MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

Consolidated Financial and Compliance Report
December 31, 2018

Arnett Carbis Toothman llp
CPAs & Advisors

OHIO AUDITOR OF STATE
KEITH FABER

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Board of Governors
Mark-Milford-Hicksville Joint Township Hospital District
208 Columbus Street
Hicksville, OH 43526

We have reviewed the *Independent Auditor's Report* of the Mark-Milford-Hicksville Joint Township Hospital District, Defiance County, prepared by Arnett Carbis Toothman, LLP, for the audit period January 1, 2018 through December 31, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

August 8, 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mark Milford Hicksville Joint Township Hospital District and Subsidiary (the Organization), which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statement of operations and changes in net position (deficit) and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mark Milford Hicksville Joint Township Hospital District and Subsidiary as of December 31, 2018, and the results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2018, the Organization adopted new accounting guidance *Statement No. 75 of the Governmental Accounting Standards Board Accounting – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2019, on our consideration of Mark Milford Hicksville Joint Township Hospital District and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Arnett Carbis Toothman LLP

Charleston, West Virginia
July 1, 2019

Introduction

The discussion and analysis of Mark Milford Hicksville Joint Township Hospital District and Subsidiary's financial performance provides an overview of the consolidated activities and operations of Community Memorial Hospital and Community Memorial Hospital Foundation, Inc. (collectively, the Organization) for the fiscal years ended December 31, 2018 and 2017. Please read it in conjunction with the Organization's consolidated financial statements, which begin on page 10. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Organization's net position increased (decreased) in 2018 and 2017 by $(7,742) and $1,144, respectively. The 2018 change can partly be attributed to the adoption of GASB 75.
- The Organization reported operating income (losses) of $(201) and $1,958 in 2018 and 2017, respectively.
- Total operating revenues decreased from 2017 to 2018 by $(2,429) or (8)%.
- The Organization made capital additions in 2018 totaling $665, which was funded from operations and through direct financing.

Using This Annual Report

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

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

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

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

Consolidated Statement of Cash Flows

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

Net Position (Deficit)

The Organization's net position (deficit) is the difference between its assets, deferred outflows, liabilities, and deferred inflows reported on the Consolidated Balance Sheets on pages 10 and 11. The Organization's net position (deficit) decreased by $7,742 and improved by $1,144 in 2018 and 2017, respectively, as illustrated in Table 1.

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

ASSETS AND DEFERRED OUTFLOWS		**2018**		2017		2016
ASSETS						
Current assets	**$**	**7,769**	$	10,815	$	4,027
Resticted and limited use assets		**2,018**		959		1,256
Capital assets, net		**7,359**		7,569		8,266
Other noncurrent assets		**453**		482		516
Total assets		**17,599**		19,825		14,065
NET PENSION ASSET		**187**		82		89
DEFERRED OUTFLOWS						
Public employee retirement system		**3,211**		6,173		5,035
Other post employment benefits		**597**		-		-
Total deferred outflows		**3,808**		6,173		5,035
Total assets and deferred outflows	**$**	**21,594**	$	26,080	$	19,189
LIABILITIES, DEFERRED INFLOW AND NET POSITION (DEFICIT)						
LIABILITIES						
Current liabilities	**$**	**5,587**	$	8,044	$	6,201
Long-term obligations, net of current portion		**9,232**		9,502		10,258
Interest rate swap		**262**		432		612
Net pension liability		**10,385**		15,936		10,980
Other post employment liability		**8,116**		-		-
Total liabilities		**33,582**		33,914		28,051
DEFERRED INFLOWS						
Public employee retirement system		**3,119**		136		252
Other post employment benefits		**605**		-		-
Total deferred inflows		**3,724**		136		252
NET POSITION (DEFICIT)						
Net invested in capital assets		**(2,300)**		(2,288)		(2,696)
Restricted		**890**		792		1,188
Unrestricted		**(14,302)**		(6,474)		(7,606)
Total net position (deficit)		**(15,712)**		(7,970)		(9,114)
Total liabilities, deferred inflows and net position (deficit)	**$**	**21,594**	$	26,080	$	19,189

A significant component of the Organization's assets is capital assets. Capital assets decreased by $210 or 3% in 2018 and decreased by $697 or 8% in 2017. Fixed assets acquired by the Organization either through direct purchase or financing were $655 in 2018 and $673 in 2017. These additions were offset by depreciation of $877 and $1,123 in 2018 and 2017, respectively. The decrease in assets from 2017 to 2018 primarily reflects depreciation expense in excess of capital expenditures.

The net pension liability (NPL) is the largest single liability reported by the Organization at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the Organization adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this consolidated financial statement will gain a clearer understanding of the Organization's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OBEP liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Organization's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Organization is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Organization's consolidated statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

The most significant change in the Organization's net position from 2017 to 2018 was the result of implementing GASB 75. The effect of the adoption of the new accounting principle resulted in the Organization recording its share of postemployment benefits other than pensions (OPEB) of the total OPEB liability of $8,116,213 as of December 31, 2018, and a cumulative effect of change in accounting principle of $7,404,885. See Note 9 to the consolidated financial statements for more information regarding OPEB amounts

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

Table 2 shows three years of revenues and expenses for 2018, 2017, and 2016.

