**$ (449,012)**	**$ -**	**$ (248,066)**	**$ 7,569,186**

	2016				
	December 31, 2015	Additions	Transfers	Retirements	December 31, 2016
CAPITAL ASSETS					
Land improvements	$ 329,346	$ -	$ -	$ -	$ 329,346
Buildings and equipment	283,110,050	55,273	270,986	(639,212)	27,998,097
Land	176,778	-	-	-	176,778
Construction in process	145,577	331,734	(270,986)	-	206,325
Total capital assets	28,962,751	387,007	-	(639,212)	28,710,546
Less accumulated depreciation and amortization for:					
Land improvements	(312,134)	(3,874)	-	-	(316,008)
Buildings and equipment	(19,391,140)	(1,376,346)	-	639,212	(20,128,274)
Total accumulated depreciation and amortization	(19,703,274)	(1,380,220)	-	639,212	(20,444,282)
CAPITAL ASSETS, net	$ 9,259,477	$ (993,213)	$ -	$ -	$ 8,266,264

	2017	2016
Cost of equipment under capital lease	**$ 2,024,172**	$ 2,024,172
Accumulated amortization	**(1,877,947)**	(1,686,772)
Net carrying amount	**$ 146,225**	$ 337,400

Depreciation and amortization expense for the years ended December 31, 2017 and 2016, totaled $1,122,486 and $1,380,220, respectively.

Note 5. Estimated Third-Party Payor Settlements

Estimated third-party payor settlements consist of amounts due from (to) the Medicare and Medicaid programs for the settlement of current and prior year cost reports. The balances at December 31, 2017 and 2016, consist of estimated amounts as follows:

	2017	2016
2012	**$ 10,252**	$ 10,252
2014	**10,000**	10,000
2017	**938,573**	212,219
Total third-party payor settlements	**$ 958,825**	$ 232,471

Note 6. Long-Term Debt, Capital Lease Obligations, and Other Noncurrent Liabilities

A schedule of changes in the Organization's noncurrent liabilities for 2017 and 2016, are as follows:

	December 31, 2016	**Additions**	**Reductions**	**December 31, 2017**	**Amounts Due within 1 year**
Long-term debt:					
2005 bonds	$ 5,540,000	$ -	$ 555,000	$ 4,985,000	$ 165,000
2007 bonds	4,885,000	-	151,000	4,734,000	157,000
Capital lease obligations	378,231	-	239,890	138,341	33,311
Notes payable, bank	159,239	-	159,239	-	-
	10,962,470	-	1,105,129	9,857,341	355,311
Other noncurrent liabilities:					
Interest rate swap	611,707	-	179,443	432,264	-
Total noncurrent liabilities	$ 11,574,177	$ -	$ 1,284,572	$ 10,289,605	$ 355,311

	December 31, 2015	Additions	Reductions	December 31, 2016	Amounts Due within 1 year
Long-term debt:					
2005 bonds	$ 5,685,000	$ -	$ 145,000	$ 5,540,000	$ 155,000
2007 bonds	5,030,000	-	145,000	4,885,000	151,000
Capital lease obligations	757,463	-	379,232	378,231	239,314
Notes payable, bank	325,455	-	166,217	159,239	159,238
	11,797,918	-	835,449	10,962,470	704,552
Other noncurrent liabilities:					
Interest rate swap	844,767	-	233,060	611,707	-
Total noncurrent liabilities	$ 12,642,685	$ -	$ 1,068,509	$ 11,574,177	$ 704,552

A description of long-term debt at December 31, 2017, follows:

	2017	2016
2005 County Hospital Facilities Revenue Bonds (2005 Bonds), adjustable interest rate (1.87% at December 31, 2017 and an effective rate of 4.46%), due December 1, 2037, mandatory annual redemption beginning December 1, 2018, in installments ranging from $95,000 to $410,000 plus interest	**$ 4,985,000**	$ 5,540,000
Ohio Hospital Facilities Revenue Refunding (2007 Bonds), 4.125% fixed rate, mandatory annual redemption beginning December 1, 2008, in installments ranging from $105,000 to $338,000, maturity date of December 1, 2037	**4,734,000**	4,885,000
Capital lease obligation, electronic medical record equipment (EMR) and software, principal and interest payments ranging from $15,793 to $31,734, through May 2017. Interest at 4.77%, secured by related equipment and software. Paid off in 2017	**-**	187,655

