HOCKING VALLEY COMMUNITY HOSPITAL

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

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018

CPAs / ADVISORS

blue

OHIO AUDITOR OF STATE
KEITH FABER

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

We have reviewed the *Independent Auditor's Report* of the Hocking Valley Community Hospital, Hocking County, prepared by Blue & Co., LLC, for the audit period January 1, 2019 through December 31, 2019. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Keith Faber
Auditor of State
Columbus, Ohio

June 11, 2020

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

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Hocking Valley Community Hospital (the Hospital), a component unit of Hocking County, Ohio, as of and for the year ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audits. We audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require us to plan and perform the audits to reasonably assure the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Hospital as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter - Changes in Accounting Principle

As discussed in Note 3 to the financial statements, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Our opinion is not modified with respect to this matter.

Emphasis-of-Matter – COVID-19

As discussed in Note 19 to the financial statements, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods for the Hospital. We did not modify our opinion regarding this matter.

Emphasis-of-Matter – Going Concern

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note 20 to the financial statements, the Hospital has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters also are described in Note 20. 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 these matters.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include management's discussion and analysis on pages i through x and the Required Supplemental Information on GASB 68 Pension Liabilities and GASB 75 Other Postemployment Benefit Liabilities on pages 48 through 51, to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2020, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Blue & Co., LLC

Westerville, Ohio
May 26, 2020

Management's Discussion and Analysis

The discussion and analysis of Hocking Valley Community Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the years ended December 31, 2019, 2018, and 2017. The discussion and analysis is based on Hospital only activity and does not include The Hocking Valley Community Hospital Memorial Funds, Inc. activity. Please read in conjunction with the Hospital's financial statements, which begin on page 4.

Financial Highlights

- The Hospital's net position decreased by $5,596,718 in 2019. $4,125,206 of the $5,596,718 decrease related to operations was associated with the impact of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* (see page viii for additional information on this standard) and GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.
- The increase in the Hospital's total operating loss in 2019 of $880,661 from 2018 is the result of a 5.1% increase in operating revenue of $1,717,471 and a 7.3% increase in operating expenses of $2,598,132. $2,068,493 of the increase in operating expenses was related to GASB 68 and GASB 75.
- Total operating revenues increased from 2018 to 2019 by $1,717,471 or 5.1%.
- The Hospital expended $2,880,000 in support of Hocking Valley Medical Group, Inc. during 2019.
- The Hospital had an increase in operating expense of $2,598,132 or 7.3% in 2019. $2,068,493 of this increase relates to GASB 68 and GASB 75.
- The cumulative impact of adopting GASB 68 and GASB 75 has been a $28,040,286 reduction in the Hospital's net position through December 31, 2019.

Using This Annual Report

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

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

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

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

Statements of Cash Flows

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

Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Statements of Net Position on page 5. The Hospital's net position decreased by $5,596,718 in 2019. As noted on page i, $4,125,206 of this decrease related to the annual expenses associated with GASB 68 and 75.

Condensed Financial Information

The following is a comparative analysis of major components of the statements of net position of the Hospital as of December 31, 2019, 2018, and 2017:

	2019	2018	2017
Assets and Deferred Outflows of Resources			
Current assets	$ 7,212,492	$ 8,535,211	$ 8,742,385
Noncurrent assets	281,025	108,650	271,324
Capital assets, net	11,051,968	13,020,779	12,154,195
Total assets	18,545,485	21,664,640	21,167,904
Deferred outflows of resources			
Pension	7,110,315	3,511,925	8,226,907
Other post-employment benefits	866,261	713,782	-
Total deferred outflows of resources	7,976,576	4,225,707	8,226,907
Total Assets and Deferred Outflows of Resources	$ 26,522,061	$ 25,890,347	$ 29,394,811
Liabilities, Deferred Inflows of Resources and Net Position			
Current liabilities	$ 8,428,967	$ 9,147,124	$ 5,504,510
Noncurrent liabilities	37,572,565	27,665,251	23,800,230
Total liabilities	46,001,532	36,812,375	29,304,740
Deferred inflows of resources			
Pension	853,120	3,502,659	410,155
Other post-employment benefits	420,899	732,085	-
Total deferred inflows of resources	1,274,019	4,234,744	410,155
Net Position			
Net investment in capital assets	7,174,652	7,682,298	8,351,063
Unrestricted	(27,928,142)	(22,839,070)	(8,671,147)
Total net position	(20,753,490)	(15,156,772)	(320,084)
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 26,522,061	$ 25,890,347	$ 29,394,811

A significant component of the Hospital's assets are capital assets. Capital assets, net, decreased by $1,968,811, or 15.1% in 2019. Fixed assets acquired by the Hospital were $515,248 in 2019. These additions were offset by depreciation and amortization of $2,484,059. Capital assets, net, increased by $866,584, or 7.1% in 2018. Fixed assets acquired by the Hospital were $3,199,276 in 2018. These additions were offset by depreciation and amortization of $2,082,692.

Operating Results and Changes in the Hospital's Net Position

The following is a comparative analysis of the statements of operations and changes in net position for the years ended December 31, 2019, 2018, and 2017:

	2019		2018		2017*	
Revenues						
Net patient service revenue	$ 34,720,921		$ 33,080,343		$ 34,818,981	
Other operating revenue	418,887		341,994		533,613	
Total operating revenue	35,139,808		33,422,337		35,352,594	
Expenses						
Salaries and wages	12,791,801		12,549,391		12,953,986	
Employee benefits	9,523,774	(&)	7,759,944	(^)	8,255,925	(#)
Supplies and other expenses	7,100,241		7,065,476		7,753,949	
Professional fees and services	6,259,201		6,105,010		5,942,510	
Depreciation and amortization	2,484,059		2,082,692		1,608,306	
Insurance	145,054		143,485		99,139	
Total operating expenses	38,304,130		35,705,998		36,613,815	
Operating loss	(3,164,322)		(2,283,661)		(1,261,221)	
Nonoperating expenses	(2,432,396)		(3,657,912)		(3,252,101)	
Decrease in net position	(5,596,718)		(5,941,573)		(4,513,322)	
Net position, beginning of year	(15,156,772)		(320,084)		4,193,238	
Cumulative effect of accounting change	-		(8,895,115)		-	
Net position, end of year	$ (20,753,490)		$ (15,156,772)		$ (320,084)	

(*) 2017 amounts do not reflect the adoption of GASB Statement No. 75
(&) 2019 employee benefits expense includes the GASB 68 and 75 impact of $4,125,206
(^) 2018 employee benefits expense includes the GASB 68 and 75 impact of $2,056,713
(#) 2017 employee benefits expense includes the GASB 68 impact of $2,523,961

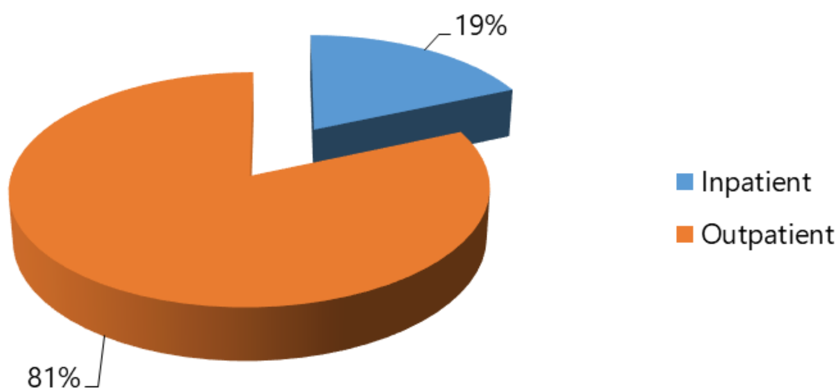
Operating Revenues

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

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased $1,640,578 or 4.7% from 2018 to 2019. This increase was primarily due to a 5.7% increase in outpatient registrations and an 8.8% increase in inpatient days during 2019.
- Net patient service revenue decreased $1,738,636 or 5.3% from 2017 to 2018. This decrease was primarily due to a 15.1% decrease in inpatient days from 2017.

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



Operating Expenses

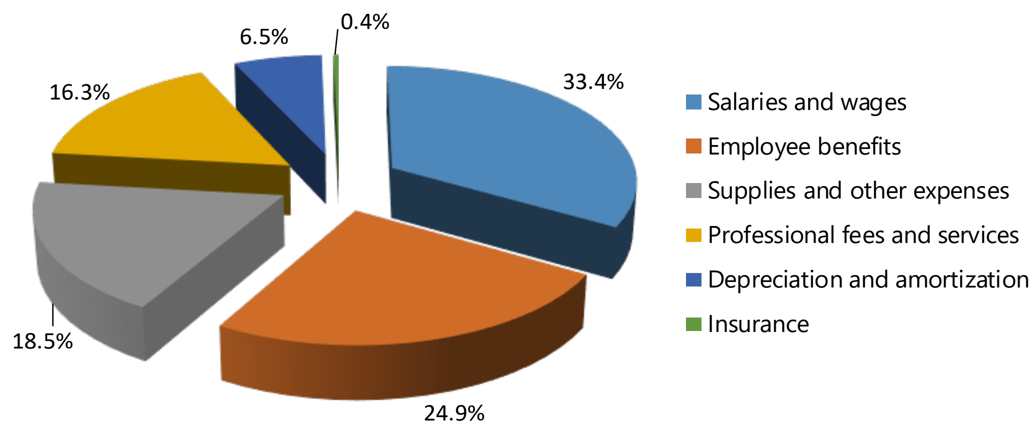
Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The significant operating expense changes were the result of the following factors:

- Salaries and wages increased $242,410 or 1.9% from 2018 to 2019. Salaries and wages decreased $404,645 or 3.1% from 2017 to 2018. The decrease in salaries and wages between 2017 and 2018 was primarily due to a 6% decrease in employees.