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

	2018	2017	2016
OPERATING REVENUES			
Net patient service revenue	**$ 27,302**	$ 29,851	$ 24,581
Other operating revenue	**1,174**	728	1,200
Total operating revenue	**28,476**	30,579	25,781
OPERATING EXPENSES			
Salaries and wages	**13,862**	12,007	11,978
Employee benefits	**5,437**	7,384	4,464
Purchased services	**3,101**	2,701	3,283
Supplies	**2,024**	1,518	1,971
Physician services	**1,020**	1,409	1,303
Depreciation and amortization	**877**	1,123	1,380
Maintenance and repairs	**1,057**	1,049	755
Utilities	**635**	630	694
Miscellaneous	**332**	500	428
Insurance	**333**	300	316
Total operating expenses	**28,678**	28,621	26,572
Operating income (loss)	**(202)**	1,958	(791)
NON-OPERATING GAINS/(LOSSES)	**(261)**	(939)	(681)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE CAPITAL APPROPRIATIONS	**(463)**	1,019	(1,472)
Capital appropirations	**126**	125	124
Decrease in Net Position (Deficit)	**(337)**	1,144	(1,348)
Net Net Position (Deficit), Beginning of Year, Before Cumulative Effect Adjustment	**(7,970)**	(9,114)	(7,766)
Cumulative Effect Adjustment for Change in Accounting Principle	**(7,405)**	-	-
Net Net Position (Deficit), Beginning of Year, After Cumulative Effect Adjustment	**(15,375)**	-	-
Net Position (Deficit), End of Year	**$ (15,712)**	$ (7,970)	$ (9,114)

Net patient service revenue decreased by $2,549 or 10% from 2017 and 2018 and increased by $5,270 or 21% from 2016 to 2017.

Salaries and wages increased 15.4% from 2017 to 2018 and 0.2% from 2016 to 2017 primarily due to an increase in FTEs. Employee benefits experienced an increase (decrease) of (26)% from 2017 to 2018 and a 65% increase from 2016 and 2017, due primarily to fluctuations in pension cost, OPEB costs and employee health insurance claims.

Sources of Revenue

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

The table below presents the percentages of gross revenue for patient services by payor, for the years ended December 31, 2018 and 2017, respectively.

	2018	2017
Medicare	**29%**	24%
Commerical and other	**66%**	60%
Medicaid	**1%**	9%
Self-pay	**4%**	7%
	100%	100%

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

Operating Income (Loss)

The first component of the overall change in the Organization's net position (deficit) is its operating income (loss). Generally, operating income (loss) is the difference between net patient service revenue and the expenses incurred to perform those services. Operating income (loss) was $(202) and $1,958 in 2018 and 2017, respectively.

The decrease in the Organization's total operating income in 2018 of $2,159 from 2017 is the result of a significant decrease in net patient service revenue due to a decrease in lab referencing services provided in fiscal year 2018. Excluded from net patient service revenue are charges for patient service waived under the Organization's charity care policy. Charity care represents unreimbursed charges incurred by the Organization in providing uncompensated care to indigent patients. Based on established rates, charges of $50 and $570 were waived during 2018 and 2017, respectively. The Organization participates in the Hospital Care Assurance Program (HCAP), which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services. The net amounts received under the HCAP program resulted in revenue of $2,004 and $2,472 in 2018 and 2017, respectively.

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

Net Nonoperating (Losses)

Net nonoperating (losses) decreased due to a change in swap valuation. The Organization deemed an interest rate swap to be an ineffective hedge and the Organization recognized a change in the value of swap agreement of $(432) in 2017. In 2018, the Organization recognized a favorable adjustment related to the value of swap as of December 31, 2018.

Cash Flows

Changes in the Organization's cash flows are consistent with changes in operating gains and non-operating gains and losses as discussed earlier. Non-cash expenses such as depreciation and bad debt expense represent primary reasons the net cash from operating activities is greater than the change in net position (deficit). The Organization generated positive (negative) cash flows from operations in 2018 and 2017 of $(259) and $6,337, respectively.

Capital Asset and Debt Administration

Capital Assets

The Organization had $7,359 and $7,569 invested in capital assets, net of accumulated depreciation in 2018 and 2017, respectively. The Organization acquired or constructed capital assets in the amount of $665 and $673 during 2018 and 2017, respectively.

Debt

The Organization had $9,659 and $9,857 in bonds and capital lease obligations outstanding at December 31, 2018 and 2017, respectively.