		2017		2016
Capital lease obligation - monhtly principal and interest payments of $4,011, through May 2017. Interest at 3.25%, secured by the equipment leased. Paid off in 2017		**-**		19,893
Capital lease obligation - monthly principal and interest payments of $548 through October 2019. Secured by the equiment leased		**11,478**		18,629
Capital lease obligation - monthly principal and interest payments of $3,050 through January 2022. Interest at 8.11%, secured by the equipment leased		**126,863**		152,054
Note payable, bank, due in monthly installments of $14,812 through November 2017 with interest at 4.615%, secured by related equipment. Paid off in 2017		**-**		159,239
		9,857,341		10,962,470
Less current portion		**(355,311)**		(704,552)
Long-term debt	**$**	**9,502,030**	$	10,257,918

Minimum payments on these obligations to maturity as of December 31, 2017, follows:

	Long-Term Debt				Capital Lease Obligations			
	Principal		Interest		Principal		Interest	
2018	$	322,000	$	435,449	$	33,311	$	9,288
2019		333,000		421,613		35,090		6,989
2020		350,000		407,308		32,104		4,496
2021		367,000		392,267		34,806		1,794
2022		385,000		376,492		3,030		41
Thereafter		7,962,000		3,177,691		-		-
	$	9,719,000	$	5,210,820	$	138,341	$	22,608

During 2005, the Organization obtained $12,600,000 of Adjustable Rate Demand County Hospital Facilities Revenue Bonds, Series 2005 (2005 Bonds), for constructing, equipping, installing, and improving additional Hospital facilities. The bonds are payable in varying annual installments beginning December 2008. The bonds mature December 2037. The adjustable interest rate for the years ended December 31, 2017 and 2016 was 1.87% and 0.85%, respectively.

The debt was collateralized by total revenues and a letter of credit issued by Fifth Third Bank. The letter of credit expired January 20, 2017. In the event of a draw on the letter of credit due to troubled remarketing of the bonds by the bank, the Organization had until the expiration date of the letter of credit to reimburse the bank. In accordance with the Reimbursement Agreement as amended in November 2014, the Organization was required to maintain debt service reserves of $800,000. Of this reserve, $400,000 must be maintained in a bank deposit account with the remaining balance being held in a separate Reserve Account. Monthly deposits of $25,000 must be made into the Reserve Account until the total amount on deposit equals the entire debt service reserves stated above. On October 13, 2017, the agreement was amended that as of the date of the amendment, the Organization was allowed to withdraw up to $400,000 of the funds on deposit to pay a portion of the principal amount that was due at December 1, 2017. The Organization was not required to replenish the $400,000 withdrawn from the reserve account. The letter of credit's expiration was also extended to January 2019. At December 31, 2017 and 2016, the Reserve Account had a balance of $260,123 and $721,174, respectively, and is included within assets limited as to use in the accompanying balance sheets.

During 2007, the Organization obtained $6,000,000 of Ohio Hospital Facilities Revenue Refunding Bonds (2007 Bonds). The bonds refunded a portion of the series 2005 bond issue. The bonds are payable in varying annual installments beginning December 2008 and mature December 2037. The bonds bear interest at an annual fixed rate of 4.125%. The bonds are collateralized by total revenues.

The Organization is required to meet certain financial covenants including debt service, minimum EBITA and liquidly requirements. At December 31, 2017, the Organization was in compliance with the covenants.

Note 7. Net Patient Service Revenue

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

Medicare: The Organization is a Critical Access Hospital. Inpatient services and most outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. Other outpatient services are based on fee schedules.