- Employee benefits increased $1,763,830 or 22.7% from 2018 to 2019. This increase was primarily related to increased expenses associated with the Ohio Public Employees Retirement System (OPERS) plans. Employee benefits decreased $495,931 or 6.0% from 2017 to 2018. This decrease was primarily related to decreased expenses associated with the OPERS plans

- Supplies and other expenses increased $34,765 or less than 1% from 2018 to 2019. Supplies and other expenses decreased $688,473 or 8.9% from 2017 to 2018. This decrease primarily related to decreased patient visits in surgery and the pain management clinic causing a decreased need for supplies.

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



Sources of Revenue

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

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

Operating Income

The first component of the overall change in the Hospital's net position is its operating income. Generally, operating income is the difference between net patient service revenue and the expenses incurred to perform those services. The Hospital reported operating loss of $3,164,322 in 2019, $2,283,661 in 2018 and $1,261,221 in 2017.

The increase in the Hospital's total operating loss in 2019 of $880,661 from 2018 is the result of a 5.1% increase in operating revenue of $1,717,471 and a 7.3% increase in operating expenses of $2,598,132. $2,068,493 of the increase in operating expenses was related to GASB 68 and GASB 75.

The increase in the Hospital's total operating loss in 2018 of $1,022,440 from 2017 is the result of a 5.5% decrease in operating revenue of $1,930,257 with only a 2.5% decrease in operating expenses of $907,817.

The Hospital provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals of the Hospital when it was established. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Hospital and represents unreimbursed charges incurred by the Hospital in providing uncompensated care to indigent patients. Based on established rates, charges of $2,049,967 were waived under the Hospital's charity care policy during 2019 as compared to $734,662 in 2018.

Nonoperating Revenues (Expenses)

The Hospital's net investment income amounted to $107,014 and $18,922 in 2019 and 2018, respectively. The Hospital provided funding to the Hocking Valley Medical Group, Inc. of ($2,880,000) and ($3,415,000) in 2019 and 2018, respectively. The Hospital also donated ($250,000) of land to the Foundation in 2018 as a one-time donation. The Hospital received contributions and grants of $593,089 and $261,173 in 2019 and 2018, respectively.

Statements of Cash Flows

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

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

	2019	2018	2017
Cash provided by (used in):			
Operating activities	$ 4,733,618	$ 3,791,236	$ 6,013,291
Non-capital financing activities	(2,356,911)	(2,568,827)	(3,531,731)
Investing activities	144,065	457,183	(289,736)
Capital and related financing activities	(2,228,912)	(1,936,934)	(3,240,526)
Total	291,860	(257,342)	(1,048,702)
Cash - beginning of year	403,065	660,407	1,709,109
Cash - end of year	$ 694,925	$ 403,065	$ 660,407

Capital Assets and Debt Administration

Capital Assets

The Hospital had $11,051,968 and $13,020,779 investment in capital assets at December 31, 2019 and 2018, respectively. The Hospital acquired or constructed capital assets in the amount of $515,248 and $3,199,276 during 2019 and 2018, respectively.

Debt

The Hospital had $3,877,316 and $5,338,481 in bond, notes and capital lease obligations outstanding at December 31, 2019 and 2018, respectively. Additionally, the Hospital has a line of credit with a local bank. The amount outstanding on the line of credit was $515,000 and $585,000 at December 31, 2019 and 2018, respectively.

GASB No. 68 (Accounting and Financial Reporting for Pensions), as amended by GASB Statement No. 71 and GASB 75 (Accounting and Financial Reporting for Postemployment Benefits Other than Pensions)

Included in the Hospital's financial statements is the impact of the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Hospital is required to recognize their proportionate share of the OPERS unfunded liability within the financial statements. A proportionate share of the net pension liabilities of OPERS and OPEB has been allocated to the Hospital, based on retirement plan contributions for Hospital employees. The cumulative impact of adopting GASB Statement No. 68 and GASB Statement No. 75 has been a $28,040,286 reduction in the Hospital's net position through December 31, 2019.

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

The rules represent a change in reporting – not a change in funding. The Hospital continues to contribute 14% annually to the pension and OPEB. This is the same percentage contributed prior to the adoption of these standards.

The chart below summarizes our 2019 activity with and without the impact of GASB Statement No. 68 and GASB Statement No. 75.

	Presentation in accordance with Generally Accepted Accounting Principles	Presentation without GASB 68 & 75
Operating results		
Operating income (loss)	$ (3,164,322)	$ 960,884
Net position		
Assets and deferrals	$ 26,522,061	$ 18,489,369
Liabilities and deferrals	47,275,551	11,202,573
Net position	(20,753,490)	7,286,796
Total liabilities and net position	$ 26,522,061	$ 18,489,369

Contacting the Hospital's Financial Management

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

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

STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2019	2018	2019	2018
Assets and Deferred Outflows of Resources				
Current assets				
Cash and cash equivalents	$ 694,925	$ 403,065	$ 400,134	$ 160,445
Patient accounts receivable, net of uncollectible accounts of approximately $1,638,000 and $1,614,000 in 2019 and 2018, respectively	4,926,538	5,580,804	-	-
Certificates of deposit	35,036	256,894	-	-
Investments	576,207	616,309	170,549	332,310
Inventories	346,619	360,564	-	-
Estimated amounts due from third-party payors	110,118	425,782	-	-
Prepaid expenses and other assets	523,049	891,793	6,713	-
Total current assets	7,212,492	8,535,211	577,396	492,755
Noncurrent assets				
Certificates of deposit	224,909	-	-	-
Board designated investments	-	-	290,000	290,000
Net pension asset	56,116	108,650	-	-
Donor restricted investments	-	-	215,552	276,408
Total noncurrent assets	281,025	108,650	505,552	566,408
Capital assets				
Land and construction in progress	250,379	22,611	954,288	1,044,078
Buildings, land improvements and equipment, net	10,801,589	12,998,168	1,235,628	1,402,992
Capital assets, net	11,051,968	13,020,779	2,189,916	2,447,070
Total assets	18,545,485	21,664,640	3,272,864	3,506,233
Deferred outflows of resources				
Pension	7,110,315	3,511,925	-	-
Other post-employment benefits	866,261	713,782	-	-
Total outflows of resources	7,976,576	4,225,707	-	-
Total assets and deferred outflows of resources	$ 26,522,061	$ 25,890,347	$ 3,272,864	$ 3,506,233

See accompanying notes to financial statements.

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

STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

LIABILITIES AND NET POSITION

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2019	2018	2019	2018
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities				
Line of credit	$ 515,000	$ 585,000	$ -	$ -
Current portion of capital lease obligations	446,629	459,764	-	-
Current portion of long-term debt	657,081	1,228,159	39,279	37,828
Accounts payable and accrued expenses	4,335,710	4,760,710	16,811	9,642
Accrued payroll and related liabilities	639,643	518,290	-	-
Unearned revenue	137,484	137,969	-	-
Self-insurance liabilities	766,274	579,861	-	-
Accrued vacation and sick leave	931,146	877,371		
Total current liabilities	8,428,967	9,147,124	56,090	47,470
Noncurrent liabilities, net of current portions				
Capital lease obligations	560,852	911,842	-	-
Net pension liability	23,832,739	14,315,199	-	-
Net other post-employment benefit liability	10,966,220	9,699,494	-	-
Long-term debt	2,212,754	2,738,716	978,831	1,017,612
Total noncurrent liabilities	37,572,565	27,665,251	978,831	1,017,612
Total liabilities	46,001,532	36,812,375	1,034,921	1,065,082
Deferred inflows of resources				
Pension	853,120	3,502,659	-	-
Other post-employment benefits	420,899	732,085	-	-
Total deferred inflows of resources	1,274,019	4,234,744	-	-
Net position				
Net investment in capital assets	7,174,652	7,682,298	1,171,806	1,391,630
Restricted for:				
Nonexpendable:				
Endowment			179,000	139,000
Expendable:				
Donor restricted for various purposes			36,552	137,408
Unrestricted	(27,928,142)	(22,839,070)	850,585	773,113
Total net position	(20,753,490)	(15,156,772)	2,237,943	2,441,151
Total liabilities, deferred inflows of resources and net position	$ 26,522,061	$ 25,890,347	$ 3,272,864	$ 3,506,233