Contacting the Organization's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Organization's finances and to show the Organization's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer at 208 N. Columbus Street, Hicksville, Ohio 43526.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP
HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET
December 31, 2018

ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	$	2,182,223
Patient accounts receivable, net of estimated uncollectible accounts of $3,081,000 in 2018		3,357,665
Estimated third party settlement		1,435,211
Other receivable		1,852
Inventories		625,607
Prepaid expense and other assets		166,116
Total current assets		7,768,674
ASSETS LIMITED AS TO USE		2,017,546
CAPITAL ASSETS, net		7,359,003
OTHER ASSETS		453,040
Total assets		17,598,263
NET PENSION ASSET		187,224
DEFERRED OUTFLOWS		
Public employee retirement system		3,211,121
Other post employment benefits		597,269
Total deferred outflows		3,808,390
Total assets and deferred outflows	$	21,593,877

See Notes to Consolidated Financial Statements

LIABILITIES, DEFERRED INFLOW AND NET POSITION (DEFICIT)

CURRENT LIABILITIES	
Current portion of long-term debt	$ 427,091
Accounts payable and accrued expenses	3,095,055
Accrued salaries, wages, and employee benefits	2,063,995
Total current liabilities	5,586,141
LONG-TERM DEBT, net of current portion	9,231,903
OTHER LIABILITIES	
Interest rate swap liability	262,019
Net pension liability	10,385,026
Other post employment liability	8,116,213
Total current liabilities	18,763,258
Total liabilities	33,581,302
DEFERRED INFLOWS	
Public employee retirement system	3,119,065
Other post employment benefits	604,604
Total deferred inflows	3,723,669
Total liabilities and deferred inflows	37,304,971
NET POSITION (DEFICIT)	
Net invested in capital assets	(2,299,991)
Restricted	890,471
Unrestricted	(14,301,574)
Total net position (deficit)	(15,711,094)
Total liabilities and net position (deficit)	$ 21,593,877

See Notes to Consolidated Financial Statements

MARK MILFORD HICKSVILLE JOINT TOWNSHIP
HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION (DEFICIT)
Years Ended December 31, 2018

OPERATING REVENUE	
Net patient service revenue (net of provision for bad debts of $1,801,740 in 2018)	$ 27,302,033
Other operating revenue	1,173,650
Total operating revenue	28,475,683
OPERATING EXPENSES	
Salaries and wages	13,861,987
Employee benefits	5,437,452
Purchased services	3,100,651
Supplies	2,023,657
Physician services	1,020,159
Depreciation and amortization	876,577
Maintenance and repairs	1,056,749
Utilities	635,089
Miscellaneous	331,138
Insurance	333,482
Total operating expenses	28,676,941
Operating (loss)	(201,258)
NON-OPERATING GAINS/(LOSSES)	
Investment and other income, net	148,271
Interest expense	(579,080)
Change in the value of swap agreement	170,245
Total net nonoperating (losses)	(260,564)
(DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE CAPITAL APPROPRIATIONS	(461,822)
CAPITAL APPROPRIATIONS	126,266
DECREASE IN NET POSITION (DEFICIT)	(335,556)
NET POSITION (DEFICIT), BEGINNING OF YEAR , BEFORE CUMULATIVE EFFECT ADJUSTMENT	(7,970,653)
CUMULATIVE EFFECT ADJUSTMENT FOR CHANGE IN ACCOUNTING PRINCIPLE (NOTE 1)	(7,404,885)
Net position (Deficit):	
Beginning of year, after cumulative effect adjustment	(15,375,538)
End of year	$ (15,711,094)

See Notes to Consolidated Financial Statements

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
Years Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from patients and third-party payors	$ 27,989,627
Cash paid to employees for wages and benefits	(21,177,654)
Cash paid to vendors for goods and services	(8,244,642)
Other receipts, net	1,173,650
Net cash (used in) operating activities	(259,019)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Repayment of long-term debt and capital leases	(509,763)
Interest paid on long-term debt and capital leases	(579,080)
Capital appropriations	126,266
Purchase of capital assets	(353,278)
Net cash (used in) capital and related financing activities	(1,315,855)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	148,271
Net cash provided by investing activities	148,271
Net (decrease in) cash and cash equivalents	(1,426,603)
Cash and cash equivalent:	
Beginning of year	5,626,372
End of year	$ 4,199,769
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS	
Cash and cash equivalents and investments	$ 2,182,223
Cash and cash equivalents in assets limited as to use	2,017,546
Total cash and cash equivalents	$ 4,199,769
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES	
Operating (loss)	$ (201,258)
Adjustment to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	876,577
(Loss) on disposal of capital assets	(1,700)
Provision for bad debts	1,801,740
Changes in:	
Patient accounts receivable	(639,633)
Inventories, prepaid expenses, and other assets	(95,885)
Accounts payable and accrued expenses, accrued salaries, wages, and employee benefits	(2,529,182)
Estimated third-party payor settlements	(476,386)
Deferred outflow of resources	2,508,852
Deferred inflow of resources	3,586,941
Net pension asset	(105,327)
Net pension liability	(5,550,977)
Other post employment liability	567,219
Net cash (used in) operating activities	$ (259,019)
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING	
Activities change in fair value of interest rate swap	$ 170,245
Acquisition of capital assets through direct financing	$ 311,416

See Notes to Consolidated Financial Statements

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

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

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

Enterprise fund accounting: The Organization uses Enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Fund Accounting, as superseded by GASB Statement No. 62, codification of Accounting and Financial Reporting Guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements.

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

The most significant of the Hospital's accounting policies are described below.