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

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

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the year ended December 31, 2017 and 2016 are as follows:

	2017	2016
Gross patient service revenue	$ 46,020,702	$ 46,790,449
Uncompensated care reimbursement, net	2,471,819	913,820
Less third-party allowances	16,445,389	21,330,952
Less bad debts and charity care	2,195,815	1,792,328
	$ 29,851,317	$ 24,580,989

Note 8. Pension Plans

Plan Description

The Organization contributes to the Ohio Public Employees Retirement System (OPERS) a cost-sharing multiple-employer defined benefit pension plan covering substantially all employees. All employees are required to join OPERS. OPERS administers three pension plans as described below. Each of the three options is discussed in greater detail in the following sections:

1. The Traditional Pension Plan – cost-sharing, multiple-employer defined benefit pension plan.

2. The Member-Directed (MD) Plan – a defined contribution 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, multi-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

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

Benefits Provided

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

Benefits in the Traditional Plan 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. Group C for state and local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For group C the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. 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 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 Organization 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.

Contributions

The ORC provides OPERS statutory authority over employee and employer contributions. The required contractually determined contribution rates, respectively 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 contractually required contribution rates for the employee and the Organization are as follows for the years ended December 31, 2017 and 2016:

	OPERS
Employee	10 %
Organization	14 %

For the year ended December 31, 2017 and 2016, contributions to the pension plans from the Organization were as follows:

OPERS		**2017**		2016
Traditional	**$**	**1,137,484**	$	1,089,627
Combined		**73,223**		68,391
	$	**1,210,707**	$	1,158,018

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

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

The Organization reported a liability for OPERS of $15,936,003 and $10,979,947 as of December 31, 2017 and 2016, respectively, for its proportionate share of the net pension liability. The Organization reported an asset for OPERS of $81,897 and $88,803 as of December 31, 2017 and 2016, respectively, for its proportionate share of the net pension asset. The net pension liability and net pension asset as of December 31, 2017, are measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability (asset) were determined by an actuarial valuation as of that date. The net pension liability and net pension asset as of December 31, 2016, are measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability (asset) were determined by an actuarial valuation as of that date. The Organization's proportion of the net pension liability and net pension asset were based on the Organization's share of contributions to the respective defined benefit pension plans relative to the contributions of all participating employers during the measurement period. At December 31, 2017, the Organization's proportion was 0.070177% for the Traditional Plan and 0.147146% for the Combined Plan. At December 31, 2016, the Organization's proportion was 0.063390% for the Traditional Plan and 0.182490% for the Combined Plan.

For the years ended December 31, 2017 and 2016, the Organization recognized pension expense related to the defined benefit pension plans of $102,490 and $1,329,158, respectively. At December 31, 2017 and 2016, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017			
	Traditional Plan		**Combined Plan**	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	**$ -**	**$ 94,843**	**$ -**	**$ 41,885**
Net difference between projected and actual earnings on pension plan investments	**4,922,485**	**-**	**39,941**	**-**
Organization's contributions subsequent to the measurement date	**1,137,484**	**-**	**73,223**	**-**
	$ 6,059,969	**$ 94,843**	**$ 113,164**	**$ 41,885**

	2016			
	Traditional Plan		Combined Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 212,154	$ -	$ 40,522
Net difference between projected and actual earnings on pension plan investments	3,227,418	-	38,342	-
Organization's contributions subsequent to the measurement date	1,089,627	-	68,391	-
	$ 4,317,045	$ 212,154	$ 106,733	$ 40,522

At December 31, 2017, the Organization reported $1,137,484 and $73,223 for the traditional and combined plans, respectively, as deferred outflows of resources related to pensions resulting from Organization contributions subsequent to the measurement date that will be recognized as a(n) decrease (increase) to the net pension liability (asset) in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2017, related to pensions will be recognized in pension expense as follows:

	Traditional	Combined	Total
2018	$ 1,991,313	$ 3,881	$ 1,995,194
2019	2,062,258	3,881	2,066,139
2020	843,636	3,017	846,653
2021	(69,566)	(4,064)	(73,630)
2022	-	(3,317)	(3,317)
Thereafter	-	(5,342)	(5,342)
	$ 4,827,641	$ (1,944)	$ 4,825,697