See accompanying notes to financial statements.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2019	2018	2019	2018
Operating revenues				
Net patient service revenue	$ 34,720,921	$ 33,080,343	$ -	$ -
Other operating revenue	418,887	341,994	96,000	51,297
Total operating revenues	35,139,808	33,422,337	96,000	51,297
Operating expenses				
Salaries and wages	12,791,801	12,549,391	-	-
Employee benefits	9,523,774	7,759,944	-	-
Supplies and other expenses	7,100,241	7,065,476	67,289	52,647
Professional fees and service	6,259,201	6,105,010	-	-
Depreciation and amortization	2,484,059	2,082,692	40,577	32,091
Insurance	145,054	143,485	-	-
Total operating expenses	38,304,130	35,705,998	107,866	84,738
Operating income (loss)	(3,164,322)	(2,283,661)	(11,866)	(33,441)
Nonoperating revenues (expenses)				
Payments made to Hocking Valley Medical Group, Inc.	(2,880,000)	(3,415,000)	-	-
Transfers	-	(250,000)	-	250,000
Net investment income (loss)	107,014	18,922	61,177	(17,091)
Loss on disposal of asset	-	-	(46,578)	-
Interest expense	(252,499)	(273,007)	(39,698)	(27,006)
Other nonoperating income	474,736	45,852	45	-
Grant expenses and support	-	-	(490,451)	(176,362)
Noncapital grants and contributions	118,353	215,321	284,163	517,668
Total nonoperating revenues (expenses)	(2,432,396)	(3,657,912)	(231,342)	547,209
Excess (deficiency) of revenues and expenses	(5,596,718)	(5,941,573)	(243,208)	513,768
Capital gifts	-	-	40,000	-
Increase (decrease) in net position	(5,596,718)	(5,941,573)	(203,208)	513,768
Net position, beginning of year as previously reported	(15,156,772)	(320,084)	2,441,151	1,927,383
Cumulative effect of change in accounting principle	-	(8,895,115)	-	-
Beginning of year, as restated	(15,156,772)	(9,215,199)	2,441,151	1,927,383
Net position, end of year	$ (20,753,490)	$ (15,156,772)	$ 2,237,943	$ 2,441,151

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2019	2018	2019	2018
Cash flows from operating activities				
Cash received from patients and third party payors	$ 35,690,366	$ 32,484,433	$ -	$ -
Cash paid to employees for wages and benefits	(17,828,828)	(18,246,888)	-	-
Cash paid to vendors for goods and services	(13,546,807)	(10,788,303)	(20,255)	(43,005)
Other receipts	418,887	341,994	96,000	51,297
Net cash provided by operating activities	4,733,618	3,791,236	75,745	8,292
Cash flows from noncapital financing activities				
Contributions	593,089	261,173	284,163	517,668
Grant expenses and support	-	-	(490,451)	(176,362)
Payments on line of credit	(70,000)	(15,000)	-	-
Borrowings on line of credit	-	600,000	-	-
Payments made to The Hocking Valley Community Hospital Memorial Fund, Inc.	(2,880,000)	(3,415,000)	-	-
Net cash used in noncapital financing activities	(2,356,911)	(2,568,827)	(206,288)	341,306
Cash flows from capital and related financing activities				
Proceeds from issuance of long-term debt	-	-	-	1,080,000
Repayment of long-term debt	(1,097,040)	(298,341)	(37,330)	(24,560)
Repayment of capital lease obligations	(471,172)	(552,195)	-	-
Interest paid on long-term debt	(252,499)	(273,007)	(39,698)	(27,006)
Purchase of capital assets	(408,201)	(813,391)	-	(1,677,954)
Proceeds on sale of capital assets	-	-	169,999	-
Net cash used in capital and related financing activities	(2,228,912)	(1,936,934)	92,971	(649,520)
Cash flows from investing activities				
Interest income	107,014	18,922	3,698	4,166
Sale of investments	50,000	450,000	273,563	261,924
Investment purchases and reinvestments	(12,949)	(11,739)	-	(18,423)
Net cash (used in) provided by investing activities	144,065	457,183	277,261	247,667
Net increase (decrease) in cash and cash equivalents	291,860	(257,342)	239,689	(52,255)
Cash and cash equivalents:				
Beginning of year	403,065	660,407	160,445	212,700
End of year	$ 694,925	$ 403,065	$ 400,134	$ 160,445

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2019	2018	2019	2018
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	$ (3,164,322)	$ (2,283,661)	$ (11,866)	$ (33,441)
Adjustments to reconcile operating loss to net cash provided by operating activities				
Depreciation and amortization	2,484,059	2,082,692	40,577	32,091
Loss on disposal of equipment	-	-	46,578	-
Provision for bad debt	3,515,096	2,644,769	-	-
Pension expense (GASB 68)	3,322,145	1,234,031	-	-
Other post employment benefits (GASB 75)	803,061	822,682	-	-
Changes in:				
Patient accounts receivable	(2,860,830)	(2,592,878)	-	-
Inventories, prepaid expenses and other assets	382,689	64,041	(6,713)	-
Accounts payable, accrued expenses and unearned revenue	(425,485)	1,943,924	7,169	9,642
Accrued payroll and related liabilities	121,353	2,326	-	-
Self-insurance liabilities	186,413	252,405	-	-
Estimated amounts due to/from third-party payors	315,664	(382,503)	-	-
Accrued vacation and sick leave	53,775	3,408	-	-
Net cash provided by operating activities	$ 4,733,618	$ 3,791,236	$ 75,745	$ 8,292
Supplemental disclosure of noncash capital financing activities				
Assets acquired under capital lease obligations	$ 107,047	$ 255,336	$ -	$ -
Assets acquired under notes payable, relating to EPIC	$ -	$ 2,130,549	$ -	$ -
Transfer of land	$ -	$ (250,000)	$ -	$ 250,000
Transfer of land to offset purchase of capital assets	$ -	$ -	$ -	$ (250,000)

See accompanying notes to financial statements.

1. REPORTING ENTITY

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Presentation</u>

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

The Foundation reports under generally accepted accounting principles set forth by FASB standards. As such, certain presentation features for the Foundation have been conformed to the GASB presentation. There were no significant differences between the two frameworks related to the Foundation.

Use of Estimates

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

Proprietary Fund Accounting

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

Cash and Cash Equivalents

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

Inventories

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

Investments

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

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

The Hospital and Foundation hold investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

Donor Restricted Investments

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

Certificates of Deposit

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

Statements of Revenues, Expenses and Changes in Net Position

The Hospital recognizes as operating revenues those transactions that are major or central to the provision of health care services. Operating revenues include those revenues received for direct patient care, grants received from organizations as reimbursement for patient care, and other incidental revenue associated with patient care. Operating expenses include those costs associated with providing patient care including costs of professional services, operating the hospital facilities, administrative expenses, and depreciation and amortization. Nonoperating revenues include investment income (losses) and grants and contributions received for purposes other than capital asset acquisition. Nonoperating expenses include interest expense, investment losses, and expenses for grants to the Foundation which represent amounts paid to the Foundation for the benefit of Hocking Valley Medical Group (see Note 16).

Capital Assets

Purchased or constructed capital assets are reported at historical costs. Contributed capital assets are recorded at their estimated fair value at the time of their donation. Expenditures for capital assets must exceed $5,000 in order for them to be capitalized. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these useful lives:

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

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

Compensated Absences

The Hospital's employees earn vacation time at varying rates depending on years of service. Employees may accumulate vacation time, up to 400 hours, to be carried over to the subsequent year. The Hospital's employees also earn sick leave on an annual basis at a flat rate regardless of years of service. Upon retirement, employees age 65 or older with a minimum of 10 years of service, and employees with 30 years of service regardless of age have sick leave balances paid out at 25% of eligible hours at their current rate of pay. The maximum payout is 240 hours. As of December 2019 and 2018, the liability for accrued vacation and sick leave was $931,146 and $877,371, respectively.

Costs of Borrowings

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

Grants and Contributions

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

Restricted Resources

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

Net Position

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

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

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

Risk Management

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

Upper Payment Limit

In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the Centers for Medicare and Medicaid Services (CMS). This program provides access to available federal funding up to 100% of the Medicare upper payment limits for inpatient hospital services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. The Hospital recognized $547,874 and $806,533 in UPL payments in 2019 and 2018, respectively, which are reflected in net patient service revenue. Additionally, the Hospital received 2020 UPL payments in advance which are reflected in the Statements of Net Position as unearned revenue. These amounts are recognized as revenue in the year to which they relate.

Franchise Fee

Effective July 1, 2009, the State of Ohio began assessing a franchise fee to hospitals to fund health care programs. The Hospital incurred franchise fee expenses of $549,511 and $523,442 in 2019 and 2018, respectively, and recorded the amount in supplies and other expenses in the Statements of Revenues, Expenses and Changes in Net Position. Additionally, the Hospital paid the 2019 franchise fee payments in advance, which was reflected in the Statements of Net Position as prepaid expenses as of December 31, 2018. There was no franchise fee liability payable to the State of Ohio at December 31, 2019 and 2018.

Patient Accounts Receivable and Net Patient Service Revenue

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

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

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

Charity Care

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

Of the Hospital's total operating expenses (approximately $38,304,000 and $35,706,000 during 2019 and 2018), an estimated $835,000 and $304,000 arose from providing services to charity patients during 2019 and 2018, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue. The Hospital participates in the Hospital Care Assurance Program (HCAP), which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts recognized through this program totaled $1,230,669 and $926,402 for 2019 and 2018, respectively, and are reported as net patient service revenue in the financial statements.