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

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

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

Assets limited as to use: Assets limited as to use consist of assets restricted by donors, assets held by trustees under an indenture agreement, externally restricted under a reimbursement agreement, assets externally restricted for capital improvements, and assets internally designated by the Board of Governors for capital improvements. The Organization's policy is to invest available funds in obligations of the U.S. Government, certificates of deposit, mutual funds, and money market funds.

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

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

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

Costs of borrowings: Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Organization's interest cost was capitalized in 2018.

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

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

Pensions/Other Postemployment Benefits (OPEB): Substantially all of the Organization's employees are eligible to participate in a defined benefit pension plan sponsored by the Ohio Public Employees' Retirement System (OPERS). The Organization funds pension costs based on contribution rates determined by OPERS. For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

Deferred outflows/inflows of resources: In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflows of resources (expense) until then. For the Organization, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 8 and 9.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Organization, deferred inflows of resources include pension and OPEB. The deferred inflows of resources related to pension and OPEB plans are explained in Notes 8 and 9.

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

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

Risk management: The Organization is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this coverage in any of the three preceding years.

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

Charity care: The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as net revenue. The Organization maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The amount of charity care not recorded as revenue was approximately $79,000 in 2018. The cost of caring for charity care patient for the year ended December 31, 2018, was approximately $50,000. The Organization participates in the Hospital Care Assurance Program (HCAP), which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amount received through this program totaled approximately $2,004,000 in 2018. This amount is reported as net patient service revenue on the consolidated statement of operations and changes in net position (deficit).

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

Subsequent events: The Organization has evaluated subsequent events through June __, 2019, the date on which the consolidated financial statements were available to be issued.

Change in accounting principle: During 2018, the Organization adopted the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This statement established new accounting and financial requirements for the other post-employment benefits (OPEB) provided by the Organization to its employees. The Organization's employees participate in a cost-sharing, multiple-employer plan, which are within the scope of this statement. This statement requires the Organization to recognize a net OPEB liability or asset, OPEB expense, and OPEB related deferred inflows and outflows of resources based on the Organization's proportionate share of collective amounts for all participating employers in the plan. The Organization's portion of the net OPEB liability and asset, OPEB expense, and OPEB related deferred inflows and outflows of resources have been recognized in the accompanying financial statements.

Adoption of this statement resulted in a reduction to the beginning net position as of January 1, 2018, of approximately $7,405,000 to recognize the cumulative effect of applying this statement to beginning net position. The decrease is attributed to recognition of the net OPEB liability of approximately $7,549,000, at December 31, 2017, and deferred outflows of resources related to the Organization's contributions made subsequent to the measurement date of January 1, 2017 through December 31, 2017, of approximately $144,000. The prior year financial statements were not restated as a result of this change in accounting principle due to sufficient information not being available to calculate the prior year effect.

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

Note 2. Deposits and Investments and Investment Risks

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the Organization's deposits may not be returned to it. The Organization's deposit policy for custodial risk is to require all deposits with financial institutions to be entirely insured or collateralized by securities held by financial institutions. At December 31, 2018, the carrying amount of the Organization's bank deposits for all funds is $4,121,899 as compared to a bank balance of $5,192,204. Of the bank balances at December 31, 2018, $1,039,094 is covered by Federal insurance programs and $3,006,096 is collateralized with securities held by the financial institution or by its trust department or agent but not in the Organization's name.

Assets Limited as to Use

The composition of assets limited as to use at December 31, 2018, is set forth in the following table. The Organization's investments included in assets limited as to use are categorized to give an indication of the level of risk assumed by the Organization. Investments with limited use are comprised of the following:

INTERNALLY DESIGNATED FOR OPERATIONS AND CAPITAL IMPROVEMENTS	
Cash and cash equivalents	$ 1,127,075
HELD BY TRUSTEE UNDER INDENTURE AGREEMENT	
Cash and cash equivalents	381,932
EXTERNALLY RESTRICTED UNDER REIMBURSEMENT AGREEMENT	
Cash and cash equivalents	350,580
EXTERNALLY RESTRICTED BY DONORS	
Cash and cash equivalents	76,651
Mutual funds	75,000
	151,651
EXTERNALLY RESTRICTED FOR CAPITAL IMPROVEMENTS	
Cash and cash equivalents	6,308
Total	$ 2,017,546

Investments

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

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

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

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

Patient accounts receivable reported as current assets and accrued expenses reported as current liabilities at December 31, 2018, consisted of these amounts:

Patient accounts receivable	$	9,050,988
Allowance for uncollectible accounts		(3,080,718)
Allowance for contractual adjustments		(2,612,605)
Patient accounts receivable, net	$	3,357,665

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2018, is as follows:

Other third-party payors	34%
Self-pay	34%
Medicare and Managed Medicare	24%
Medicaid and Managed Medicaid	8%
	100%

Accrued salaries, wages, and employee benefits consist of the following as of December 31, 2018:

Payroll and related items	$	1,002,326
Self-insured benefits		98,396
Health insurance claims		275,341
Compensated absences		687,932
Total	$	2,063,995

Note 4. Capital Assets

Capital assets additions, retirements, and balances for the year ended December 31, 2018 was as follows:

	December 31, 2017	Additions	Transfers	Retirements	December 31, 2018
CAPITAL ASSETS					
Land improvements	$ 477,161	$ -	$ -	$ -	$ 477,161
Buildings and equipment	27,990,076	546,160	15,461	(179,876)	28,371,821
Land	176,778	49,865	-	-	226,643
Construction in process	37,916	68,669	(15,461)	-	91,124
Total capital assets	28,681,931	664,694	-	(179,876)	29,166,749
Less accumulated depreciation and amortization for:					
Land improvements	(324,180)	(10,760)	-	-	(334,940)
Buildings and equipment	(20,788,565)	(865,817)	-	181,576	(21,472,806)
Total accumulated depreciation and amortization	(21,112,745)	(876,577)	-	181,576	(21,807,746)
CAPITAL ASSETS, net	$ 7,569,186	$ (211,883)	$ -	$ 1,700	$ 7,359,003

The cost of equipment under capital lease included in capital assets for the Organization as of December 31, 2018 is as follows:

Cost of equipment under capital lease	$ 2,024,172
Accumulated amortization	(1,967,278)
Net carrying amount	$ 56,894

Depreciation and amortization expense for the year ended December 31, 2018 totaled $876,577.

Note 5. Estimated Third-Party Payor Settlements

Estimated third-party payor settlements consist of amounts due from the Medicare and Medicaid programs for the settlement of current and prior year cost reports. The balance at December 31, 2018 consist of estimated amounts as follows:

2012	$ 10,252
2014	10,000
2017-2018	1,414,959
Total third-party payor settlements	$ 1,435,211

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

A schedule of changes in the Organization's noncurrent liabilities for 2018, are as follows:

	December 31, 2017	Additions	Reductions	December 31, 2018	Amounts Due within 1 year
LONG-TERM DEBT					
2005 bonds	$ 4,985,000	$ -	$ 320,000	$ 4,665,000	$ 163,000
2007 bonds	4,734,000	-	157,000	4,577,000	170,000
Capital lease obligations	138,341	-	32,763	105,578	35,638
Notes payable, bank	-	311,416	-	311,416	58,453
	9,857,341	311,416	509,763	9,658,994	427,091
OTHER NONCURRENT LIABILITIES					
Interest rate swap	432,264	-	170,245	262,019	-
Total noncurrent liabilities	$ 10,289,605	$ 311,416	$ 680,008	$ 9,921,013	$ 427,091

A description of long-term debt at December 31, 2018, follows:

2005 County Hospital Facilities Revenue Bonds (2005 Bonds), adjustable interest rate (1.71% at December 31, 2018 and an effective rate of 4.46%), due December 1, 2037, mandatory annual redemption beginning December 1, 2008, in installments ranging from $95,000 to $410,000 plus interest.	$ 4,665,000
Ohio Hospital Facilities Revenue Refunding (2007 Bonds), 4.125% fixed rate, mandatory annual redemption beginning December 1, 2008, in installments ranging from $105,000 to $338,000, maturity date of December 1, 2037.	4,577,000
Capital lease obligation - monthly principal and interest payments of $548 through October 2019 , secured by the equipment leased.	6,027
Capital lease obligation - monthly principal and interest payments of $3,050 through January 2022, with interest at 8.11%, secured by the equipment leased.	99,551
Equipment financing obligation, due in monthly installments of $6,181 through November 2023 with interest at 7.096%, secured by related equipment.	311,416
	9,658,994
Less current portion	(427,091)
Long-term debt	$ 9,231,903

Minimum payments on these obligations to maturity as of December 31, 2018, follows:

	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2019	$ 391,453	$ 443,507	$ 35,638	$ 6,989
2020	408,081	423,393	32,104	4,496
2021	429,339	404,094	34,806	1,794
2022	451,909	383,749	3,030	41
2023	467,634	362,293	-	-
Thereafter	7,405,000	2,817,750	-	-
	$ 9,553,416	$ 4,834,786	$ 105,578	$ 13,320

During 2005, the Organization obtained $12,600,000 of Adjustable Rate Demand County Hospital Facilities Revenue Bonds, Series 2005 (2005 Bonds), for constructing, equipping, installing, and improving additional Hospital facilities. The bonds are payable in varying annual installments beginning December 2008. The bonds mature December 2037. The adjustable interest rate for the year ended December 31, 2018 was 1.71%.

The debt was collateralized by total revenues and a letter of credit issued by Fifth Third Bank. The letter of credit expired January 20, 2017. In the event of a draw on the letter of credit due to troubled remarketing of the bonds by the bank, the Organization had until the expiration date of the letter of credit to reimburse the bank. In accordance with the Reimbursement Agreement as amended in November 2014, the Organization was required to maintain debt service reserves of $800,000. Of this reserve, $400,000 must be maintained in a bank deposit account with the remaining balance being held in a separate Reserve Account. Monthly deposits of $25,000 must be made into the Reserve Account until the total amount on deposit equals the entire debt service reserves stated above. On October 13, 2017, the agreement was amended that as of the date of the amendment, the Organization was allowed to withdraw up to $400,000 of the funds on deposit to pay a portion of the principal amount that was due at December 1, 2017. On October 19, 2018, the agreement was amended and the Organization was not required to replenish the $400,000 withdrawn from the reserve account. The letter of credit’s expiration and replenishment requirement was also extended to January 2020. At December 31, 2018, the Reserve Account had a balance of $350,580, and is included within assets limited as to use in the accompanying balance sheet.