Actuarial Assumptions

The total pension liability in the December 31, 2016 and 2015, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

December 31,2016		
OPERS	**Traditional Plan**	**Combined Plan**
Experience study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Inflation	3.25%	3.25%
Salary increases	3.25%-10.75% including inflation at 3.25%	3.25%-8.25% including inflation at 3.25%
Investment rate of return	7.50%	7.50%
Cost-of-living adjustments	Pre 1/7/2013 Retirees 3.00% simple Post 1/7/2013 Retirees 3.00% simple through 2018, then 2.15% simple	Pre 1/7/2013 Retirees 3.00% simple Post 1/7/2013 Retirees 3.00% simple through 2015, then 2.15% 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 table below displays the Board-approved asset allocation policy for 2017 and 2016 and the long-term expected real rates of return.

Discount Rate

	OPERS	
	Allocation	Long-Term Expected Rate of Return
ASSET CLASS		
Domestic equities	20.70 %	6.34 %
International equities	18.30	7.95
Fixed income	23.00	2.75
Real estate	10.00	4.75
Private equity	10.00	8.97
Other investments	18.00	4.92
	100.00 %	

The discount rate used to measure the total pension liability (asset) was 7.5% and 8% as of valuation periods ending December 31, 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total pension asset.

Sensitivity of the Organization's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

The Organization's proportionate share of the net pension liability (asset) has been calculated using a discount rate of 7.5%. The following presents the Organization's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate as:

2017	**1% Decrease 6.5%**	**Current Discount Rate 7.5%**	**1% Increase 8.50%**
Organization's proportionate share of the net pension liability - Traditional	$ 24,345,805	$ 15,936,003	$ 8,927,918
Organization's proportionate share of the net pension liability (asset) - Combined	$ 5,886	$ (81,897)	$ (150,089)

Pension Plans Fiduciary Net Position

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

Payable to the Pension Plans

At December 31, 2017 and 2016, the Organization reported a payable of $112,394 and $98,510, respectively, for the outstanding amount of contributions to the pension plans required for the year ended December 31, 2017 and 2016.

Defined Contribution Plan

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

Pension expense recorded for the years ended December 31, 2017 and 2016 for contributions to Member-Directed Plan was approximately $179,000 and $180,000, respectively.

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 ended December 31, 2017 and 2016, 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. As recommended by OPERS' actuary, the portion of the employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The Organization's employer contributions to OPERS to fund OPEB for 2017 and 2016 approximated 2%, or approximately $244,000 and $193,000, respectively.

Note 9. Professional Liability Insurance

The Organization has professional liability insurance with a commercial carrier. Coverage is $1,000,000 per occurrence and $3,000,000 in the aggregate. In addition, the Organization has umbrella coverage of $5,000,000 per occurrence and $5,000,000 in the aggregate. The policy also requires that certain members of the medical staff carry professional liability coverage of no less than $1,000,000 per occurrence and $3,000,000 in the aggregate. The Organization's coverage is on a claims made basis.

Note 10. Risk Management – Health Insurance

The Organization is self-insured, subject to certain stop-loss coverage, for its employees' health benefits. The Organization accrues the estimated costs of reported and incurred-but-not-reported claims based on its actual claims history. The plan is covered by a stop-loss policy that covers claims over $90,000 per employee per annum up to an aggregate amount of $1,000,000. Expenses charged to operations, including an estimate of incurred but unreported claims, totaled $2,488,165 and $2,214,669 for 2017 and 2016, respectively.

Note 11. Fair Value of Financial Instruments

The *Fair Value Measurements and Disclosures Topic* of the Financial Accounting Standards Codification defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

This Topic defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. This Topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair Value Measurements

Following are description of the valuation methodologies used for assets and a liability measured at fair value on a recurring basis and recognized on the accompanying consolidated balance sheet, as well as the general classification of such assets and liability pursuant to the valuation hierarchy.

Investments and Assets Limited as to Use: Investment securities and assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating. Level 1 securities include those traded by dealers or brokers in active over-the-counter markets and money market funds.