Pension and Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the pension and OPEB, and pension and OPEB expense, information about the net position of the Ohio Public Employees Retirement System (OPERS) and addition to/deductions from the OPERS's net position have been determined on the same basis as they are reported by the OPERS.

Subsequent Events

The Hospital has evaluated subsequent events through May 26, 2020, the date the financial statements were available to be issued.

3. CHANGES IN ACCOUNTING PRINCIPLE

During 2019, the Hospital implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which requires that additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. Changes as a result of this adoption include a breakout of debt from general obligation bonds, capital leases, and direct borrowings. Additionally, we noted additional disclosures relating to provisions within the debt agreements for direct borrowings note payables in the event of default. See Note 9 for additional disclosures related to debt.

4. FUNCTIONAL EXPENSES – FOUNDATION

The Foundation performs fund-raising services on behalf of the Hospital. Expenses related to providing these services for the year ended December 31, 2019 were as follows:

	Fundraising
Supplies and other expenses	$ 67,289
Depreciation	40,577
	$ 107,866

Expenses related to providing these services for the year ended December 31, 2018 were as follows:

	Fundraising
Supplies and other expenses	$ 52,647
Depreciation	32,091
	$ 84,738

Liquidity and Availability of Resources

The Foundation's financial assets available within one year of the balance sheet date for general expenditures for the years ended December 31 are as follows:

	2019	2018
Cash and cash equivalents	$ 400,134	$ 160,445
Investments	170,549	332,310
	$ 570,683	$ 492,755

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of net position date. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in certificates of deposit and short-term investments.

5. DEPOSITS AND INVESTMENTS

Deposits

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits might not be recovered. Through December 31, 2019, FDIC (Federal Deposit Insurance Corporation) insurance for funds held in interest bearing accounts is $250,000 per depositor per category of legal ownership. Ohio Revised Code requires that deposits in excess of FDIC insured amounts are collateralized. The Hospital's investment policy does not address custodial credit risk but it believes that the Hospital's depository bank carries sufficient collateral to cover the total amount of public funds on deposit with the bank (after FDIC coverage) and is in compliance with the requirements specified in Sections 135.18 and 135.181 of the Ohio Revised Code.

The bank balances of the Hospital's deposits at December 31, 2019 and 2018 totaled $1,967,776 and $1,487,793, respectively, and were subject to the following categories of custodial credit risk:

	2019	2018
Collateral held by the counterparty's agent but not in the name of the Hospital	$ 1,081,453	$ 579,477
Uninsured and uncollateralized	110,369	-
Total amount subject to custodial risk	1,191,822	579,477
Amount insured	775,954	908,316
Total bank balances	$ 1,967,776	$ 1,487,793

Investments – The Hospital

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

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

The Hospital's investments generally are reported at fair value, as discussed in Note 2. At December 31, 2019 and 2018, the Hospital had the following investments, maturities and rates (per Standard & Poor's), all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

	2019		
		Investment Maturities	
	Carrying Amount	Less than 1 Year	1-5 Years
Certificates of deposits	$ 259,945	$ 35,036	$ 224,909
Money market funds			
AAA	216,212	216,212	-
Not rated	359,995	359,995	-
	$ 836,152	$ 611,243	$ 224,909

	2018		
		Investment Maturities	
	Carrying Amount	Less than 1 Year	1-5 Years
Certificates of deposits	$ 256,894	$ 256,894	$ -
Money market funds			
AAA	260,939	260,939	-
Not rated	355,370	355,370	-
	$ 873,203	$ 873,203	$ -

Interest Rate Risk

The Hospital's investment policies limit investment portfolios to maturities of five years or less. All of the Hospital's investments at December 31, 2019 and 2018 have effective maturity dates of less than five years.

Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Hospital's investment policy does not address custodial credit risk. For the years ended December 31, 2019 and 2018, the Hospital is not exposed to custodial credit risk as it relates to its investment portfolio.

Concentration of Credit Risk

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

Investments – The Foundation

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

	2019	2018
Mutual funds	$ 170,947	$ 139,376
Exchange traded funds	176,282	164,029
Common stock	28,351	28,680
Certificates of deposit	300,227	566,408
Money market funds	294	225
	$ 676,101	$ 898,718

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

	2019	2018
Investments - current assets	$ 170,549	$ 332,310
Board designated investments	290,000	290,000
Donor restricted investments - noncurrent assets	215,552	276,408
	$ 676,101	$ 898,718

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

	2019	2018
Interest and dividends, net of investment management fees	$ 5,049	$ 4,166
Net unrealized/realized gain (loss)	56,128	(21,257)
	$ 61,177	$ (17,091)

6. FAIR VALUE MEASUREMENTS

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

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

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

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

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

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

- Common stock – Valued at the closing price reported on the active market on which the individual securities are traded.

The following table sets forth by level, within the fair value hierarchy, the Hospital's assets at fair value as of December 31, 2019 and 2018. Classification within the fair value hierarchy table is based on the lowest level of any input that is significant to the fair value measurement.

	2019			
	Level 1	Level 2	Level 3	Total
Money market funds	$ -	$ 576,207	$ -	$ 576,207
	$ -	$ 576,207	$ -	$ 576,207
Certificates of deposit				259,945
Total investments and certificates of deposit				$ 836,152

	2018			
	Level 1	Level 2	Level 3	Total
Money market funds	$ -	$ 616,309	$ -	$ 616,309
	$ -	$ 616,309	$ -	$ 616,309
Certificates of deposit				256,894
Total investments and certificates of deposit				$ 873,203

The Hospital’s policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels during 2019 and 2018.

Foundation assets measured at fair value on a recurring basis as of December 31, 2019 are as follows:

	Level 1	Level 2	Level 3	Total
Money market	$ -	$ 294	$ -	$ 294
Mutual funds:				
Money market	5,754	-	-	5,754
Fixed income	37,959	-	-	37,959
Foreign large blend	21,551	-	-	21,551
Foreign large growth	10,843	-	-	10,843
Large growth	39,789	-	-	39,789
Mid-cap growth	37,056	-	-	37,056
Small value	17,995	-	-	17,995
Exchange traded funds:				
Fixed income	43,023	-	-	43,023
Foreign large blend	35,425	-	-	35,425
Foreign small/mid blend	21,374	-	-	21,374
Large value	41,763	-	-	41,763
Mid-cap value	13,826	-	-	13,826
Small blend	20,871	-	-	20,871
Common stock:				
Energy	28,351	-	-	28,351
	$ 375,580	$ 294	$ -	375,874
Certificates of deposit				300,227
Total investments and certificates of deposit				$ 676,101

Foundation assets measured at fair value on a recurring basis as of December 31, 2018 are as follows:

	Level 1	Level 2	Level 3	Total
Money market	$ -	$ 225	$ -	$ 225
Mutual funds:				
Money market	5,534	-	-	5,534
Fixed income	35,322	-	-	35,322
Foreign large blend	17,164	-	-	17,164
Foreign large growth	8,089	-	-	8,089
Large growth	23,992	-	-	23,992
Large value	11,409	-	-	11,409
Mid-cap growth	24,918	-	-	24,918
Small value	12,948	-	-	12,948
Exchange traded funds:				
Fixed income	61,218	-	-	61,218
Foreign large blend	28,567	-	-	28,567
Foreign small/mid blend	13,807	-	-	13,807
Large value	33,870	-	-	33,870
Mid-cap value	10,860	-	-	10,860
Small blend	15,707	-	-	15,707
Common stock:				
Energy	28,351	-	-	28,351
Financial services	329	-	-	329
	$ 303,405	$ 225	$ -	332,310
Certificates of deposit				566,408
Total investments and certificates of deposit				$ 898,718

The Foundation's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels during 2019 and 2018.

7. CAPITAL ASSETS

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

2019	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	$ 5,120	$ -	$ -	$ -	$ 5,120
Construction in process	17,491	227,768	-	-	245,259
Total non-depreciable capital assets	22,611	227,768	-	-	250,379
Depreciable capital assets:					
Land improvements	513,647	-	-	-	513,647
Buildings and improvements	17,513,733	14,272	-	-	17,528,005
Equipment	20,138,430	273,208	-	-	20,411,638
Total depreciable capital assets	38,165,810	287,480	-	-	38,453,290
Less accumulated depreciation:					
Land improvements	(345,190)	(34,430)	-	-	(379,620)
Buildings and improvements	(10,246,786)	(608,960)	-	-	(10,855,746)
Equipment	(14,575,666)	(1,840,669)	-	-	(16,416,335)
Total accumulated depreciation	(25,167,642)	(2,484,059)	-	-	(27,651,701)
Total depreciable capital assets, net	12,998,168	(2,196,579)	-	-	10,801,589
Total capital assets, net	$ 13,020,779	$ (1,968,811)	$ -	$ -	$ 11,051,968

2018	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	$ 255,120	$ -	$ (250,000)	$ -	$ 5,120
Construction in process	880,565	12,941	(876,015)	-	17,491
Total non-depreciable capital assets	1,135,685	12,941	(1,126,015)	-	22,611
Depreciable capital assets:					
Land improvements	513,647	-	-	-	513,647
Buildings and improvements	17,340,445	173,288	-	-	17,513,733
Equipment	16,249,368	3,013,047	876,015	-	20,138,430
Total depreciable capital assets	34,103,460	3,186,335	876,015	-	38,165,810
Less accumulated depreciation:					
Land improvements	(309,110)	(36,080)	-	-	(345,190)
Buildings and improvements	(9,639,405)	(607,381)	-	-	(10,246,786)
Equipment	(13,136,435)	(1,439,231)	-	-	(14,575,666)
Total accumulated depreciation	(23,084,950)	(2,082,692)	-	-	(25,167,642)
Total depreciable capital assets, net	11,018,510	1,103,643	876,015	-	12,998,168
Total capital assets, net	$ 12,154,195	$ 1,116,584	$ (250,000)	$ -	$ 13,020,779

Total depreciation and amortization expense related to the Hospital's capital assets for 2019 and 2018 was $2,484,059 and $2,082,692, respectively.