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

The Organization is required to meet certain financial covenants including debt service requirements. At December 31, 2018, the Organization was in compliance with the covenants.

Note 7. Net Patient Service Revenue

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

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

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

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

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

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

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the year ended December 31, 2018 is as follows:

Gross patient service revenue	$ 46,026,230
Uncompensated care reimbursement, net	1,925,354
Less third-party allowances	18,847,811
Less bad debts and charity care	1,801,740
	$ 27,302,033

Note 8. Pension Plans

Plan Description

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

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

2. The Member-Directed (MD) Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.

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

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

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

Benefits Provided

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

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

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

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

All employees are required to become contributing members of OPERS when they begin employment at the Organization unless they are exempted or excluded as defined by the ORC. For actuarial purposes, employees who have earned sufficient service credit (60 contributing months) are entitled to a future benefit from OPERS.

Contributions

The ORC provides OPERS statutory authority over employee and employer contributions. The required contractually determined contribution rates, respectively of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The contractually required contribution rates for the employee and the Organization are as follows for the year ended December 31, 2018:

OPERS	
Employee	10 %
Organization	14 %

For the year ended December 31, 2018, contributions to the pension plans from the Organization were as follows:

OPERS		
Traditional	$	1,419,518
Combined		86,590
	$	1,506,108

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

As of December 31, 2018, the Organization reported a net pension liability and net pension asset for the OPERS defined benefit plans as follows:

The Organization reported a liability for OPERS of $10,385,026 as of December 31, 2018 for its proportionate share of the net pension liability. The Organization reported an asset for OPERS of $187,224 as of December 31, 2018 for its proportionate share of the net pension asset. The net pension liability and net pension asset as of December 31, 2018, are measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) were determined by an actuarial valuation as of that date. The Organization's proportion of the net pension liability and net pension asset were based on the Organization's share of contributions to the respective defined benefit pension plans relative to the contributions of all participating employers during the measurement period. At December 31, 2018, the Organization's proportion was 0.066197% for the Traditional Plan and 0.137531% for the Combined Plan.

For the year ended December 31, 2018, the Organization recognized pension expense related to the defined benefit pension plans of $2,259,863. At December 31, 2018, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018			
	Traditional Plan		Combined Plan	
	Deferred	Deferred	Deferred	Deferred
Differences between expected and actual experience	$ 10,606	$ 204,656	$ -	$ 55,775
Net difference between projected and actual earnings on pension plan investments	-	2,229,528	-	29,539
Change in assumptions	1,241,080	-	16,361	-
Changes in proportion and differences between employer and proportionate share contributions	413,607	599,567	23,359	-
Organization's contributions subsequent to the measurement date	1,419,518	-	86,590	-
	$ 3,084,811	$ 3,033,751	$ 126,310	$ 85,314

At December 31, 2018, the Organization reported $1,419,518 and $86,590 for the traditional and combined plans, respectively, as deferred outflows of resources related to pensions resulting from Organization contributions subsequent to the measurement date that will be recognized as a(n) decrease (increase) to the net pension liability/(asset) in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2018, related to pensions will be recognized in pension expense as follows:

	Traditional	Combined	Total
2019	$ 1,003,647	$ (6,129)	$ 997,518
2020	(474,194)	(6,937)	(481,131)
2021	(981,766)	(13,555)	(995,321)
2022	(916,146)	(536)	(916,682)
2023	-	(2,484)	(2,484)
Thereafter	-	(3,631)	(3,631)
	$ (1,368,459)	$ (33,272)	$ (1,401,731)

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	December 31, 2017	
Accrual Information	**Traditional Plan**	**Combined Plan**
Experience study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Wage Inflation	3.25%	3.25%
Future salary increases, including inflation	3.25%-10.75% including inflation at 3.25%	3.25%-8.25% including inflation at 3.25%
Investment rate of return	7.50%	7.50%
Cost-of-living adjustments	Pre 1/7/2013 Retirees 3.00% simple Post 1/7/2013 Retirees 3.00% simple through 2018, then 2.15% simple	Pre 1/7/2013 Retirees 3.00% simple Post 1/7/2013 Retirees 3.00% simple through 2018, then 2.15% simple

For the December 31, 2017, actuarial evaluation, mortality rates were based on the RP-2014 Healthy Annuitant mortality table. The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on OPERS defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage, adjusted for inflation. The table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return.

	OPERS	
	Allocation	Long-Term Expected Rate of Return
ASSET CLASS		
Domestic equities	19.00 %	6.37 %
International equities	20.00	7.88
Fixed income	23.00	2.20
Real estate	10.00	5.26
Private equity	10.00	8.97
Other investments	18.00	5.26
	100.00 %	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 7.5% as of valuation period ending December 31, 2017 (measurement date). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total pension asset.