Interest Rate Swap Agreement: Valued using pricing models that are derived principally from observable market data based on discounted cash flows and interest rate yield curves.

Assets at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets measured at fair value on a recurring basis.

December 31, 2017	Level 1	Level 2	Level 3	Total
ASSETS				
Cash and cash equivalents	$ 5,626,372	$ -	$ -	$ 5,626,372
Total	**$ 5,626,372**	**$ -**	**$ -**	**$ 5,626,372**
DEFERRED OUTFLOWS AND LIABILITIES				
Interest rate swap agreement	$ -	$ 432,264	$ -	$ 432,264

December 31, 2016	Level 1	Level 2	Level 3	Total
ASSETS				
Cash and cash equivalents	$ 1,855,959	$ -	$ -	$ 1,855,959
Total	$ 1,855,959	$ -	$ -	1,855,959
CERTIFICATE OF DEPOSIT				25,571
Total investments				$ 1,881,530
DEFERRED OUTFLOWS AND LIABILITIES				
Interest rate swap agreement	$ -	$ 611,707	$ -	$ 611,707

Assets Recorded at Fair Value on a Nonrecurring Basis

The Organization has no assets or liabilities that are recorded at fair value on a nonrecurring basis.

Note 12. Lease Commitments and Rental Expense

Operating leases consist of several cancelable and noncancelable leasing arrangements expiring at various dates through 2019 with renewal options thereafter. Aggregate rental expense under operating lease agreements was approximately $135,000 and $159,000 for the years ended December 31, 2017 and 2016, respectively. For the year ended December 31, 2017, future minimum lease payments under noncancelable operating lease agreements were as follows:

Years ending December 31,	Minimum Lease Payments
2018	$ 112,024
2019	39,817
Total minimum lease payments	$ 151,841

Note 13. Interest Rate Risk Management

The Organization uses variable-rate debt to finance its capital needs. The debt obligations expose the Organization to variability in interest payments due to changes in interest rates. Conversely, fixed rate debt obligations can be more expensive in times of declining interest rates. Management believes it is prudent to monitor and manage its cost of capital on a regular basis. To meet this objective, management, from time to time, enters into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk.

Contract

The Organization has an interest-rate related derivative instrument in effect at December 31, 2017, to manage the exposure on its debt instruments. The Organization does not enter into derivative instruments for any purpose other than cash flow hedging purposes related to its debt.

Objective

In January 2006, the Organization entered into an interest rate swap agreement in the notional amount of $6,600,000 related to the Series 2005 Bonds (Note 6). The purpose of the swap was to convert the Organization's variable rate cash flow exposure on the debt obligations to fixed-rate cash flows. Under the terms of the interest rate swap, the Organization receives a variable interest rate payment in exchange for making fixed interest rate payments (4.46%) to the swap counter-party, thereby creating the equivalent of fixed-rate debt.

Terms, Fair Value, Credit Risk, and Market Risk

By using derivative financial instruments to hedge exposures to changes in interest rates, the Organization exposes themselves to credit risk and market risk. Credit risk is the failure of the counter-party to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counter-party owes the Organization, which creates credit risk for the Organization. When the fair value of a derivative contract is negative, the Organization owes the counter-party and, therefore, it does not possess credit risk. The Organization minimizes the credit risk in derivative instruments by entering into transactions with high-quality counter-parties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rates is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The following table summarizes the terms, fair value, and credit rating of the Organization's interest rate swap agreement as of December 31, 2017 and 2016:

	2017					
Associated Bond Issue	**Current Notional Amount**	**Effective Date**	**Fixed Rate**	**Fair Value**	**Date**	**Counterparty Credit Rating**
Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2005	**$ 5,100,000**	**1/1/2008**	**4.46%**	**$ (432,264)**	**1/1/2021**	**A3, A-, A**

	2016					
Associated Bond Issue	Current Notional Amount	Effective Date	Fixed Rate	Fair Value	Date	Counterparty Credit Rating
Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2005	$ 5,100,000	1/1/2008	4.46%	$ (432,264)	1/1/2021	A3, A-, A

The variable rate on the swap is the USD-BMA Municipal Swap Index and the variable rate on the Series 2005 Bonds is Securities Industry and Financial Markets Association (SIFMA) swap index and resets weekly. The counterparty carries a guarantee by an entity ("counterparty guarantor") rated A3 by Moody's Investors Service (Moody's), A- by Standard and Poor's (S&P), and A by Fitch Ratings (Fitch).

