

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Financial Report
December 31, 2016



Dave Yost • Auditor of State

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 RSM US LLP, for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

June 7, 2017

This page intentionally left blank.

Contents

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Statements of Net Position	8-9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11-12
Notes to Financial Statements	13-39

Supplementary Information	
Schedule of the Hospital's Contributions	
Ohio Public Employees Retirement System (OPERS) Traditional Pension Plan	40
Ohio Public Employees Retirement System (OPERS) Combined Plan	40
Ohio Public Employees Retirement System (OPERS) Member Directed Plan	40
Schedule of the Hospital's Proportionate Share of the Net Pension Asset/Liability	
Ohio Public Employees Retirement System (OPERS) Traditional Pension Plan	41
Ohio Public Employees Retirement System (OPERS) Combined Plan	41
Ohio Public Employees Retirement System (OPERS) Member Directed Plan	41
Statements of Net Position	42-43
Statements of Revenues, Expenses and Changes in Net Position	44
Statements of Cash Flows	45-46

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	47-48
---	-------



RSM US LLP

Independent Auditor's Report

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 years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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 Hocking Valley Community Hospital, as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-7 as well as the pension related data on pages 40-41 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hocking Valley Community Hospital's basic financial statements. The supplementary information, which is comprised of the Statements of Net Position of Hocking Valley Community Hospital as of December 31, 2016 and 2015, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows for the years then ended, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statements of Net Position as of December 31, 2016 and 2015, the Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows for the years ended December 31, 2016 and 2015, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2017 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

RSM US LLP

Cleveland, Ohio
April 28, 2017

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

**Management's Discussion and Analysis
December 31, 2016
(Dollars in Thousands)**

Management's Discussion and Analysis

The discussion and analysis of Hocking Valley Community Hospital's (the Hospital's) financial performance provides an overview of the Hospital's financial activities for the years ended December 31, 2016 and 2015. Please read it in conjunction with the Hospital's financial statements, which begin on page 8. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Hospital's net position increased by \$1,372 or 49% in 2016.
- The Hospital reported operating income of \$3,054 in 2016.
- Total operating revenues increased from 2015 to 2016 by \$1,869 or 5%.
- The Hospital expended \$2,285 in 2016 in support of Hocking Valley Medical Group, Inc.
- The Hospital had an excess of revenues over expenses before capital grants and contributions of \$1,372 in 2016.
- The Hospital made significant capital additions totaling \$2,098 in 2016, of which \$508 were funded from operations, \$973 were funded from Ohio Air Quality Development Authority (OAQDA) financing, and \$617 were financed through capital lease obligations.

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?"

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

**Management's Discussion and Analysis
December 31, 2016
(Dollars in Thousands)**

Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Statements of Net Position on page 9. The Hospital's net position increased by \$1,372 or 49% and in 2016.

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

	2016	2015	2014
Assets and Deferred Outflows of Resources			
Current assets and other assets	\$ 13,625	\$ 9,448	\$ 9,020
Noncurrent assets	268	259	-
Capital assets, net	10,526	10,043	10,725
Total assets	24,419	19,750	19,745
Deferred outflows of resources	6,195	2,048	-
Total Assets and Deferred Outflows of Resources	\$ 30,614	\$ 21,798	\$ 19,745
Liabilities, Deferred Inflows of Resources and Net Position			
Current liabilities	\$ 6,248	\$ 5,127	\$ 6,403
Long-term obligations	19,394	13,632	2,049
Total liabilities	25,643	18,759	8,452
Deferred inflows of resources	778	218	-
Net Position			
Net investment in capital assets	6,860	7,865	8,445
Unrestricted	(2,667)	(5,044)	2,848
Total net position	4,193	2,821	11,293
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 30,614	\$ 21,798	\$ 19,745

A significant component of the Hospital's assets are capital assets. Capital assets, net, increased by \$483, or 5% in 2016. Fixed assets acquired by the Hospital were \$2,098 in 2016. These additions were offset by depreciation and amortization of \$1,615. Capital assets, net, decreased by \$683, or 6% in 2015. Fixed assets acquired by the Hospital were \$963 in 2015. These additions were offset by depreciation and amortization of \$1,646.

Long-term obligations increased in 2015 as well as beginning net position was restated as a net pension liability was recognized in the amount of \$11,775 due to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

**Management's Discussion and Analysis
December 31, 2016
(Dollars in Thousands)**

Operating Results and Changes in the Hospital's Net Position

Table 2: Change in Revenues and Expenses

	2016	2015	2014
Revenues			
Net patient service revenue	\$ 36,616	\$ 34,767	\$ 33,882
Other	691	671	573
Total operating revenue	37,307	35,438	34,455
Expenses			
Salaries and wages	12,957	12,433	13,253
Employee benefits	5,767	5,162	5,603
Supplies and other	8,230	7,247	7,253
Professional fees and services	5,541	5,004	4,844
Depreciation and amortization	1,615	1,646	1,558
Insurance	143	261	139
Total operating expenses	34,253	31,753	32,650
Operating income	3,054	3,685	1,805
Nonoperating revenues (expenses)	(1,682)	(2,156)	(1,759)
Capital grants and contributions	-	-	128
Change in net position	\$ 1,372	\$ 1,529	\$ 174

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

Net patient service revenue increased \$885 or 3% from 2014 to 2015. This increase was primarily due to a 3% price increase that was effective January 1, 2015 as well as an increase in outpatient and emergency department volumes over 2014.

Salaries and wages increased 4% from 2015 to 2016. This was due to a change in the pay scale to recognize up to 10 years experience as opposed to 5 years maximum in years past. This change was necessary to remain competitive in the market to attract experienced, highly qualified staff.

Salaries and wages decreased 6% from 2014 to 2015. This is primarily attributed to the closure of two low performing service lines, the Patio Shop and the Occupational Health Department. The hospital also completed an in-depth review of productivity and reduced hours across the entire organization. This included making changes to the low census call policy as well as the staffing requirements in the ICU.

Professional fees and services increased by 11% from 2015 to 2016. This was related to a change in the hours of operation of the Urgent Care department to open an hour earlier and close an hour later each day. Professional fees and services increased by 3% from 2014 to 2015. This was primarily related to an entire year of locum coverage for a psychiatrist as well as an increase in computer fees related to the implementation of Meaningful Use II requirements for electronic health records.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

**Management's Discussion and Analysis
December 31, 2016
(Dollars in Thousands)**

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 table below presents the percentages of net revenue for patient services by payor, for the years ended December 31, 2016, 2015 and 2014.

	2016	2015	2014
Medicare	54%	51%	50%
Medicaid	12%	11%	7%
Self-Pay	4%	3%	3%
Commercial and other	30%	35%	40%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

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 income of \$3,054 in 2016, \$3,685 in 2015 and \$1,805 in 2014.

The decrease in the Hospital's total operating income in 2016 of \$631, or 17% from 2015 is the result of restructuring the pay scale to reflect 10 years of experience, an increase in the pension liability and an increase in supply cost related to higher outpatient volumes. Some of the increase in operating expense was offset by the fact that the Hospital increased gross charge rates 3% in 2016.

The increase in the Hospital's total operating income in 2015 of \$1,880, or 104% from 2014 is the result of conducting an operations analysis across the entire organization. This resulted in closing two unprofitable service lines, decreasing staff, and reducing costs in nearly every department. The Hospital increased gross charge rates 3% in 2015.

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 \$736 were waived under the Hospital's charity care policy during 2016 as compared to \$823 in 2015. The decrease in charity care is due to a change made to the Hospital Based Charity Care Program that would encourage patients to apply for Medicaid or marketplace insurance before becoming eligible.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

**Management's Discussion and Analysis
December 31, 2016
(Dollars in Thousands)**

Nonoperating Revenues (Expenses)

The Hospital's net investment income amounted to \$8 and \$12 in 2016 and 2015, respectively. The Hospital provided funding to the Hocking Valley Medical Group, Inc. of \$2,285 and \$2,039 in 2016 and 2015, respectively.