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

	2019				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	$ 1,044,078	$ -	$ -	$ (89,790)	$ 954,288
Total non-depreciable capital assets	1,044,078	-	-	(89,790)	954,288
Depreciable capital assets:					
Buildings and improvements	1,824,200	-	-	(129,210)	1,694,990
Equipment	12,421	-	-	-	12,421
Total depreciable capital assets	1,836,621	-	-	(129,210)	1,707,411
Less accumulated depreciation:					
Buildings and improvements	(421,208)	(40,577)	-	2,423	(459,362)
Equipment	(12,421)	-	-	-	(12,421)
Total accumulated depreciation	(433,629)	(40,577)	-	2,423	(471,783)
Total depreciable capital assets, net	1,402,992	(40,577)	-	(126,787)	1,235,628
Total capital assets, net	$ 2,447,070	$ (40,577)	$ -	$ (216,577)	$ 2,189,916

	2018				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	$ 161,834	$ 882,244	$ -	$ -	$ 1,044,078
Total non-depreciable capital assets	161,834	882,244	-	-	1,044,078
Depreciable capital assets:					
Buildings and improvements	778,490	1,045,710	-	-	1,824,200
Equipment	12,421	-	-	-	12,421
Total depreciable capital assets	790,911	1,045,710	-	-	1,836,621
Less accumulated depreciation:					
Buildings and improvements	(389,117)	(32,091)	-	-	(421,208)
Equipment	(12,421)	-	-	-	(12,421)
Total accumulated depreciation	(401,538)	(32,091)	-	-	(433,629)
Total depreciable capital assets, net	389,373	1,013,619	-	-	1,402,992
Total capital assets, net	$ 551,207	$ 1,895,863	$ -	$ -	$ 2,447,070

Total depreciation expense related to the Foundation's capital assets for 2019 and 2018 was $40,577 and $32,091, respectively.

8. LINE OF CREDIT

The Hospital has a $1,000,000 line of credit with a bank that is collateralized by all patient accounts receivable. The line of credit is due on demand. Interest is payable at a variable rate of prime plus 1.04% (5.79% and 6.29% at December 31, 2019 and 2018, respectively). Information relating to the Hospital's line of credit activity as of and for the years ended December 31, is as follows:

	2019			
	Beginning Balance	Borrowings	Payments	Ending Balance
Line of credit	$ 585,000	$ -	$ (70,000)	$ 515,000

	2018			
	Beginning Balance	Borrowings	Payments	Ending Balance
Line of credit	$ -	$ 600,000	$ (15,000)	$ 585,000

9. DEBT AND CAPITAL LEASE OBLIGATIONS

Debt and capital lease obligations – Hospital

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

	2019				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
General obligation bonds:					
1999 County Hospital Refunding and Improvement Bond Series	$ 190,000	$ -	$ (190,000)	$ -	$ -
Direct borrowings:					
Note payable, OAQDA	1,648,521	-	(119,236)	1,529,285	122,872
Note payable, OSUWMC	2,130,549	119,578	(909,577)	1,340,550	534,209
Total direct borrowings	3,779,070	119,578	(1,028,813)	2,869,835	657,081
Capital lease obligations	1,371,606	107,047	(471,172)	1,007,481	446,629
	5,340,676	226,625	(1,689,985)	3,877,316	1,103,710
Bond discount	(2,195)	-	2,195	-	-
Total debt	$ 5,338,481	$ 226,625	$ (1,687,790)	$ 3,877,316	$ 1,103,710

	2018				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
General obligation bonds:					
1999 County Hospital Refunding and Improvement Bond Series	$ 375,000	$ -	$ (185,000)	$ 190,000	$ 190,000
Direct borrowings:					
Note payable, OAQDA	1,764,227	-	(115,706)	1,648,521	119,236
Note payable, OSUWMC	-	2,130,549	-	2,130,549	921,118
Total direct borrowings	1,764,227	2,130,549	(115,706)	3,779,070	1,040,354
Capital lease obligations	1,668,465	255,336	(552,195)	1,371,606	459,764
	3,807,692	2,385,885	(852,901)	5,340,676	1,690,118
Bond discount	(4,560)	-	2,365	(2,195)	(2,195)
Total debt	$ 3,803,132	$ 2,385,885	$ (850,536)	$ 5,338,481	$ 1,687,923

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

During 2016, the Hospital signed two note payable agreements with the Ohio Air Quality Development Authority (OAQDA) totaling $1,918,748 utilizing the proceeds to make energy efficient capital improvements to the Hospital. The first note, which totaled $1,000,000, bears interest at 4.25%, with interest payments through December 1, 2030 due semi-annually. Annual principal payments begin December 1, 2024 with the final payment due December 1, 2030. The second note, which totaled $918,748, bears interest at 3.05% with annual principal and interest payments beginning December 1, 2016 through December 1, 2024. At December 31, 2019 and 2018, the balance outstanding under these note payable agreements was $1,529,285 and $1,648,521, respectively.

The OAQDA note payable of $1,918,748 from direct borrowings contain a provision that whenever an event of default occurs, the principal and interest outstanding is due and payable immediately.

During 2018, the Hospital signed a note payable agreement with The Ohio State University Wexner Medical Center (OSUWMC) totaling $2,130,549 utilizing the proceeds to implement a new electronic medical record system at the Hospital. The note includes imputed interest at 5.25% with monthly payments beginning in June 2017 through May 2022. At December 31, 2019 and 2018, the balance outstanding under this note payable agreement was $1,340,550 and $2,130,549, respectively. See Note 18 for further discussion.

The OSUWMC note payable of $2,130,549 from direct borrowings contain a provision that if the Hospital should terminate the agreement without breach by OSUWMC, the Hospital will have the obligation to reimburse OSUWMC for any costs advanced to the Hospital by OSUWMC, which has not been repaid, and all outstanding principle and interest.

Capital lease obligations have varying rates of imputed interest ranging from 1.00% to 8.20%. The obligations are collateralized by leased equipment and mature at varying dates through 2024.

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

	2019	2018
Cost of equipment under capital lease	$ 2,353,667	$ 2,523,494
Accumulated amortization	(1,268,004)	(1,087,637)
	$ 1,085,663	$ 1,435,857

Long-term debt and capital lease obligation payment requirements for fiscal years subsequent to December 31, 2019, are as follows:

	Capital Lease Obligations			Notes from Direct Borrowings		
	Principal	Interest	Total	Principal	Interest	Total
2020	$ 446,629	$ 38,324	$ 484,953	$ 657,081	$ 109,142	$ 766,223
2021	287,156	20,287	307,443	689,559	76,047	765,606
2022	207,859	7,465	215,324	373,884	51,338	425,222
2023	55,945	1,868	57,813	134,461	46,712	181,173
2024	9,892	140	10,032	138,562	42,477	181,039
Thereafter	-	-	-	876,288	128,815	1,005,103
	$ 1,007,481	$ 68,084	$ 1,075,565	$ 2,869,835	$ 454,531	$ 3,324,366

Debt – Foundation

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

	2019				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Commercial loan	$ 1,055,440	$ -	$ (37,330)	$ 1,018,110	$ 39,279
Total debt	$ 1,055,440	$ -	$ (37,330)	$ 1,018,110	$ 39,279

During 2018, the Foundation signed a note payable agreement with Citizens Bank of Logan, now Merchants National Bank, totaling $1,080,000 utilizing the proceeds to purchase a new Medical Arts Building. The note bears interest at 3.77% with annual principal and interest payments beginning April 18, 2018 through April 18, 2038. Beginning on April 18, 2023, the interest rate is subject to change annually based on the weekly average yield of United States treasury securities. At December 31, 2019 and 2018, the balance outstanding under this note payable agreement was $1,018,110 and $1,055,440, respectively.

The Foundation is required to meet a minimum debt service coverage ratio. The Foundation was not in compliance with this covenant as of December 31, 2019. Management has obtained a waiver for this violation.