Basis Risk

The swap exposes the Organization to basis risk should the relationship between SIFMA and USD-BMA Municipal Swap Index converges, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rates of 4.46% and the synthetic rate of 4.60% for 2017. As of December 31, 2017, the variable rate on the Hospital's Series 2005 bonds was 0.85% whereas the variable rate from the counterparty was 0.64%.

The Organization has determined the swap to be an ineffective hedge and therefore, have recognized a change in the value of the swap of $432,264 in net position in 2017. Following is an analysis of the recording of the interest rate swap agreement:

	2017	2016
ASSET		
Deferred outflows	**$ -**	$ 611,707
LIABILITY		
Interest rate swap	**$ 432,264**	$ 611,707

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 at the time of termination the swap has a negative fair value, the Organization would be liable to the counterparty for a payment equal to the swap's fair value.

Note 14. Blended Component Unit

The consolidated financial statements include Community Memorial Hospital Foundation, Inc., a separate not-for-profit entity organized to support the operations of the Hospital as a blended component unit. The following is a summary of the financial position and activities of the Foundation as of and for the year ended December 31, 2017 and 2016:

		2017		2016
ASSETS				
Current assets	**$**	**153,725**	$	168,786
Other		**132,063**		86,911
Total assets	**$**	**285,788**	$	255,697
LIABILITIES				
Current liabilities	**$**	**1,873**	$	6,691
NET ASSETS				
Restricted		**132,063**		86,911
Unrestricted		**151,852**		162,095
Total liabilities and net position	**$**	**285,788**	$	255,697
OPERATING EXPENSES	**$**	**28,019**	$	119,842
NON-OPERATING GAINS		**62,928**		67,436
EXCESS OF REVENUES OVER EXPENSES	**$**	**34,909**	$	(52,406)
CASH PROVIDED BY (USED IN)				
Operating activities	**$**	**(8,140)**	$	(109,664)
Investing activities		**(9,636)**		21,195
Financing activities		**62,928**		67,436
Net increase in cash		**45,152**		(21,033)
Cash:				
Beginning of year		**86,911**		107,944
End of year	**$**	**132,063**	$	86,911

Note 15. Management Plans

The Organization incurred significant operating losses for several years prior to 2017. During 2017, the Organization showed improvements in operating results and financial condition largely due to its lab billing operations. Subsequent to year end, a portion of its lab billing services, the external reference lab billing was discontinued due to regulatory and legal concerns. Settlements, which are reflected in the financial statements, and certain contracts were renegotiated and it is not expected that the positive operating results from 2017 will continue. As a result of these factors, management has formulated the following plans to sustain its continuing operations.

In April of 2018, Community Memorial Hospital added a hospitalist to the staff to increase inpatient volumes and decrease transfers to other hospitals. During the first 5 months of this service, admissions increased by 104 compared to the same 5 month period in 2017. In August of 2018, CMH started an after-hours clinic to extend non-emergent care into the evening time period, and eventually during weekends. In the first month the clinic had 135 visits by patients that we may not have seen otherwise. Management anticipates that number continuing to grow as residents in local community become more aware of the service. In October of 2018, CMH will be expanding our orthopedic care by adding a full time orthopedic surgeon who is well known in our region. Management is anticipating that this surgeon will increase surgery volumes, as well as, other ancillary service revenues.