Capital Assets and Debt Administration

Capital Assets

The Hospital had \$10,526 and \$10,043 net investment in capital assets at December 31, 2016 and 2015, respectively. The Hospital acquired or constructed capital assets in the amount of \$2,098 and \$963 during 2016 and 2015, respectively.

Debt

The Hospital had \$3,666 and \$2,178 in bond, notes and capital lease obligations outstanding at December 31, 2016 and 2015, respectively. Additionally, the Hospital has a line of credit with a local bank. The amount borrowed on the line of credit was \$400 and \$376 at December 31, 2016 and 2015, respectively.

Contacting the Hospital's Financial Management

This 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, 2016 and 2015

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2016	2015	2016	2015
Assets and Deferred Outflows of Resources				
Current assets:				
Cash and cash equivalents	\$ 1,709,109	\$ 864,443	\$ 496,135	\$ 479,656
Patient accounts receivable, net of allowance of \$2,191,000 and \$1,338,000 in 2016 and 2015, respectively	7,071,611	5,484,344	-	-
Certificates of deposit	34,727	34,727	-	-
Investments	746,570	469,570	252,549	208,882
Inventories	316,067	424,799	-	-
Current portion of note receivable	-	-	-	344,985
Deposits for South Central Ohio Insurance Consortium	460,256	566,197	-	-
Estimated amounts due from third-party payors	878,919	-	-	-
Prepaid expenses and other assets	2,407,511	1,603,851	-	106,356
Total current assets	13,624,770	9,447,931	748,684	1,139,879
Noncurrent assets:				
Certificates of deposit	219,650	219,650	295,176	290,776
Net pension asset	48,498	39,173	-	-
Restricted investments	-	-	262,340	242,041
Total noncurrent assets	268,148	258,823	557,516	532,817
Capital assets:				
Land and construction in progress	1,110,466	376,192	161,834	161,834
Buildings, land improvements and equipment, net	9,415,474	9,666,702	417,688	446,246
Capital assets, net	10,525,940	10,042,894	579,522	608,080
Total assets	24,418,858	19,749,648	1,885,722	2,280,776
Deferred outflows of resources				
Pensions	6,195,439	2,048,395	-	-
Total deferred outflows of resources	6,195,439	2,048,395	-	-
Total assets and deferred outflows of resources	\$ 30,614,297	\$ 21,798,043	\$ 1,885,722	\$ 2,280,776

See notes to financial statements.

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statements of Net Position
December 31, 2016 and 2015

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2016	2015	2016	2015
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities:				
Line of credit	\$ 400,000	\$ 375,500	\$ -	\$ -
Current portion of capital lease obligations	472,606	362,643	-	-
Current portion of long-term debt	284,917	509,985	-	-
Accounts payable and accrued expenses	3,410,214	2,584,306	3,036	3,036
Accrued payroll and related liabilities	548,221	525,988	-	-
Unearned revenue	534,463	-	-	-
Self-insurance liabilities	284,912	380,581	-	-
Estimated amounts due to third-party payors	-	80,000	-	-
Current portion of accrued vacation and sick leave	312,926	307,605	-	-
Total current liabilities	6,248,259	5,126,608	3,036	3,036
Noncurrent liabilities, net of current portions:				
Accrued vacation and sick leave	581,150	571,267	-	-
Capital lease obligations	773,790	764,997	-	-
Net pension liability	15,904,901	11,755,379	-	-
Long-term debt	2,134,633	540,642	-	-
Total noncurrent liabilities	19,394,474	13,632,285	-	-
Total liabilities	25,642,733	18,758,893	3,036	3,036
Deferred inflows of resources:				
Pensions	778,326	218,472	-	-
Total deferred inflows of resources	778,326	218,472	-	-
Net Position				
Net investment in capital assets	6,859,994	7,864,627	579,522	608,080
Restricted, nonspendable	-	-	139,236	139,236
Restricted, program activities	-	-	123,104	102,805
Unrestricted	(2,666,756)	(5,043,949)	1,040,824	1,427,619
Total net position	4,193,238	2,820,678	1,882,686	2,277,740
Total liabilities, deferred inflows of resources and net position	\$ 30,614,297	\$ 21,798,043	\$ 1,885,722	\$ 2,280,776

See 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, 2016 and 2015

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2016	2015	2016	2015
Operating revenues:				
Net patient service revenue	\$ 36,616,313	\$ 34,767,271	\$ -	\$ -
Other operating revenue	690,672	670,867	50,050	84,231
Total operating revenues	37,306,985	35,438,138	50,050	84,231
Operating expenses:				
Salaries and wages	12,957,148	12,432,936	-	-
Employee benefits	5,767,380	5,162,035	-	-
Supplies and other expenses	8,230,283	7,247,002	28,933	22,029
Professional fees and services	5,540,660	5,004,472	-	-
Depreciation and amortization	1,614,617	1,645,743	28,558	28,557
Insurance	142,545	261,395	-	-
Total operating expenses	34,252,633	31,753,583	57,491	50,586
Operating income	3,054,352	3,684,555	(7,441)	33,645
Nonoperating revenues (expenses):				
Grants to The Hocking Valley Community Hospital Memorial Fund, Inc.	(2,285,000)	(2,039,000)	-	-
Net investment income	7,591	12,301	41,182	5,890
Interest expense	(125,296)	(147,064)	-	-
Other nonoperating income	536,225	17,600	-	-
Grant expenses and support	-	-	(530,452)	(34,345)
Noncapital grants and contributions	184,688	176	101,657	115,283
Total nonoperating revenues (expenses)	(1,681,792)	(2,155,987)	(387,613)	86,828
Increase in net position	1,372,560	1,528,568	(395,054)	120,473
Net position, beginning of year	2,820,678	1,292,110	2,277,740	2,157,267
Net position, end of year	\$ 4,193,238	\$ 2,820,678	\$ 1,882,686	\$ 2,277,740

See 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, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from patients and third party payors	\$ 34,604,590	\$ 34,228,559
Cash paid to employees for wages and benefits	(18,514,664)	(18,273,377)
Cash paid to vendors for goods and services	(13,200,418)	(12,804,342)
Other receipts	690,674	670,867
Net cash provided by operating activities	3,580,182	3,821,707
Cash flows from noncapital financing activities:		
Contributions	184,688	176
Payments on line of credit	(375,500)	(20,500)
Borrowings on line of credit	400,000	-
Grants to The Hocking Valley Community Hospital Memorial Fund, Inc.	(2,285,000)	(2,039,000)
Net cash used in noncapital financing activities	(2,075,812)	(2,059,324)
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	1,918,748	-
Repayment of long-term debt	(207,239)	(160,000)
Repayment of capital lease obligations	(498,325)	(429,034)
Interest paid on long-term debt	(122,897)	(144,666)
Purchase of capital assets	(1,480,582)	(479,097)
Net cash used in capital and related financing activities	(390,295)	(1,212,797)
Cash flows from investing activities:		
Investment income	7,591	12,301
Investment purchases and reinvestments	(277,000)	(1,855)
Net cash (used in) provided by investing activities	(269,409)	10,446
Net increase in cash and cash equivalents	844,666	560,032
Cash and cash equivalents:		
Beginning	864,443	304,411
Ending	\$ 1,709,109	\$ 864,443

(Continued)

(A Component Unit of Hocking County, State of Ohio)