Long-term debt obligation payment requirements for fiscal years subsequent of December 31, 2019, are as follows:

	Principal	Interest	Total
2020	$ 39,279	$ 37,694	$ 76,973
2021	40,786	36,188	76,974
2022	42,350	34,623	76,973
2023	43,974	32,999	76,973
2024	45,661	31,312	76,973
Thereafter	806,060	220,627	1,026,687
	$ 1,018,110	$ 393,443	$ 1,411,553

10. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2019	2018
Gross patient accounts receivable	$ 12,564,778	$ 13,304,023
Less allowance for:		
Uncollectible accounts	(1,638,419)	(1,614,368)
Contractual adjustments	(5,999,821)	(6,108,851)
Net patient accounts receivable	$ 4,926,538	$ 5,580,804

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

	2019		2018	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	35%	50%	32%	48%
Medicaid	16%	24%	16%	25%
Commercial	31%	23%	21%	24%
Self-pay	18%	3%	31%	3%
	100%	100%	100%	100%

11. ESTIMATED AMOUNTS DUE FROM THIRD-PARTY PAYORS

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

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

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

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

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

In 2019, approximately 50% of the Hospital's total gross patient revenue was derived from Medicare patients while 24% was derived from Medicaid. The remaining revenue was derived primarily from commercial insurance payments.

In 2018, approximately 48% of the Hospital's total gross patient revenue was derived from Medicare payments while 25% was derived from Medicaid. The remaining revenue was derived primarily from commercial insurance payments.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods, as final settlements are determined. Management has determined that there was $110,118 and $425,782 due from third party payors as of December 31, 2019 and 2018, respectively. There is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between the estimated amounts accrued at interim and final settlements are reported in the statement of revenues, expenses and changes in net position in the year of settlement. The Hospital recorded an unfavorable adjustment of $116,674 and a favorable adjustment of $686,169 in net patient service revenue on the statements of revenue, expenses and changes in net position in 2019 and 2018, respectively.

12. NET PATIENT SERVICE REVENUES

Net patient service revenue consists of the following:

	2019	2018
Revenue:		
Inpatient	$ 17,403,934	$ 17,448,967
Outpatient	76,662,831	68,783,333
Total patient revenue	94,066,765	86,232,300
Revenue deductions:		
Contractual allowances	53,780,781	49,772,526
Provision for bad debts	3,515,096	2,644,769
Charity care	2,049,967	734,662
Total deductions	59,345,844	53,151,957
Total net patient service revenue	$ 34,720,921	$ 33,080,343

13. OTHER LIABILITIES

Risk Management

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

Medical Malpractice

For medical malpractice, the Hospital has professional liability insurance with a commercial carrier. Coverage is $1,000,000 per occurrence and $3,000,000 in the annual aggregate. In addition, the Hospital has umbrella coverage of $2,000,000 per occurrence. The policy also requires that certain members of the medical staff carry professional liability coverage of no less than $1,000,000 per occurrence and $3,000,000 in the annual aggregate. The Hospital's coverage is on a claims made basis. Settled claims for medical malpractice have not exceeded insurance coverage in any of the past five years. Losses from asserted and unasserted claims identified under the Hospital's incident reporting systems are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. There is no liability for medical malpractice at December 31, 2019 and 2018.

Employee Health Insurance

The Hospital provides health insurance to participating employees under a plan that is partially self-insured. The plan is covered by a stop-loss policy that covers specific items over $500,000. An estimate of incurred but unpaid claims has been determined as of December 31, 2019 and 2018 based on historical experience. The liability for estimated self-insured employee health claims includes estimates of the ultimate costs for both reported claims and incurred but not reported claims. Activity and balances as of and for the years ended December 31, 2019 and 2018 are as follows:

	Beginning Liability	Claims Incurred	Claims Paid	Ending Liability
2018	$ 327,456	$ 3,485,462	$ 3,233,057	$ 579,861
2019	$ 579,861	$ 3,059,189	$ 2,872,776	$ 766,274

14. BOARD DESIGNATED INVESTMENTS, ENDOWMENTS AND RESTRICTED NET POSITION

Board Designated Investments

Board designated investments of $290,000 as of December 31, 2019 and 2018 are designated for future capital improvements at the Hospital.

Donor-Restricted – Expendable for Various Purposes

The Foundation has funds, which have been donated for specific purposes. The funds must be used for the donor specified purpose. Donor-restricted assets that are expendable for various purposes were approximately $37,000 and $137,000 as of December 31, 2019 and 2018, respectively.

Donor-Restricted – Nonexpendable Endowments

The Foundation maintains several permanent funds with donor-restricted endowments that totaled approximately $179,000 and $139,000 at December 31, 2019 and 2018, respectively. It is the Foundation's policy to transfer from the endowment funds to available funds an amount not to exceed 75% of the total return earned by the endowment. In this way, a portion of the total return will be added back to the principal of the fund to provide growth of the fund. The transfer of available funds shall also be limited in such a manner as to not decrease the designated principal of the fund. Available funds earned that are required to maintain the principal will not be transferred.

15. RETIREMENT PLANS

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

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

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 75. Please see the Plan Statement in the OPERS 2016 Comprehensive Annual Financial Report for details.

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

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

Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Retirement Plans

In accordance with GASB Statement No. 68 and 75, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension and OPEB liabilities and assets of the plans. Although changes in the net pension liabilities and assets generally are recognized as expense in the current period, certain items are deferred and recognized as expense in future periods. Deferrals for differences between projected and actual investment returns are amortized to pension expense over five years. Deferrals for employer contributions subsequent to the measurement date are amortized in the following period (one year). Other deferrals are amortized over the estimated remaining service lives of both active and inactive employees (amortization periods range from 3 to 10 years).

The collective net pension asset and liability of the retirement systems (GASB 68) and the Hospital's proportionate share of the net pension asset and liability as of December 31 are as follows:

	2019	2018
Net pension liability - all employers	$ 27,387,972,593	$ 15,688,061,327
Proportion of the net pension liability - Hospital	0.08702%	0.09125%
	$ 23,832,739	$ 14,315,199

	2019	2018
Net pension asset - all employers	$ 114,100,958	$ 139,622,518
Proportion of the net pension asset - Hospital	0.04918%	0.07782%
	$ 56,116	$ 108,650

Pension expense, relating to GASB 68, for the years ending December 31, 2019 and 2018 was $3,322,145 and $1,234,031, respectively.

The collective net OPEB liability of the retirement systems (GASB 75) and the Hospital's proportionate share of the net OPEB liability as of December 31 are as follows:

	2019	2018
Net OPEB liability - all employees	$ 13,037,639,421	$ 10,859,263,395
Proportion of the net OPEB liability - Hospital	0.084112%	0.089320%
	$ 10,966,220	$ 9,699,494

Other postemployment benefits expense, relating to GASB 75, for the years ended December 31, 2019 and 2018 was $803,061 and $822,682, respectively.

At December 31, 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred outflows of resources:		
Difference between expected and actual experience	$	3,118
Net difference between projected and actual earnings on pension plan		3,246,967
Assumption changes		2,087,313
Change in proportionate share		27,877
Difference between Hospital contributions and proportionate share of contributions		14,576
Employer contributions subsequent to the measurement date		1,730,464
Total	$	7,110,315
Deferred inflows of resources:		
Difference between expected and actual experience	$	335,473
Change in proportionate share		512,729
Difference between Hospital contributions and proportionate share of contributions		4,918
Total	$	853,120

At December 31, 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred outflows of resources:		
Difference between expected and actual experience	$	17,970
Assumption changes		1,720,311
Change in proportionate share		5,441
Difference between Hospital contributions and proportionate share of contributions		60,180
Employer contributions subsequent to the measurement date		1,708,023
Total	$	3,511,925
Deferred inflows of resources:		
Difference between expected and actual experience	$	313,962
Net difference between projected and actual earnings on pension plan assets		3,090,640
Change in proportionate share		94,822
Difference between Hospital contributions and proportionate share of contributions		3,235
Total	$	3,502,659

At December 31, 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources for OPEB from the following sources:

Deferred outflows of resources:		
Difference between expected and actual experience	$	3,713
Net difference between projected and actual earnings on OPEB plan assets		502,737
Assumption changes		353,564
Employer contributions subsequent to the measurement date		6,247
Total	$	866,261
Deferred inflows of resources:		
Difference between expected and actual experience	$	29,755
Change in proportionate share		379,273
Difference between Hospital contributions and proportionate share of contributions		11,871
Total	$	420,899

At December 31, 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources for OPEB from the following sources:

Deferred outflows of resources:		
Difference between expected and actual experience	$	7,556
Assumption changes		706,226
Total	$	713,782
Deferred inflows of resources:		
Difference between expected and actual experience	$	722,548
Difference between Hospital contributions and proportionate share of contributions		9,537
Total	$	732,085

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

2020	$ (1,875,291)
2021	(818,058)
2022	(304,613)
2023	(1,512,774)
2024	(3,292)
2025 and thereafter	(12,703)
Total	$ (4,526,731)

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

2020	$	(198,314)
2021		89,470
2022		(77,008)
2023		(253,263)
Total	$	(439,115)

Statutory Authority

Ohio Revised Code (ORC) Chapter 145

Benefit Formula

Pension: Benefits are calculated on the basis of age, final average salary (FAS), and service credit. State and Local members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.

OPEB: The ORC permits, but does not require, OPERS to offer post-employment health care coverage. The ORC allows a portion of the employers' contributions to be used to fund health care coverage. The health care portion of the employer contribution rate for the Traditional Pension Plan and Combined Plan is comparable, as the same coverage options are provided to participants in both plans. Beginning January 1, 2015, the service eligibility criteria for health care coverage increased from 10 years to 20 years with a minimum age of 60, or 30 years of qualifying service at any age. Beginning with January 2016 premiums, Medicare-eligible retirees could select supplemental coverage through the connector, and may be eligible for monthly allowances deposited to a health reimbursement account to be used for reimbursement of eligible health care expenses. Coverage for non-Medicare retirees includes hospitalization, medical expenses and prescription drugs. The OPERS determines the amount, if any of the associated health care costs that will be absorbed by the OPERS and attempts to control costs by using managed care, case management, and other programs.