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

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

2018	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.50%
Organization's proportionate share of the net pension liability - Traditional	$ 18,441,160	$ 10,385,026	$ 3,668,638
Organization's proportionate share of the net pension liability (asset) - Combined	$ (101,773)	$ (187,224)	$ (246,180)

Pension Plans Fiduciary Net Position

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

Payable to the Pension Plans

At December 31, 2018, the Organization reported a payable of $207,659 for the outstanding amount of contributions to the pension plans required for the year ended December 31, 2018.

Defined Contribution Plan

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

Pension expense recorded for the years ended December 31, 2018 for contributions to Member-Directed Plan was approximately $211,000.

Note 9 Defined Benefit OPEB Plans and Change in Accounting Principle

Net Other Post-Retirement Employee Benefit Liability

Change in accounting principle: Effective January 1, 2018, the Organization adopted GASB 75. The objective of the requirements of this statement is to improve accounting and financial reporting by state and local governments for OPEB. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions, between an employer and its employee, of salaries and benefits for employee services. OPEB are provided to an employee, on a deferred-payment basis, as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the Organization's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits the Organization's obligation for this liability to annually required payments. The Organization cannot control benefit terms or the manner in which OPEB are financed; however, the Organization does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB liability on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

Plan Description – Other Post-Retirement Employee Benefit (OPEB)

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

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

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary. This is the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Organization's contractually required contribution was $0 for 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. The Organization's proportion of the net OPEB liability was based on the Organization's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	2018
Proportionate Share of the Net OPEB Liability	$ 8,116,213
Proportion of the Net OPEB Asset/Liability	0.07474000%
OPEB Expense	$ 718,663

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

	Deferred Inflows	Deferred Outflows
Net difference between projected and actual earnings on OPEB plan investments	$ 604,604	$ -
Change in assumptions	-	590,947
Differences between expected and actual experience	-	6,322
	$ 604,604	$ 597,269

The Organization reported $0 as deferred outflows of resources related to OPEB resulting from Organization contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending December 31:	
2019	$ 134,405
2020	134,405
2021	(124,994)
2022	(151,151)
	$ (7,335)

Actuarial Assumptions - OPEB

Actuarial valuations of an ongoing plan involve estimates of the values 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 and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

December 31, 2017	
Actuarial Information	Traditional Plan
Wage Inflation	3.25 percent
Future Salary Increases, including Inflation	3.25 percent to 10.75 percent, including wage inflation
Single Discount Rate	
Current Measurement Rate	3.85 percent
Prior Measurement Rate	4.23 percent
Investment Rate of Return	6.50 percent
Health Care Cost Trend Rate	7.50 percent initial, 3.25 percent ultimate in 2028
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on health care 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.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

	Target Allocation	Long-Term Expected Real Rate of Return
ASSET CLASS		
Domestic equities	21.00%	6.37%
International equities	22.00%	7.88%
Fixed income	34.00%	1.88%
REITs	6.00%	5.91%
Other investments	17.00%	5.39%
	100.00%	4.98%

Discount Rate - A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the Organization's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the Organization’s proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the Organization’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate.

	1% Decrease 2.85%	Current Discount Rate 3.85%	1% Increase 4.85%
Net OPEB Liability	$ 10,782,740	$ 8,116,213	$ 5,959,020

Sensitivity of the Organization's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
Net OPEB Liability	$ 7,765,486	$ 8,116,213	$ 8,478,506

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries’ project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

Note 10. Professional Liability Insurance

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

Note 11. Risk Management – Health Insurance

The Organization is self-insured, subject to certain stop-loss coverage, for its employees' health benefits. The Organization accrues the estimated costs of reported and incurred-but-not-reported claims based on its actual claims history. The plan is covered by a stop-loss policy that covers claims over $90,000 per employee per annum up to an aggregate amount of $1,000,000. Expenses charged to operations, including an estimate of incurred but unreported claims, totaled $2,222,449 for 2018.

Note 12. Fair Value of Financial Instruments

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

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

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

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

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

Fair Value Measurements

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

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

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

Assets at Fair Value on a Recurring Basis

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

December 31, 2018	Level 1	Level 2	Level 3	Total
ASSETS				
Cash and cash equivalents	$ 4,124,769	$ -	$ -	$ 4,124,769
Mutual funds	75,000	-	-	75,000
Total	$ 4,199,769	$ -	$ -	$ 4,199,769
LIABILITIES				
Interest rate swap agreement	$ -	$ 262,019	$ -	$ 262,019

Assets Recorded at Fair Value on a Nonrecurring Basis

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

Note 13. Lease Commitments and Rental Expense

Operating leases consist of several cancelable and noncancelable leasing arrangements expiring at various dates through 2019 with renewal options thereafter. Aggregate rental expense under operating lease agreements was approximately $149,000 for the year ended December 31, 2018. For the year ended December 31, 2018, future minimum lease payments under noncancelable operating lease agreements were as follows:

Years ending December 31,	Minimum Lease Payments
2019	$ 39,817
Total minimum lease payments	$ 39,817

Note 14. Interest Rate Risk Management

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

Contract

The Organization has an interest-rate related derivative instrument in effect at December 31, 2018, to manage the exposure on its debt instruments. The Organization does not enter into derivative instruments for any purpose other than cash flow hedging purposes related to its debt.