Statements of Cash Flows (Continued)
Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,054,352	\$ 3,684,555
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,614,617	1,645,743
Provision for bad debts	2,954,238	2,194,033
Changes in:		
Patient accounts receivable	(4,541,505)	(2,794,629)
Inventories, prepaid expenses and other assets	(588,987)	532,605
Deferred outflows of resources	(4,147,044)	(569,851)
Net pension asset	(9,325)	(28,496)
Accounts payable, accrued expenses and unearned revenue	1,551,611	(824,078)
Accrued payroll and related liabilities	22,233	(512,501)
Self-insurance liabilities	(95,669)	49,658
Estimated amounts due to/from third-party payors	(958,919)	61,884
Net pension liability	4,149,522	265,514
Accrued vacation and sick leave	15,204	(101,202)
Deferred inflows of resources	559,854	218,472
Net cash provided by operating activities	\$ 3,580,182	\$ 3,821,707
Supplemental disclosure of noncash operating activities:		
Rent and interest expense forgiven by related party	\$ 191,240	\$ -
Supplemental disclosure of noncash capital financing activities:		
Assets acquired under capital lease obligations	\$ 617,081	\$ 484,395
Current and long term related party debt forgiven	\$ 344,985	\$ -

See notes to financial statements.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 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 statutes 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 is a legally separate not-for-profit corporation. 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.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The Hospital reports a single business-type activity, which requires the following financial statements and required supplementary information:

- Management's Discussion and Analysis
- Basic Financial Statements including Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows, for the Hospital as a whole
- Notes to Financial Statements
- Schedules of Hospital's Contributions and Schedules of Hospital's Proportionate Share of Net Pension Asset/Liability

The Hospital is accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the Hospital's operations are included in the Statements of Net Position. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

The Hospital's fiscal year is the calendar year. Pursuant to Ohio law, the Hospital submits a budget to the County for approval by November 1 of each year. The fundamental purpose of the budget is to plan for an expected level of operations and to provide management with a tool to control deviation from such a plan. The budget is prepared on an accrual basis.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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

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.

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

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

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

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

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

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

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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 after 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 position of the Hospital is classified into several components as follows:

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 provisions 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 of or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital is self-insured for employee health insurance. For the employee health claims, a historical analysis has been performed of incurred but not reported claims to determine the liability at December 31, 2016 and 2015. For medical malpractice, the Hospital has professional liability insurance with a commercial carrier.

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

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

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

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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.

Concentration risk: Financial instruments that potentially subject the Hospital and the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and for the Hospital, patient accounts receivable.

The Hospital and the Foundation place their cash and cash equivalents with high credit quality financial institutions.

As it relates to the Hospital, concentration of credit risk relating to patient accounts receivable is limited to some extent by the diversity and number of the patients and payors. Patient accounts receivable consists of amounts due from government programs, commercial insurance companies, private pay patients, and other group insurance programs. Excluding governmental programs, no payor source represents more than 10% of the patient accounts receivable. The Hospital maintains an allowance for doubtful accounts based on the expected collectability of patient accounts receivable.

Upper payment limit: In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the Centers for Medicare and Medicaid Services (CMS). This program provides access to available federal funding up to 100% of the Medicare upper payment limits for inpatient hospital services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. The Hospital received \$890,707 and \$753,504 in UPL payments in 2016 and 2015, respectively, which are reflected in net patient service revenue. Additionally, the Hospital received 2017 UPL payments in advance which are reflected in the Statements of Net Position as unearned revenue. These amounts will be recorded as revenue in the following year.

Franchise fee: Effective July 1, 2009, the State of Ohio began assessing a franchise fee to hospitals to fund health care programs. The Hospital incurred franchise fee expense of \$453,323 and \$469,761 in 2016 and 2015, respectively, and recorded the amount in supplies and other expenses in the Statements of Revenues, Expenses and Changes in Net Position. There was no franchise fee liability payable to the State of Ohio at December 31, 2016 and 2015.

Hospital Care Assurance Program (HCAP): As a public health care provider, the Hospital renders services to residents of Hocking County and others regardless of ability to pay. HCAP is the Ohio Department of Job and Family Services' mechanism for meeting the federal requirement to provide additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. HCAP amounts included in net patient service revenue amount to \$1,390,618 and \$1,096,146 for the years ended December 31, 2016 and 2015, respectively, which represents the difference between the Hospital's 2016 and 2015 allocations in the amount of \$1,619,079 and \$1,316,962, and the assessments paid by the Hospital in the amount of \$228,461 and \$220,816, respectively. Included in prepaid expenses and other assets at December 31, 2016 and 2015 is \$1,619,079 and \$1,316,962, respectively, related to HCAP.

Charity care: The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. Charges forgone under the Hospital's charity care policy were \$735,649 and \$823,479 in 2016 and 2015, respectively.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 3. Changes in Accounting Principles and Recent Accounting Pronouncements

GASB has issued the following statements that have been recently implemented by the Hospital:

GASB Statement No. 72, *Fair Value Measurement and Application* – This Statement addresses accounting and financial reporting issues related to fair value measurements, including, but not limited to, providing guidance for determining fair value measurements for financial reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for periods beginning after June 15, 2015. The Hospital implemented the provisions of this Statement for the year ending December 31, 2016.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* – This Statement supersedes GASB Statement No. 55 and reduces the existing hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the source of authoritative GAAP. The Hospital implemented the provisions of this Statement for the year ending December 31, 2016.

GASB Statement No. 77, *Tax Abatement Disclosures* – This Statement requires disclosure of tax abatement information about the reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. For financial reporting purposes, tax abatement is defined as resulting from an agreement between a government and an individual or entity in which the government promised to forgo tax revenues and the individual or entity subsequently takes specific action to contribute to the economic development or other benefits of the government. The Hospital implemented the provisions of this Statement for the year ending December 31, 2016. There was no significant impact to the financial statements as a result of the application of this standard.

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* – This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that is not a state or local governmental pension plan; is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The Hospital implemented the provisions of this Statement for the year ending December 31, 2016. There was no significant impact to the financial statements as a result of the application of this standard.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* – This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets certain criteria. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. The Hospital implemented the provisions of this Statement for the year ending December 31, 2016. There was no significant impact to the financial statements as a result of the application of this standard.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 3. Changes in Accounting Principles and Recent Accounting Pronouncements (Continued)

GASB has issued the following statements not yet implemented by the Hospital:

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68 – The objective of this Statement is to establish requirements for defined benefit pension plans that are not administered through a trust meeting specified criteria. Additionally, this Statement amends certain provisions of GASB Statement Nos. 67 and 68. This Statement is effective for periods beginning after June 30, 2015, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for periods beginning after June 30, 2016.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement is effective for periods beginning after June 15, 2017.

GASB Statement No. 80, Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14 – This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. This Statement is effective for reporting periods beginning after June 15, 2016.

GASB Statement No. 81, Irrevocable Split-Interest Agreements – The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement is effective for periods beginning after December 15, 2016.

GASB Statement No. 82, Pension Issues – An amendment of GASB Statements No. 67, No. 68, and No. 73 – The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

GASB Statement No. 83, Certain Asset Retirement Obligations – This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement is effective for reporting periods beginning after June 15, 2018.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 3. Changes in Accounting Principles and Recent Accounting Pronouncements (Continued)

GASB Statement No. 84, *Fiduciary Activities* – The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement is effective for reporting periods beginning after December 15, 2018.

The Hospital is evaluating the impact these Statements will have on the financial statements and note disclosures and believe the impact of implementing the various GASB Statements will not be significant with the exception of GASB Statement No. 75, which the Hospital expects to be material.

Note 4. 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 bank failure, the Hospital's deposits might not be recovered. Through December 31, 2016, 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, 2016 and 2015 totaled \$2,020,439 and \$1,681,776, respectively, and were subject to the following categories of custodial credit risk:

	2016	2015
Uncollateralized and uninsured	\$ -	\$ -
Collateral held by the counterparty's agent but not in the name of the Hospital	1,505,931	1,372,203
Total amount subject to custodial risk	1,505,931	1,372,203
Amount insured	514,508	309,573
Total bank balances	\$ 2,020,439	\$ 1,681,776

Investments

The Hospital: The Hospital has adopted an investment policy that is consistent with the allowable investments provided by the Auditor of State (Ohio). 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.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 4. Deposits and Investments (Continued)

The Hospital's investments generally are reported at fair value, as discussed in Note 2. At December 31, 2016 and 2015, the Hospital had the following investments, maturities and ratings (per Standard & Poor's), all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

	2016		
	Investment Maturities		
	Less than 1 Year	1-5 Years	
U.S. Government Agencies			
AA+	\$ 1,060	\$ 11	\$ 1,049
Money Market Funds			
AAA	396,792	396,792	-
Not rated	348,718	348,718	-
	<u>\$ 746,570</u>	<u>\$ 745,521</u>	<u>\$ 1,049</u>
	2015		
	Investment Maturities		
	Less than 1 Year	1-5 Years	
U.S. Government Agencies			
AA+	\$ 1,756	\$ -	\$ 1,756
Money Market Funds			
AAA	119,899	119,899	-
Not rated	347,915	347,915	-
	<u>\$ 469,570</u>	<u>\$ 467,814</u>	<u>\$ 1,756</u>

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, 2016 and 2015 have effective maturity dates of less than five years.