Schedule of Organization's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System (OPERS)

Traditional Defined Benefit Pension Plan		**2017**		2016
Organization's proportion of the net pension liability		**0.070177%**		0.063390%
Organization's proportionate share of the net pension liability	**$**	**15,936,003**	$	10,979,947
Organization's covered-employee payroll	**$**	**9,080,225**	$	7,889,017
Organization's proportionate share of the net pension liability as a percentage of its covered-employee payroll		**175.50%**		139.18%
Plan fiduciary net position as a percentage of the total pension liability		**77.25%**		81.08%

Combined Defined Benefit Pension Plan		**2017**		2016
Organization's proportion of the net pension asset		**0.147146%**		0.182490%
Organization's proportionate share of the net pension asset	**$**	**(81,897)**	$	(88,803)
Organization's covered-employee payroll	**$**	**569,925**	$	664,125
Organization's proportionate share of the net pension asset as a percentage of its covered-employee payroll		**(14.37)%**		(13.37)%
Plan fiduciary net position as a percentage of the total pension asset		**116.55%**		116.90%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Organization will present information for those years for which information has been determined under the provisions of GASB 68. 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).

Schedule of Organization's Contributions
Ohio Public Employees Retirement System (OPERS)

Traditional Defined Benefit Pension Plan		**2017**		2016
Statutorily required contribution	**$**	**1,137,484**	$	1,089,627
Contributions in relation to the statutorily required contributions		**(1,137,484)**		(1,089,627)
Contributions deficiency (excess)	**$**	**-**	$	-
Organization's covered-employee payroll	**$**	**9,479,033**	$	9,080,225
Contributions as a percentage of covered-employee payroll		**12.00%**		12.00%

Combined Defined Benefit Pension Plan		**2017**		2016
Statutorily required contribution	**$**	**73,223**	$	68,391
Contributions in relation to the statutorily required contributions		**(73,223)**		(68,391)
Contributions deficiency (excess)	**$**	**-**	$	-
Organization's covered-employee payroll	**$**	**610,192**	$	569,925
Contributions as a percentage of covered-employee payroll		**12.00%**		12.00%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Organization will present information for those years for which information has been determined under the provisions of GASB 68. Information in these schedules has been determined as of the Organization's most recent fiscal year-end.

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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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Governors
Mark Milford Hicksville Joint Township
Hospital District and Subsidiary
Hicksville, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Mark Milford Hicksville Joint Township Hospital District and Subsidiary (the Organization), which comprise the balance sheet, as of December 31, 2017, and the related statements of operations and changes in net position (deficit), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 1, 2018, which contained an emphasis of matter paragraph regarding substantial doubt about the Organization's ability to continue as a going concern. Our opinion is not modified with respect to these matters.

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 over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 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.

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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. However, a material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal controls, described in the accompanying schedule of audit findings and responses as finding 2017-1, that we consider to be significant deficiency.

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.*

The Organization's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of audit findings and responses. The Organization'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 Organization'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.

Arnett Carbis Toothman LLP

Charleston, West Virginia
October 1, 2018

2017-01 Submission of Financial Statement to Auditor of the State of Ohio

Criteria or Specific Requirement

The consolidated financial statements of the Organization for the year ended December 31, 2017, were not submitted within 150 days of their fiscal year end as required per Ohio Rev. Code section 117.38.

Condition and Cause

The Organization did not submit Generally Accepted Accounting Principles basis financial statements on a timely basis are required by the State of Ohio.

Effect

The Organization was not in compliance with Ohio Rev. Code section 117.38.

Recommendation

We recommend that management adopt a policy to ensure the filing deadline is met going forward.

Views of Responsible Officials and Planned Corrective Actions

Management agrees with the auditor’s recommendation will be implementing a policy to ensure the filing requirements are met on annual an basis.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES
Year Ended December 31, 2016

Findings Required to be Reported by Government Auditing Standards:

2016-01 CAPITAL ASSET RECONCILIATION

Condition and Cause

During fiscal 2016, the capital asset accounts were not being properly reconciled back to the capital asset detail listing.

Recommendation

We recommend that management reconcile the capital asset detail to the general ledger as part of the normal monthly accounting routines.

Current Status

Reconciliations are being completed on a monthly basis.

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OHIO AUDITOR OF STATE
KEITH FABER

MARK- MILFORD- HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

DEFIANCE 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
FEBRUARY 26, 2019