Contribution Rates

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the ORC. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 0.0% during calendar year 2019. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2019 remained consistent at 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2019 and 2018 was 4.0%.

Cost-of-Living Adjustments

Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual cost-of-living adjustment is provided on the member's base pension benefit at the date of retirement and is not compounded. For those members retiring under the Combined Plan will receive a 3% cost-of-living adjustment for benefit portion of their pension benefit. Current law provides for a 3% cost-of-living adjustment for benefit recipients retiring prior to January 7, 2013. For those benefit recipients retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the cost-of-living adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

Measurement Date

December 31, 2018 (OPEB is rolled forward from December 31, 2017 actuarial valuation date).

Actuarial Assumptions

Valuation Date: December 31, 2018 for pension and December 31, 2017 for OPEB
Rolled Forward Measurement Date: December 31, 2018 for OPEB
Actuarial Cost Method: Individual entry age
Investment Rate of Return: 7.20% for pension and 3.96% for OPEB
Inflation: 3.25%
Projected Salary Increases: 3.25% - 10.75%
Cost-of-Living Adjustments: 3.00% Simple – for those retiring after January 7, 2013, 3.00% Simple through 2018, then 2.15% Simple.
Health Care Cost Trends: 10.0% initial, 3.25% ultimate in 2029

Mortality Rates

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

Date of Last Experience Study

December 31, 2015

Investment Return Assumptions

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

The following table displays the Board-approved asset allocation policy for defined benefit pension assets for 2018 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return *
Fixed Income	23%	2.8%
Domestic Equity	19%	6.2%
Real Estate	10%	4.9%
Private Equity	10%	10.8%
International Equity	20%	7.8%
Other Investments	18%	5.5%
Total	100%	

* Returns presented as arithmetic means

The following table displays the OPERS Board-approved asset allocation policy for health care assets for 2018 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return *
Fixed Income	34%	2.4%
Domestic Equity	21%	6.2%
Real Estate	6%	6.0%
International Equity	22%	7.8%
Other Investments	17%	5.6%
Total	100%	

* Returns presented as arithmetic means

Discount Rate

Pension: The discount rate used to measure the total pension liability was 7.2% for the Traditional Pension Plan, the Combined Plan and the Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB: A discount rate of 3.96% was used to measure the total OPEB liability on the measurement date of December 31, 2018. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contribution for use with the long-term expected rate were not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00% and a municipal bond rate of 3.71%. The projected cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contributions rate. Based on those assumptions, the OPEB plan's fiduciary net position and future contributions were sufficient to finance health care costs through 2031. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.

Health Care Cost Trend Rate

A health care cost trend rate of 10.0% was used to measure the total OPEB liability on the measurement date of December 31, 2018. Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 10.0%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near wage inflation (3.25%).

Sensitivity of Net Pension Liability to Changes in Discount Rate

1% Decrease (6.20%)	Current Rate (7.20%)	1% Increase (8.20%)
$ 35,207,887	$ 23,832,739	$ 14,379,890

Sensitivity of Net Pension Asset to Changes in Discount Rate

1% Decrease (6.20%)	Current Rate (7.20%)	1% Increase (8.20%)
$ 18,669	$ 56,116	$ 83,559

Sensitivity of Net OPEB Liability to Changes in Discount Rate

1% Decrease (2.96%)	Current Rate (3.96%)	1% Increase (4.96%)
$ 14,029,882	$ 10,966,220	$ 8,529,798

Sensitivity of Net OPEB Liability to Changes in Health Care Cost Trend Rate

1% Decrease (9.00%)	Current Rate (10.00%)	1% Increase (11.00%)
$ 10,540,916	$ 10,966,220	$ 11,456,054

The amount of contributions recognized by the Hospital relating to the pensions for the years ending December 31, 2019 and 2018 were approximately $1,730,464 and $1,708,023, respectively.

The amount of contributions recognized by the Hospital relating to the OPEB plan for the years ending December 31, 2019 and 2018 were approximately $6,247 and $0, respectively.

16. RELATED PARTIES

Hocking Valley Community Hospital Memorial Fund, Inc.

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

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

Hocking Valley Medical Group, Inc. (HVMG)

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

During the years ended December 31, 2019 and 2018, the Hospital disbursed funds totaling $2,880,000 and $3,415,000 on behalf of the Foundation to fund operating deficits, respectively. These amounts were paid to the Foundation who, acting as fiscal agent, remitted the funds to HVMG. As of December 31, 2019 and 2018, the Hospital has a receivable from HVMG of $215,509 and $79,345, respectively. These receivables are included in prepaid expenses and other assets on the Statements of Net Position.

During the year ended December 31, 2018, the Foundation entered into a rental agreement with HVMG; refer to Note 17 for more information.

Hocking Valley Health Services

Hocking Valley Health Services (HVHS) is a not-for-profit membership corporation located in Logan, Ohio. The purpose of HVHS is to provide healthcare and physician services and to own, lease, operate and/or provide healthcare facilities for the promotion of health in the area served by the Hospital. Additionally, HVHS is to conduct strategic healthcare planning and otherwise operate exclusively for the benefit and support of the Board of Trustees of the Hospital. The Board of Trustees of HVHS is elected by HVHS' members. The Board of Trustees of the Hospital controls 50% of the voting rights of the HVHS Board. HVHS has not entered into any financial activities as of or for the years ended December 31, 2019 and 2018. Therefore, the Hospital's financial statements exclude the activities of HVHS.

17. RENTAL AGREEMENTS

In May 2018, the Foundation entered into an agreement with Hocking Valley Medical Group, Inc. and Jeffrey A. Blankenbeckler, D.D.S., LTD to rent property to be used as office space from May 2018 to April 2021. During 2019 and 2018, $96,000 and $51,297, respectively, was recognized as rental income. A schedule of the remaining minimum rental payments is below:

Year ended December 31,	
2020	$ 96,000
2021	32,000
	$ 128,000

The related cost and accumulated depreciation for the leased asset as of December 31, 2019 and 2018 is as follows:

	2019	2018
Land	$ 792,454	$ 792,454
Building	916,499	916,499
Less: Accumulated Depreciation	34,356	11,444
	$ 1,674,597	$ 1,697,509

18. SOFTWARE LICENSING AGREEMENT

In December 2016, the Hospital entered into an agreement with OSUWMC to transition from the current Electronic Medical Record System to the Epic platform.

This agreement provided for the use of the system for a period of ten years. The initial implementation cost of $2,959,273, payable to OSUWMC, are to be paid in equal monthly installments over sixty months beginning in June 2017. In March 2018, when the system went live, the remaining balance of $2,130,549 was converted to a note payable due in May 2022. See Note 9 for additional information. The implementation costs are considered an intangible asset and are included in capital assets on the statements of net position. The implementation costs are being amortized on a straight-line basis over the ten year term of the agreement.

Beginning in March 2018, the Hospital began making monthly maintenance expense payments of $62,138 for a period of ten years. The monthly maintenance expense is subject to adjustment annually based on volumes and other factors. Management does not anticipate substantial adjustments to the maintenance expense over the remaining term of the contract.

19. SUBSEQUENT EVENTS

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Hospital and Foundation. The Foundation’s investment portfolio and the investments of the pension and other employee benefit plan in which the Hospital participates have incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Hospital and Foundation future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

Subsequent to the statement of net position date, the Hospital received a low interest loan in the amount of $3,659,562 under the Paycheck Protection Program (PPP) administered by the Small Business Administration. The PPP loan is unsecured, bears interest at 1% and funds advanced under the program are subject to forgiveness, if certain criteria is met with the remaining balance repayable within two years of disbursement. The PPP loan may be forgivable to the extent that employers incur and spend the funds on qualified expenditures, which include payroll, employee health insurance, rent, utilities and interest costs during the covered period (the 8-week period beginning on loan origination). In addition, employers must maintain specified employment and wage levels during the pandemic, and submit adequate documentation of such expenditures to qualify for loan forgiveness.

20. GOING CONCERN ISSUES ARISING FROM RECURRING LOSSES AND MANAGEMENT'S PLANS

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the Hospital as a going concern. The Hospital had an operating loss of $3,164,322 and $2,283,661 for 2019 and 2018, respectively. The Hospital also had a total decrease in net position of $5,596,718 and $5,941,573 for 2019 and 2018 respectively. $4,125,206 and $2,056,713 of the decrease in net position related to GASB 68 and GASB 75 in 2019 and 2018, respectively. The Hospital's current liabilities exceed their current assets at December 31, 2019. These factors could be indicative of the Hospital's inability to continue as a going concern.