Custodial 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, 2016 and 2015, 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 Foundation: As of December 31 the fair values of the Foundation's investments were as follows:

	2016	2015
Mutual funds	\$ 375,645	\$ 364,422
Exchange traded funds	137,050	85,877
Money market funds	2,195	624
Total investments	<u>\$ 514,890</u>	<u>\$ 450,923</u>

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 4. Deposits and Investments (Continued)

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

	2016	2015
Investments - current assets	\$ 252,549	\$ 208,882
Restricted investments - noncurrent assets	262,340	242,041
Total	\$ 514,890	\$ 450,923

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

	2016	2015
Interest and dividends, net of investment management fees	\$ 4,689	\$ 7,475
Net change in unrealized gains (losses)	36,493	(1,585)
Total	\$ 41,182	\$ 5,890

Fair value measurements: Generally Accepted Accounting Principles for the Hospital and the Foundation establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are those that market participants would use in measuring investments at fair value based on market data obtained from sources independent of the agency. Unobservable inputs reflect the Hospital and Foundation's assumptions about the inputs market participants would use in measuring investments at fair value based on the best information available in the circumstances. Investments are measured and disclosed in one of the three levels based on the reliability of inputs:

- Level 1 – Valuations based on quoted market prices in active markets for identical investments as of the reporting date.
- Level 2 – Valuations based on other than quoted market prices in active markets, dealer or broker markets. Fair values are primarily obtained from third party pricing services for similar investments as of the reporting date.
- Level 3 – Valuations derived from other methodologies, including pricing models, discounted cash flow models and similar techniques, and not based on market, dealer, or broker-traded transactions. The determination of fair value requires significant management judgment or estimation.

Level 3 valuations incorporate certain assumptions and projections that are not observable in the market in determining the fair value for investments and assets held by others as of the reporting date. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosures purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement.

The Hospital's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances that caused the transfer.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 4. Deposits and Investments (Continued)

The following investments of the Hospital were measured at fair value on a recurring basis as of December 31, 2016 and 2015, using unadjusted quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	2016			
	Level 1	Level 2	Level 3	Total
U.S Government Agencies:				
AA+ Securities	\$ -	\$ 1,060	\$ -	\$ 1,060
	\$ -	\$ 1,060	\$ -	1,060
Money market funds				745,510
Total				\$ 746,570

	2015			
	Level 1	Level 2	Level 3	Total
U.S Government Agencies:				
AA+ Securities	\$ -	\$ 1,756	\$ -	\$ 1,756
	\$ -	\$ 1,756	\$ -	1,756
Money market funds				467,814
Total				\$ 469,570

The Foundation's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances that caused the transfer.

The following investments of the Foundation were measured at fair value on a recurring basis as of December 31, 2016 and 2015, using unadjusted quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	2016			
	Level 1	Level 2	Level 3	Total
Exchange traded funds:				
Bonds, Aa	\$ 54,476	\$ -	\$ -	\$ 54,476
Domestic	49,812	-	-	49,812
International	32,762	-	-	32,762
Mutual funds	375,645	-	-	375,645
	\$ 512,695	\$ -	\$ -	512,695
Money market funds				2,195
Total				\$ 514,890

	2015			
	Level 1	Level 2	Level 3	Total
Exchange traded funds:				
Bonds, Aa	\$ 45,504	\$ -	\$ -	\$ 45,504
Domestic	34,736	-	-	34,736
International	5,637	-	-	5,637
Mutual funds	364,422	-	-	364,422
	\$ 450,299	\$ -	\$ -	450,299
Money market funds				624
Total				\$ 450,923

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 5. Capital Assets

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

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

	2015				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	\$ 255,120	\$ -	\$ -	\$ -	\$ 255,120
Construction in process	190,460	100,496	(169,884)	-	121,072
Total nondepreciated capital assets	445,580	100,496	(169,884)	-	376,192
Depreciable capital assets:					
Land improvements	310,524	175,705	-	-	486,229
Buildings and improvements	14,983,701	100,211	-	-	15,083,912
Equipment	13,201,624	587,080	169,884	-	13,958,588
Total depreciable capital assets	28,495,849	862,996	169,884	-	29,528,729
Less accumulated depreciation:					
Land improvements	(214,623)	(23,593)	-	-	(238,216)
Buildings and improvements	(8,174,131)	(452,728)	-	-	(8,626,859)
Equipment	(9,827,530)	(1,169,422)	-	-	(10,996,952)
Total accumulated depreciation	(18,216,284)	(1,645,743)	-	-	(19,862,027)
Total depreciable capital assets, net	10,279,565	(782,747)	169,884	-	9,666,702
Total capital assets, net	\$ 10,725,145	\$ (682,251)	\$ -	\$ -	\$ 10,042,894

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 5. Capital Assets (Continued)

Total depreciation expense related to the Hospital's capital assets for 2016 and 2015 was \$1,614,617 and \$1,645,743, respectively.

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

	2016				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	\$ 161,834	\$ -	\$ -	\$ -	\$ 161,834
Total nondepreciated capital assets	161,834	-	-	-	161,834
Depreciable capital assets:					
Buildings and improvements	778,490	-	-	-	778,490
Equipment	12,421	-	-	-	12,421
Total depreciable capital assets	790,911	-	-	-	790,911
Less accumulated depreciation:					
Buildings and improvements	(332,244)	(28,558)	-	-	(360,802)
Equipment	(12,421)	-	-	-	(12,421)
Total accumulated depreciation	(344,665)	(28,558)	-	-	(373,223)
Total depreciable capital assets, net	446,246	-	-	-	417,688
Total capital assets, net	\$ 608,080	\$ -	\$ -	\$ -	\$ 579,522
	2015				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	\$ 161,834	\$ -	\$ -	\$ -	\$ 161,834
Total nondepreciated capital assets	161,834	-	-	-	161,834
Depreciable capital assets:					
Buildings and improvements	778,490	-	-	-	778,490
Equipment	12,421	-	-	-	12,421
Total depreciable capital assets	790,911	-	-	-	790,911
Less accumulated depreciation:					
Buildings and improvements	(303,687)	(28,557)	-	-	(332,244)
Equipment	(12,421)	-	-	-	(12,421)
Total accumulated depreciation	(316,108)	(28,557)	-	-	(344,665)
Total depreciable capital assets, net	474,803	-	-	-	446,246
Total capital assets, net	\$ 636,637	\$ -	\$ -	\$ -	\$ 608,080

Total depreciation expense related to the Foundation's capital assets for 2016 and 2015 was \$28,558 and \$28,557, respectively.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 5. Capital Assets (Continued)

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

	2016	2015
Cost of equipment under capital lease	\$ 4,759,509	\$ 4,145,901
Accumulated amortization	(3,377,865)	(2,818,362)
Net carrying amount	\$ 1,381,644	\$ 1,327,539

Note 6. Line of Credit

The Hospital has a \$1,000,000 line of credit with a bank that is collateralized by all patient accounts receivable. The line of credit was amended in 2015 from an annual renewal to due on demand. Interest is payable at a variable rate of prime plus 1.04% (4.79% and 4.54% at December 31, 2016 and 2015, respectively). Information relating to the Hospital's line of credit activity as of and for the years ended December 31, is as follows:

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

	2015			
	Beginning Balance	Borrowings	Payments	Ending Balance
Line of credit	\$ 396,000	\$ -	\$ (20,500)	\$ 375,500

Note 7. Debt and Capital Lease Obligations

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

	2016				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
1999 County Hospital Refunding and Improvement Bond Series	\$ 715,000	\$ -	\$ (165,000)	\$ 550,000	\$ 175,000
Note payable, Hocking Valley Community Hospital Memorial Fund, Inc.	344,985	-	(344,985)	-	-
Note payable, OAQDA	-	1,918,748	(42,239)	1,876,509	112,282
Capital lease obligations	1,127,640	617,081	(498,325)	1,246,396	472,606
	2,187,625	2,535,829	(1,050,549)	3,672,905	759,888
Bond discount	(9,358)	-	2,399	(6,959)	(2,365)
Total debt	\$ 2,178,267	\$ 2,535,829	\$ (1,048,151)	\$ 3,665,946	\$ 757,522

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 7. Debt and Capital Lease Obligations (Continued)

	2015				
	Beginning Balance	Additions	Payments/Reductions	Ending Balance	Due Within One Year
1999 County Hospital Refunding and Improvement Bond Series	\$ 875,000	\$ -	\$ (160,000)	\$ 715,000	\$ 165,000
Note payable, Hocking Valley Community Hospital Memorial Fund, Inc.	344,985	-	-	344,985	344,985
Capital lease obligations	1,072,279	484,395	(429,034)	1,127,640	362,643
	2,292,264	484,395	(589,034)	2,187,625	872,628
Bond discount	(11,756)	-	2,398	(9,358)	-
Total debt	\$ 2,280,508	\$ 484,395	\$ (586,636)	\$ 2,178,267	\$ 872,628

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

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

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

Capital lease obligations have varying rates of imputed interest ranging from 0.6% to 18.3%. The obligations are collateralized by leased equipment and mature at varying amounts through 2021.

Long-term debt and capital lease obligation payment requirements for fiscal years subsequent to December 31, 2016, are as follows:

	Capital Lease Obligations			Long-Term Debt		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 472,606	\$ 54,998	\$ 527,604	\$ 287,282	\$ 95,359	\$ 382,641
2018	345,922	31,618	377,540	300,706	83,621	384,327
2019	228,804	17,314	246,118	309,236	71,305	380,541
2020	184,984	5,102	190,086	122,872	58,643	181,515
2021	14,080	73	14,153	126,620	54,896	181,516
Thereafter	-	-	-	1,279,793	272,959	1,552,752
	\$ 1,246,396	\$ 109,105	\$ 1,355,501	2,426,509	\$ 636,783	\$ 3,063,292
Bond discount				(6,959)		
Total debt, net				\$ 2,419,550		

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 8. Estimated Amounts Due to/from Third-Party Payors

The Hospital has agreements with third-party payors that provide for payment of amounts different from established rates. 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. See Note 11 for additional information. As of December 31, 2016, management has determined that there is \$878,919 due from third party payors and \$80,000 was due to third-party payors at December 31, 2015.

Note 9. Other Long-Term Liabilities

Compensated absences: The Hospital's employees earn vacation time at varying rates depending on years of service. Employees may accumulate vacation time, up to 400 hours, to be carried over to the subsequent year. The Hospital's employees also earn sick leave on an annual basis at a flat rate regardless of years of service. Upon retirement, employees with a minimum of 10 years of service have sick leave balances paid out at 25% of eligible hours at their current rate of pay. The maximum payout is 240 hours. As of December 31, 2016 and 2015, the liability for accrued vacation and sick leave was \$894,076 and \$878,872, respectively.

Other long-term liabilities: Information regarding the Hospital's other long-term liabilities activity and balances as of and for the years ended December 31, is as follows:

	2016				
	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Accrued vacation	\$ 794,097	\$ 541,616	\$ (524,561)	\$ 811,152	\$ 283,903
Accrued sick leave	84,775	371,198	(373,049)	82,924	29,023
	<u>\$ 878,872</u>	<u>\$ 912,814</u>	<u>\$ (897,610)</u>	<u>\$ 894,076</u>	<u>\$ 312,926</u>

	2015				
	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Accrued vacation	\$ 847,296	\$ 473,108	\$ (526,307)	\$ 794,097	\$ 277,934
Accrued sick leave	132,778	348,776	(396,779)	84,775	29,671
	<u>\$ 980,074</u>	<u>\$ 821,884</u>	<u>\$ (923,086)</u>	<u>\$ 878,872</u>	<u>\$ 307,605</u>

Risk management: The Hospital is exposed to various risks of loss related to torts; theft of or destruction of assets; errors and omissions; injuries to employees; and natural disasters as well as being self-insured for employee health insurance.

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 and \$2,000,000 in the annual aggregate. The policy also requires that certain members of the medical staff carry professional liability coverage of no less than \$1,000,000 per occurrence and \$3,000,000 in the 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 three 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, 2016 and 2015.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 9. Other Long-Term Liabilities (Continued)

Employee health insurance: For the employee health claims, a historical analysis has been performed of incurred but unpaid claims to determine the liability at December 31, 2016 and 2015. 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, and activity and balances as of and for the years ended December 31, 2016 and 2015 are as follows:

	Beginning Liability	Claims Incurred	Claims Paid	Ending Liability
2014	\$ 293,298	\$ 2,991,145	\$ 2,953,520	\$ 330,923
2015	\$ 330,923	\$ 2,842,068	\$ 2,792,410	\$ 380,581
2016	\$ 380,581	\$ 2,645,471	\$ 2,741,140	\$ 284,912

Note 10. Endowment

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

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

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

- (1) The duration and preservation of the fund
- (2) The purposes of the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and appreciation of investments
- (6) Other resources
- (7) The investment policies

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 10. Endowment (Continued)

Changes in net position related to endowments for the years ended December 31 are as follows:

	Unrestricted Net Position	Restricted Net Position	Restricted, Nonspendable Net Position	Total
Balance at January 1, 2014	\$ 290,000	\$ 104,581	\$ 139,236	\$ 533,817
Net investment loss	-	(1,776)	-	(1,776)
Balance at December 31, 2015	290,000	102,805	139,236	532,041
Net investment income	-	20,299	-	20,299
Balance at December 31, 2016	\$ 290,000	\$ 123,104	\$ 139,236	\$ 552,340

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

2016				
	Unrestricted Net Position	Restricted Net Position	Restricted, Nonspendable Net Position	Total
Funds functioning as endowment	\$ 290,000	\$ -	\$ -	\$ 290,000
Donor-restricted endowment	-	123,104	139,236	262,340
	\$ 290,000	\$ 123,104	\$ 139,236	\$ 552,340

2015				
	Unrestricted Net Position	Restricted Net Position	Restricted, Nonspendable Net Position	Total
Funds functioning as endowment	\$ 290,000	\$ -	\$ -	\$ 290,000
Donor-restricted endowment	-	102,805	139,236	242,041
	\$ 290,000	\$ 102,805	\$ 139,236	\$ 532,041

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported as unrestricted net assets. There are no deficiencies of this nature as of December 31, 2016 and 2015.

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

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 10. Endowment (Continued)

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

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

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

Note 11. Net Patient Service Revenue

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 provided 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.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 11. Net Patient Service Revenue (Continued)

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 2016, approximately 54% of the Hospital's total net patient revenue was derived from Medicare payments while 12% was derived from Medicaid. The remaining revenue was derived primarily from commercial insurance payments.

In 2015, approximately 51% of the Hospital's total net patient revenue was derived from Medicare payments while 11% 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. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between the estimated amounts accrued at interim and final settlements are reported in the statement of revenues, expenses and changes in net position in the year of settlement. The Hospital recorded favorable adjustments of \$543,448 and \$29,001 in 2016 and 2015, respectively.

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

	2016	2015
Gross patient service revenue	\$ 93,023,343	\$ 89,546,324
Less third-party contractual allowances	53,452,792	52,585,020
Less provision for bad debts	2,954,238	2,194,033
Net patient service revenue	\$ 36,616,313	\$ 34,767,271

Note 12. Net Pension Asset/Liability

Pension: Employee retirement benefits are available for substantially all employees under three separate retirement plans administered by the Ohio Public Employees Retirement System (OPERS). The plans are the Traditional Pension Plan — a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan — a defined contribution pension plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings; 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 provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Participants in the Member-Directed Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefits to the OPERS Board of Trustees. The Ohio Public Employees Retirement System issues a stand-alone financial report and may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 12. Net Pension Asset/Liability (Continued)

Legislation: Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire under law in effect prior to SB 343 or will be eligible to retire no later than five years after January 7, 2013, comprise transition Group A. Members who have 20 years of service credit prior to January 7, 2013, or will be eligible to retire no later than 10 years after January 7, 2013, are included in transition Group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013. Please see the Plan Statement in the OPERS 2014 CAFR for additional details.

Benefits in the Traditional Pension Plan for members are calculated on the basis of age, final average salary (FAS), and service credit. 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 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. Refer to the age-and-service tables located in the OPERS 2015 CAFR Plan Statement for additional information regarding the requirements for reduced and unreduced benefits. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount. 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.

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for members in transition Groups A and B applies a factor of 1.0% to the member's FAS for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS for the first 35 years of service. A factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions.

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS Board. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the members' contributions plus or minus the investment gains or losses resulting from the members' investment selections. Combined Plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. At retirement, members may select one of several distribution options for payment of the vested balance of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 12. Net Pension Liability (Continued)

Other benefits: Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit. Members retiring under the Combined Plan receive a 3% cost-of-living adjustment on the defined benefit portion of their benefit. A death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional Pension Plan and Combined Plan. Death benefits are not available to beneficiaries of Member-Directed Plan participants.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For the years ended December 31, 2016 and 2015, the employee contribution rate was 10.0% of covered payroll and the Hospital was required to contribute 14.0% of covered payroll for all covered benefits, including OPEB. For 2016 and 2015, member and employer contribution rates were consistent across all three plans. The Hospital's contributions to OPERS for the years end December 31, 2016 and 2015 were \$1,752,143 and \$1,689,006, respectively, equal to the statutorily required contributions for each year, made up of \$1,660,613 and \$1,599,952 for the Traditional Pension Plan, \$47,626 and \$50,544 for the Combined Plan and \$43,904 and \$38,510 for the Member Directed Plan, respectively.

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

Pensions: At December 31, 2016, the Hospital reported a liability of \$15,904,901, for its proportionate share of the net pension liability related to the Traditional Pension Plan and an asset of \$48,498, for its proportionate share of the net pension asset related to the Combined and Member Directed Plan. The net pension liability and asset were measured as of December 31, 2015, and the total pension liability/asset used to calculate the net pension liability/asset was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability/asset was based on the Hospital's contributions to the pension plan relative to contributions of all participating employers contributed to the Plan during the measurement period (year ended December 31, 2015). At December 31, 2015, the Hospital's proportion was 0.091823 percent for the Traditional Pension Plan, 0.099210 percent for the Combined Plan and 0.057623 for the Member Directed Plan.

At December 31, 2015, the Hospital reported a liability of \$11,755,379, for its proportionate share of the net pension liability related to the Traditional Pension Plan and an asset of \$39,173, for its proportionate share of the net pension asset related to the Combined Plan. The net pension liability and asset were measured as of December 31, 2014, and the total pension liability/asset used to calculate the net pension liability/asset was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability/asset was based on the Hospital's contributions to the pension plan relative to contributions of all participating employers contributed to the Plan during the measurement period (year ended December 31, 2014). At December 31, 2014, the Hospital's proportion was 0.097465 percent for the Traditional Pension Plan and 0.101743 percent for the Combined Plan. The Member Directed Plan was not included in OPERS reporting for the year ended December 31, 2014.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 12. Net Pension Liability (Continued)

For the years ended December 31, 2016 and 2015, the Hospital recognized pension expense for the Traditional Pension Plan, the Combined Plan, and the Member-Directed Plan of \$2,064,528 and \$1,309,490, respectively. At December 31, 2016 and 2015, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 307,313
Changes in proportionate share of contributions		448,983
Net difference between projected and actual earnings on pension plan investments	4,675,048	-
Hospital contributions subsequent to the measurement date	1,423,382	
Total Traditional Pension Plan	6,098,430	756,296
Differences between expected and actual experience	-	22,030
Net difference between projected and actual earnings on pension plan investments	20,844	-
Hospital contributions subsequent to the measurement date	42,259	-
Total Combined Plan	63,103	22,030
Net difference between projected and actual earnings on pension plan investments	1,877	-
Hospital contributions subsequent to the measurement date	32,029	-
Total Member Directed Plan	33,906	-
Total	\$ 6,195,439	\$ 778,326
	2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 206,518
Net difference between projected and actual earnings on pension plan investments	627,231	-
Hospital contributions subsequent to the measurement date	1,373,925	
Total Traditional Pension Plan	2,001,156	206,518
Differences between expected and actual experience	-	11,954
Net difference between projected and actual earnings on pension plan investments	2,391	-
Hospital contributions subsequent to the measurement date	44,848	-
Total Combined Plan	47,239	11,954
Total	\$ 2,048,395	\$ 218,472

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 12. Net Pension Liability (Continued)

At December 31, 2016 and 2015, the Traditional Pension Plan reported \$1,423,382 and \$1,373,925, respectively, the Combined Plan reported \$42,259 and \$44,848, respectively, and the Member Directed Plan reported \$32,029 and \$0, respectively, as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability (asset) in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Traditional Pension Plan	Combined Plan	Member Directed Plan
<u>Year ending December 31:</u>			
2017	\$ (917,372)	\$ (2,572)	\$ (280)
2018	(984,441)	(2,572)	(280)
2019	(1,067,727)	(2,572)	(280)
2020	(949,212)	(1,989)	(266)
2021	-	2,785	(188)
Thereafter	-	8,106	(583)

Actuarial Assumptions – OPERS Traditional Pension Plan and Combined Plan

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability (Traditional Plan) and pension asset (Combined Plan) were determined by actuarial valuations as of December 31, 2015, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB Statement No. 68. Key methods and assumptions used in the latest actuarial valuations are presented below and pertain to both the Traditional Pension Plan and the Combined Plan.

Actuarial Information	Traditional Pension Plan	Combined Plan	Member-Directed Plan
Valuation Date	December 31, 2015	December 31, 2015	December 31, 2015
Experience Study	5 Year period Ended December 31, 2010	5 Year period Ended December 31, 2010	5 Year period Ended December 31, 2010
Actuarial Cost Method	Individual entry age	Individual entry age	Individual entry age
Actuarial Assumptions			
Investment Rate of Return	8.00%	8.00%	8.00%
Wage Information	3.75%	3.75%	3.75%
Projection Salary Increases	4.25%-10.05% (includes wage inflation at 3.75%)	4.25%-8.05% (includes wage inflation at 3.75%)	4.25%-8.05% (includes wage inflation at 3.75%)
Cost-of-Living Adjustments	Pre 1/7/2013 Retirees: 3.00% Simple Post 1/7/2013 Retirees: 3.00% Simple through 2018, then 2.80% Simple	Pre 1/7/2013 Retirees: 3.00% Simple Post 1/7/2013 Retirees: 3.00% Simple through 2018, then 2.80% Simple	Pre 1/7/2013 Retirees: 3.00% Simple Post 1/7/2013 Retirees: 3.00% Simple through 2018, then 2.80% Simple

Mortality rates are based on the RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based upon the RP-2000 mortality table with no projections. For males, 120% of the disabled female mortality rates were used, set forward two years. For females, 100% of the disabled female mortality rates were used.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 12. Net Pension Liability (Continued)

The discount rate used to measure the total pension liability was 8.0% for both the Traditional Pension Plan and the Combined 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 sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for both the Traditional Pension Plan and the Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return for both the Traditional Pension Plan and the Combined Plan.