The Hospital also identified opportunities to increase reimbursement and net revenue by approximately $4,000,000. This expected increase is attributable to the following factors:

- Continued utilization of additional swingbed capacity. In June 2019 the Hospital increased this capacity by seven beds.
- An increase in provider coverage for the pain management clinic.
- Additional utilization of 340b contract pharmacy benefits.
- A change in in the psychiatric clinic to a hospital based clinic. This is expected in increase reimbursement for this clinic.
- A change in the majority of the HVMG practices to a rural health clinic and a change in the HVMG orthopedic and general surgery practices to hospital based clinics. These changes are expected to increase reimbursement for HVMG and in turn reduce payments from the Hospital to HVMG.
- Based on the Ohio Hospital Association's expected funding of the upper payment limit program management is anticipating an increase in receipts from that program of approximately $1,200,000.

Due to the impact of COVID-19, and the Governor's mandate to cease all non-essential procedures, the above projections have experienced short term reductions in volume, affecting the projections for 2020. Currently, there is less than one month of data to use to determine long term affects. Non-emergent cases can resume May 1, 2020, however, it is difficult to determine how long it will take to build procedures back up to capacity. The Hospital has worked to secure funding from all available avenues to offset the losses due to the COVID-19 pandemic including:

- Securing a $3,659,562 PPP Loan, see Note 19, and management is working to accurately account for all related forgivable expenses to maximize loan forgiveness under this program.
- Receiving approximately $5,400,000 million in Medicare Advanced Payments to use as internal line of credit to regulate cash flow.
- The Hospital will receive a Bureau of Worker's Compensation rebate for approximately $54,000.
- The Hospital was awarded a Critical Access Hospital grant in the amount of $87,000.
- To date, the Hospital has received healthcare funding $662,000 from the $100 billion Coronavirus Aid, Relief, and Economic Security Act passed by the United States Congress on March 27, 2020. Although, there is still additional funding to be released and an additional $75 billion was passed on April 23, 2020, there has been no information on how this money will be distributed to hospitals and how much in additional funding, if any, the Hospital will receive.
- Thanks to the Hospital's electronic health record, Epic, the Hospital has had a smooth transition to telemedicine visits for their outpatient provider clinics. The Hospital was able to provide telehealth visits for their patients the same week the stay at home order was issued.
- The Hospital temporarily doubled bed capacity in conjunction with the 1135 waiver issued by CMS, which lifted the Critical Access Hospital bed limit from 25 during the national emergency. This will allow the Hospital to not only surge patient volumes if the community need arises, but can will provide support to neighboring communities as well.

Although this is a time of uncertainty around the world, the Hospital continues to adapt to the environment through identifying cost saving measures and providing services that meet the needs of the community. The Hospital has carefully planned cash flow through the end of 2020 to ensure they can continue moving forward with their mission of providing care close to home now and into the future, a mission that has become more important now, than ever.

Because it is not possible at this time to predict the success of the Hospital's future plans and there is no assurance that these plans will be realized, substantial doubt remains regarding the Hospital's ability to continue as a going concern. The Hospital's continued existence is dependent on its ability to achieve profitable operations, positive cash flows, and to maintain adequate financing.

21. RECENT GASB PRONOUNCEMENTS

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

GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governmental entities. The focus of the criteria generally is on (1) whether a government entity is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. As a result, pension and other postemployment benefit plans (both defined contribution plans and defined benefit plans) should now be reported within the statement of fiduciary net position and statement of changes in fiduciary net position of the governmental entity. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 84, *Fiduciary Activities*, by one year. GASB Statement No. 84 will be effective for periods beginning after December 15, 2019.

GASB Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 87, *Leases*, by 18 months. GASB Statement No. 87 will be effective for periods beginning after June 15, 2021.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, , which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 89, *Accounting for Interest Cost* Incurred before the End of a Construction Period, by one year. GASB Statement No. 89 will be effective for periods beginning after December 15, 2020.

SUPPLEMENTARY INFORMATION

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

REQUIRED SUPPLEMENTARY INFORMATION ON GASB 68 PENSION LIABILITIES (UNAUDITED)
DECEMBER 31, 2019, 2018, 2017, 2016, 2015, 2014, AND 2013

Schedule of Proportionate Share of the Net Pension Liability (rounded to the nearest 1,000)	2019	2018	2017	2016	2015	2014	2013
Hospital proportion of the collective net pension liability	0.08702%	0.09125%	0.09173%	0.09182%	0.09747%	*	*
Hospital proportionate share of the net pension liability	$ 23,833,000	$ 14,315,000	$ 20,829,000	$ 15,905,000	$ 11,755,000	*	*
Hospital proportion of the collective net pension asset	0.04918%	0.07782%	0.08822%	0.98890%	0.10021%	*	*
Hospital proportionate share of the net pension asset	$ 56,000	$ 109,000	$ 49,000	$ 48,000	$ 39,000	*	*
Hospital covered payroll	$ 12,200,000	$ 12,481,000	$ 12,515,000	$ 11,789,000	$ 12,692,000	*	*
Hospital proportionate share of the net pension liability as a percentage of its covered payroll	194.9%	113.8%	166.0%	134.5%	92.3%	*	*
Plan fiduciary net position as a percentage of the total pension liability	74.9%	84.9%	77.4%	81.2%	86.5%	*	*
Schedule of Hospital Contributions (rounded to the nearest 1,000)							
Contractually required contribution	$ 1,730,000	$ 1,708,000	$ 1,623,000	$ 1,502,000	$ 1,415,000	$ 1,523,000	$ 1,630,000
Contributions in relation to the contractually required contribution	$ 1,730,000	$ 1,708,000	$ 1,623,000	$ 1,502,000	$ 1,415,000	$ 1,523,000	$ 1,630,000
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 12,405,000	$ 12,200,000	$ 12,481,000	$ 12,515,000	$ 11,789,000	$ 12,692,000	$ 12,537,000
Contributions as a percentage of covered payroll	13.95%	14.0%	13.0%	12.0%	12.0%	12.0%	13.0%

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

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

REQUIRED SUPPLEMENTARY INFORMATION ON GASB 75 OTHER POSTEMPLOYMENT BENEFIT LIABILITIES (UNAUDITED)
DECEMBER 31, 2019, 2018, 2017, 2016, 2015, 2014, AND 2013

Schedule of Proportionate Share of the Net OPEB Liability (rounded to the nearest 1,000)	2019	2018	2017	2016	2015	2014	2013
Hospital proportion of the collective net OPEB liability	0.08411%	0.08932%	*	*	*	*	*
Hospital proportionate share of the net OPEB liability	$ 10,966,000	$ 9,699,000	*	*	*	*	*
Hospital covered payroll	$ 12,200,000	$ 12,481,000	$ 12,515,000	$ 11,789,000	$ 12,692,000	*	*
Hospital proportionate share of the net OPEB liability as a percentage of its covered payroll	89.9%	77.7%	*	*	*	*	*
Plan fiduciary net position as a percentage of the total OPEB liability	46.3%	54.1%	*	*	*	*	*
Schedule of Hospital Contributions							
Contractually required OPEB contribution	$ 6,000	$ -	$ 125,000	$ 250,000	$ 236,000	$ 254,000	$ 125,000
Contributions in relation to the contractually required contribution	$ 6,000	$ -	$ 125,000	$ 250,000	$ 236,000	$ 254,000	$ 125,000
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 12,405,000	$ 12,200,000	$ 12,481,000	$ 12,515,000	$ 11,789,000	$ 12,692,000	$ 12,537,000
Contributions as a percentage of covered payroll	0.05%	0.0%	1.0%	2.0%	2.0%	2.0%	1.0%

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

*: This information was not available prior to 2018.

1. Defined Benefit Pension Plans

Changes of Benefit Terms

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

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

Changes of Assumptions

In 2016, the OPERS' Board of Trustees' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions for the actuarial valuation as of December 31, 2018, used for the Hospital's 2019 fiscal year. Amounts reported in the Hospital's 2019 fiscal year for the OPERS pension plans reflect the following change of assumptions from the amounts reported for the 2018 fiscal year based on the experience study:

- Actuarially assumed expected rate of investment return decreased from 7.5 percent to 7.2 percent.
- Projected salary increases range changed from 4.25 percent – 10.05 percent to 3.25 percent – 10.75 percent for the Traditional Pension Plan and changed from 4.25 percent – 8.05 percent to 3.25 percent – 8.25 percent.
- Mortality assumptions increased to reflect longer life expectancies.

2. Defined Benefit Postemployment Benefits other than Pensions

   Changes of Assumptions

   Amounts reported in 2018 for OPERS reflect the following changes in assumptions based on an experience study for the five year period ending December 31, 2015:

   - Wage inflation assumption decreased from 3.75 percent to 3.25 percent.
   - Health care cost trend rate decreased from 7.50 percent, before levelling off to 3.75 percent in 2028 to 10.0 percent, before levelling off to 3.25 percent in 2029.
   - Mortality assumptions increased to reflect longer life expectancies.

CPAs / ADVISORS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities and the aggregate discretely presented component unit of Hocking Valley Community Hospital (the "Hospital") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon May 26, 2020, which contained an emphasis of matter paragraph regarding substantial doubt about the Hospital's ability to continue as a going concern.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, unidentified material weaknesses may exist.

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

Compliance and Other Matters

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

Purpose of this Report

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

Blue & Co., LLC

Westerville, Ohio
May 26, 2020

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OHIO AUDITOR OF STATE
KEITH FABER

HOCKING VALLEY COMMUNITY HOSPITAL

HOCKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 25, 2020