Asset Class	Target Allocation for 2015	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00%	2.31%
Domestic Equities	20.70%	5.84%
Real Estate	10.00%	4.25%
Private Equity	10.00%	9.25%
International Equities	18.30%	7.40%
Other Investments	18.00%	4.59%
Total	100.00%	5.27%

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 real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investment portfolios for the Defined Benefit portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio.

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report. Additional information supporting the preparation of the Schedules of Collective Pension Amounts and Employer Allocations (including the disclosures of the net pension liability/(asset) required supplementary information on the net position liability/(asset), and the unmodified audit opinion on the combined financial statements) is located at OPERS 2014 CAFR. This CAFR is available at www.opers.org or by contacting OPERS at: OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (800) 222-7377.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 12. Net Pension Liability (Continued)

The following table presents the net pension liability (asset) calculated using the discount rate of 8.0%, and the expected net pension liability (asset) if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate.

Sensitivity of Net Pension Liability/(Asset) to Changes in the Discount Rate			
Net Pension Liability/(Asset)	1% Decrease 7.0%	Current Discount Rate 8.0%	1% Increase 9.0%
Traditional Pension Plan	\$25,340,393	\$15,904,901	\$7,946,362
Combined Plan	(\$99)	(\$48,278)	(\$86,313)
Member-Directed Plan	\$57	(\$220)	(\$57)

The Member-Directed Plan is a defined contribution plan in which at retirement, members have the option to convert their defined contribution account to a defined benefit annuity.

Note 13. Other Post-Retirement Benefits

Post-retirement benefits: OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits including post employment healthcare coverage.

OPERS maintains two cost-sharing multiple-employer defined benefit post-employment healthcare trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for post-employment healthcare coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Healthcare coverage of disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45. OPERS' eligibility requirements for post-employment healthcare coverage changed for those retiring on and after January 1, 2015. Details of the changes are available in the Plan Statement in the OPERS 2013 CAFR.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible benefit recipients. Authority to establish and amend healthcare benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. A copy may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provided the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement healthcare benefits.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 13. Other Post-Retirement Benefits (Continued)

The employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016 and 2015, the employer contribution was 14.0% of earnable salary, respectively. The Ohio Revised Code limits the employer contribution to a rate not to exceed 14.0% of earnable salary. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment HealthCare plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to healthcare for members in the Traditional Plan and Combined Plan was 2.0% during calendar year 2016. Effective January 1, 2015, the portion of employer contributions allocated to health care remains at 2.0% for both plans, as recommended by OPERS' actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the healthcare provided. Payment amounts vary depending on the coverage selected and the number of covered dependents. The Hospital's contributions for 2016, 2015, and 2014 used to fund post-retirement healthcare benefits were \$250,206, \$241,190 and \$246,539, respectively, which are included in the Hospital's contractually required contribution of \$1,752,143, \$1,689,006 and \$1,760,205 for the years ended December 31, 2016, 2015, and 2014, respectively.

Changes to the healthcare plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.0% of the employer contributions toward the healthcare fund after the end of the transition period.

Note 14. Related Parties

Hocking Valley Community Hospital Memorial Fund, Inc.: The Hospital is the primary beneficiary of The Hocking Valley Community Hospital Memorial Fund, Inc. (Foundation). The Foundation is a separate not-for-profit entity organized for the purpose of soliciting gifts 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, 2016 and 2015, the Hospital disbursed funds totaling \$2,285,000 and \$2,039,000 on behalf of HVMG to fund operating deficits, respectively. These amounts were paid to the Foundation, who acting as fiscal agent, remitted the funds to HVMG. There were no amounts due to or receivable from HVMG at December 31, 2016 and 2015.

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, 2016 and 2015. Therefore, the Hospital's financial statements exclude the activities of HVHS.

**Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)**

Notes to Financial Statements

Note 15. Commitments and Contingencies

Regulatory environment including fraud and abuse matters: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or asserted at this time.

Centers for Medicare and Medicaid Services Recovery Audit Contractor Program: Congress passed the Medicare Modernization Act in 2003, which among other things established a three-year demonstration of the Medicare Recovery Audit Contractor Program (RAC) program. The RAC's identified and corrected a significant amount of improper payments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states by 2010. The Centers for Medicare and Medicaid Services (CMS) has rolled out this program nationally.

Electronic Medical Records: In December 2016, Hocking Valley Community Hospital entered into an agreement with The Ohio State University Wexner Medical Center (OSUWMC) to transition from the current Electronic Medical Record (HER) to the Epic platform. This will include hardware, software, third-party applications and licensing, and will cost approximately \$9.7 million over the life of the 10 year agreement. The cost will be offset by approximately \$4.8 million in gained efficiencies, discontinuing the service agreement with the current HER vendor and third party applications, as well as the ability to utilize OSUWMC resources due to the shared platform.

Supplementary Information

Schedules of Required Supplementary Information

Schedule of the Hospital's Contributions

Ohio Public Employees Retirement System (OPERS) Traditional Pension Plan

Last 10 Fiscal Years*

(Dollars in Thousands)

	2016	2015	2014	2013
Contractually required contributions	\$ 1,660,613	\$ 1,599,952	\$ 1,672,902	\$ 1,683,899
Contributions in relation to the contractually required contributions	(1,660,613)	(1,599,952)	(1,672,902)	(1,683,899)
Contribution deficiency (excess)	-	-	-	-
Hospital's covered-employee payroll	\$ 11,861,519	\$ 11,428,228	\$ 12,332,855	\$ 12,281,035
Contributions as a percentage of covered-employee payroll	14%	14%	14%	14%

Schedule of the Hospital's Contributions

Ohio Public Employees Retirement System (OPERS) Combined Plan

Last 10 Fiscal Years*

(Dollars in Thousands)

	2016	2015	2014	2013
Contractually required contributions	\$ 47,626	\$ 50,544	\$ 50,297	\$ 35,809
Contributions in relation to the contractually required contributions	(47,626)	(50,544)	(50,297)	(35,809)
Contribution deficiency (excess)	-	-	-	-
Hospital's covered-employee payroll	\$ 340,182	\$ 361,028	\$ 359,264	\$ 255,779
Contributions as a percentage of covered-employee payroll	14%	14%	14%	14%

Schedule of the Hospital's Contributions

Ohio Public Employees Retirement System (OPERS) Member Directed Plan

Last 10 Fiscal Years*

(Dollars in Thousands)

	2016	2015	2014	2013
Contractually required contributions	\$ 43,904	\$ 38,510	\$ -	\$ -
Contributions in relation to the contractually required contributions	(43,904)	(38,510)	-	-
Contribution deficiency (excess)	-	-	-	-
Hospital's covered-employee payroll	\$ 313,602			
Contributions as a percentage of covered-employee payroll	14%			

* The Hospital has presented as many years as information is available and includes activity associated with the postemployment healthcare plan

Schedules of Required Supplementary Information

**Schedule of the Hospital's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System (OPERS) Traditional Pension Plan
Last 10 Measurement Dates*
(Dollars in Thousands)**

	2016	2015
Hospital's proportion of the net pension liability	0.091823%	0.097465%
Hospital's proportionate share of the net pension liability	\$ 15,904,901	\$ 11,755,379
Hospital's covered-employee payroll	\$ 11,861,519	\$ 11,428,228
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	134.09%	102.86%
Plan fiduciary net position as a percentage of total pension liability	81.08%	86.45%

**Schedule of the Hospital's Proportionate Share of the Net Pension Asset
Ohio Public Employees Retirement System (OPERS) Combined Plan
Last 10 Measurement Dates*
(Dollars in Thousands)**

	2016	2015
Hospital's proportion of the net pension asset	0.099210%	0.101743%
Hospital's proportionate share of the net pension asset	\$ 48,278	\$ 39,173
Hospital's covered-employee payroll	\$ 340,182	\$ 361,028
Hospital's proportionate share of the net pension asset as a percentage of its covered-employee payroll	14.19%	10.85%
Plan fiduciary net position as a percentage of total pension asset	116.90%	114.83%

**Schedule of the Hospital's Proportionate Share of the Net Pension Asset
Ohio Public Employees Retirement System (OPERS) Member-Directed Plan
Last 10 Measurement Dates*
(Dollars in Thousands)**

	2016
Hospital's proportion of the net pension asset	0.057623%
Hospital's proportionate share of the net pension asset	\$ 220
Hospital's covered-employee payroll	\$ 313,602
Hospital's proportionate share of the net pension asset as a percentage of its covered-employee payroll	0.07%
Plan fiduciary net position as a percentage of total pension asset	103.91%

* The Hospital has presented as many years as information is available and includes activity associated with the postemployment healthcare plan.

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statements of Net Position
December 31, 2016 and 2015

	2016	2015
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 1,709,109	\$ 864,443
Patient accounts receivable, net of allowance of \$2,191,000 and \$1,338,000 in 2016 and 2015, respectively	7,071,611	5,484,344
Certificates of deposit	34,727	34,727
Investments	746,570	469,570
Inventories	316,067	424,799
Deposits for South Central Ohio Insurance Consortium	460,256	566,197
Estimated amounts due from third-party payors	878,919	-
Prepaid expenses and other assets	2,407,511	1,603,851
Total current assets	13,624,770	9,447,931
Noncurrent assets:		
Certificates of deposit	219,650	219,650
Net pension asset	48,498	39,173
Total noncurrent assets	268,148	258,823
Capital assets:		
Land and construction in progress	1,110,466	376,192
Buildings, land improvements and equipment, net	9,415,474	9,666,702
Capital assets, net	10,525,940	10,042,894
Total assets	24,418,858	19,749,648
Deferred outflows of resources:		
Pensions	6,195,439	2,048,395
Total deferred outflows of resources	6,195,439	2,048,395
Total assets and deferred outflows of resources	\$ 30,614,297	\$ 21,798,043

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statements of Net Position
December 31, 2016 and 2015

	2016	2015
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities:		
Line of credit	\$ 400,000	\$ 375,500
Current portion of capital lease obligations	472,606	362,643
Current portion of long-term debt	284,917	509,985
Accounts payable and accrued expenses	3,410,214	2,584,306
Accrued payroll and related liabilities	548,221	525,988
Unearned revenue	534,463	-
Self-insurance liabilities	284,912	380,581
Estimated amounts due to third-party payors	-	80,000
Current portion of accrued vacation and sick leave	312,926	307,605
Total current liabilities	6,248,259	5,126,608
Noncurrent liabilities, net of current portions:		
Accrued vacation and sick leave	581,150	571,267
Capital lease obligations	773,790	764,997
Net pension liability	15,904,901	11,755,379
Long-term debt	2,134,633	540,642
Total noncurrent liabilities	19,394,474	13,632,285
Total liabilities	25,642,733	18,758,893
Deferred inflows of resources:		
Pensions	778,326	218,472
Total deferred inflows of resources	778,326	218,472
Net Position		
Net investment in capital assets	6,859,994	7,864,627
Unrestricted	(2,666,756)	(5,043,949)
Total net position	4,193,238	2,820,678
Total liabilities, deferred inflows of resources and net position	\$ 30,614,297	\$ 21,798,043

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, 2016 and 2015

	2016	2015
Operating revenues:		
Net patient service revenue	\$ 36,616,313	\$ 34,767,271
Other operating revenue	690,672	670,867
Total operating revenues	37,306,985	35,438,138
Operating expenses:		
Salaries and wages	12,957,148	12,432,936
Employee benefits	5,767,380	5,162,035
Supplies and other expenses	8,230,283	7,247,002
Professional fees and services	5,540,660	5,004,472
Depreciation and amortization	1,614,617	1,645,743
Insurance	142,545	261,395
Total operating expenses	34,252,633	31,753,583
Operating income	3,054,352	3,684,555
Nonoperating revenues (expenses):		
Grants to The Hocking Valley Community Hospital Memorial Fund, Inc.	(2,285,000)	(2,039,000)
Net investment income	7,591	12,301
Interest expense	(125,296)	(147,064)
Other nonoperating income	536,225	17,600
Noncapital grants and contributions	184,688	176
Total nonoperating expenses	(1,681,792)	(2,155,987)
Increase in net position	1,372,560	1,528,568
Net position, beginning of year	2,820,678	1,292,110
Net position, end of year	\$ 4,193,238	\$ 2,820,678

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from patients and third party payors	\$ 34,604,590	\$ 34,228,559
Cash paid to employees for wages and benefits	(18,514,664)	(18,273,377)
Cash paid to vendors for goods and services	(13,200,418)	(12,804,342)
Other receipts	690,674	670,867
Net cash provided by operating activities	<u>3,580,182</u>	<u>3,821,707</u>
Cash flows from noncapital financing activities:		
Contributions	184,688	176
Payments on line of credit	(375,500)	(20,500)
Borrowings on line of credit	400,000	-
Grants to Hocking Valley Community Hospital Memorial Fund, Inc.	(2,285,000)	(2,039,000)
Net cash used in noncapital financing activities	<u>(2,075,812)</u>	<u>(2,059,324)</u>
Cash flows from capital and related financing activities:		
Proceeds of long-term debt	1,918,748	-
Repayment of long-term debt	(207,239)	(160,000)
Repayment of capital lease obligations	(498,325)	(429,034)
Interest paid on long-term debt	(122,897)	(144,666)
Purchase of capital assets	(1,480,582)	(479,097)
Net cash used in capital and related financing activities	<u>(390,295)</u>	<u>(1,212,797)</u>
Cash flows from investing activities:		
Investment income	7,591	12,301
Investment purchases and reinvestments	(277,000)	(1,855)
Net cash provided by investing activities	<u>(269,409)</u>	<u>10,446</u>
Net increase in cash and cash equivalents	844,666	560,032
Cash and cash equivalents:		
Beginning	<u>864,443</u>	<u>304,411</u>
Ending	<u>\$ 1,709,109</u>	<u>\$ 864,443</u>

(Continued)

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statements of Cash Flows (Continued)
Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,054,352	\$ 3,684,555
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,614,617	1,645,743
Provision for bad debts	2,954,238	2,194,033
Changes in:		
Patient accounts receivable	(4,541,505)	(2,794,629)
Inventories, prepaid expenses and other assets	(588,987)	532,605
Deferred outflows of resources	(4,147,044)	(569,851)
Net pension asset	(9,325)	(28,496)
Accounts payable, accrued expenses and unearned revenue	1,551,611	(824,078)
Accrued payroll and related liabilities	22,233	(512,501)
Self-insurance liabilities	(95,669)	49,658
Estimated amounts due to third-party payors	(958,919)	61,884
Net pension liability	4,149,522	265,514
Accrued vacation and sick leave	15,204	(101,202)
Deferred inflows of resources	559,854	218,472
Net cash provided by operating activities	\$ 3,580,182	\$ 3,821,707
Supplemental disclosure of noncash operating activities:		
Rent and interest expense forgiven by related party	\$ 191,240	\$ -
Supplemental disclosure of noncash capital financing activities:		
Assets acquired under capital lease obligations	\$ 617,081	\$ 484,395
Current and long term related party debt forgiven	\$ 344,985	\$ -



RSM US LLP

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the Hocking Valley Community Hospital (the Hospital) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated April 28, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance With *Government Auditing
Standards* (Continued)**

Purpose of this Report

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

RSM US LLP

Cleveland, Ohio
April 28, 2017



Dave Yost • Auditor of State

HOCKING VALLEY COMMUNITY HOSPITAL

HOCKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 20, 2017**