Objective

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

Terms, Fair Value, Credit Risk, and Market Risk

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

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

The following table summarizes the terms, fair value, and credit rating of the Organization's interest rate swap agreement as of December 31, 2018:

Associated Bond Issue	Current Notional Amount	Effective Date	Fixed Rate	Fair Value	Date	Counterparty Credit Rating
Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2005	$ 4,870,000	1/1/2008	4.46%	$ (262,019)	1/1/2021	A3, A-, A

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

Basis Risk

The swap exposes the Organization to basis risk should the relationship between SIFMA and USD-BMA Municipal Swap Index converges, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rates of 4.46% and the synthetic rate of 4.60% for 2018. As of December 31, 2018, the variable rate on the Hospital's Series 2005 bonds was 0.85% whereas the variable rate from the counterparty was 0.64%.

Termination Risk

The Organization or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the Organization would be liable to the counterparty for a payment equal to the swap's fair value.

Note 15. Blended Component Unit

The consolidated financial statements include Community Memorial Hospital Foundation, Inc., a separate not-for-profit entity organized to support the operations of the Hospital as a blended component unit. The following is a summary of the financial position and activities of the Foundation as of and for the year ended December 31, 2018:

ASSETS		
Current assets	$	151,852
Other		151,651
Total assets	$	303,503
LIABILITIES		
Current liabilities	$	-
Total liabilities		-
NET ASSETS		
Restricted		151,651
Unrestricted		151,852
Total liabilities and net position	$	303,503
OPERATING EXPENSES	$	70,066
NON-OPERATING GAINS		89,654
EXCESS OF REVENUES OVER EXPENSES	$	19,588
CASH PROVIDED BY (USED IN)		
Operating activities	$	(66,320)
Investing activities		(78,746)
Financing activities		89,654
Net decrease in cash		(55,412)
Cash:		
Beginning of year		132,063
End of year	$	76,651

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

Traditional Defined Benefit Pension Plan	**2018**	2017	2016	2015
Organization's proportion of the net pension liability	**0.066197%**	0.070177%	0.063390%	0.063652%
Organization's proportionate share of the net pension liability	**$ 10,385,026**	$ 15,936,003	$ 10,979,947	$ 7,677,154
Organization's covered-employee payroll	**$ 9,479,033**	$ 9,080,225	$ 7,889,017	$ 7,803,792
Organization's proportionate share of the net pension liability as a percentage of its covered-employee payroll	**109.56%**	175.50%	139.18%	98.38%
Plan fiduciary net position as a percentage of the total pension liability	**84.66%**	77.25%	81.08%	86.36%

Combined Defined Benefit Pension Plan	**2018**	2017	2016	2015
Organization's proportion of the net pension asset	**0.137531%**	0.147146%	0.182490%	0.202127%
Organization's proportionate share of the net pension asset	**$ (187,224)**	$ (81,897)	$ (8,803)	$ (77,824)
Organization's covered-employee payroll	**$ 610,192**	$ 569,925	$ 664,125	$ 738,850
Organization's proportionate share of the net pension asset as a percentage of its covered-employee payroll	**-(30.68)%**	-(14.37)%	-(13.37)%	-(3.66)%
Plan fiduciary net position as a percentage of the total pension asset	**137.28%**	116.55%	116.90%	114.83%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Organization will present information for those years for which information has been determined under the provisions of GASB 68. Information in these schedules has been determined as of the measurement date (December 31, of the prior fiscal year) of the collective net pension liability (asset).

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

Traditional Defined Benefit Pension Plan	**2018**	2017	2016	2015
Statutorily required contribution	**$ 1,419,518**	$ 1,137,484	$ 1,089,627	$ 946,682
Contributions in relation to the statutorily required contributions	**(1,419,518)**	(1,137,484)	(1,089,627)	(946,682)
Contributions deficiency (excess)	**$ -**	**$ -**	**$ -**	**$ -**
Organization's covered-employee payroll	**$ 11,828,317**	$ 9,479,033	$ 9,080,225	$ 7,889,017
Contributions as a percentage of covered-employee payroll	**14.00%**	13.00%	12.00%	12.00%

Combined Defined Benefit Pension Plan	**2018**	2017	2016	2015
Statutorily required contribution	**$ 86,590**	$ 73,223	$ 68,391	$ 79,695
Contributions in relation to the statutorily required contributions	**(86,590)**	(73,223)	(68,391)	(79,695)
Contributions deficiency (excess)	**$ -**	$ -	$ -	$ -
Organization's covered-employee payroll	**$ 721,583**	$ 610,192	$ 569,925	$ 664,125
Contributions as a percentage of covered-employee payroll	**14.00%**	13.00%	12.00%	12.00%

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

Schedule of Organization's Proportionate Share of the Net OPEB Liability

	2018
Organization's proportion of the net OPEB liability (percentage)	0.07474%
Organization's proportionate share of the net OPEB liability	$ 8,116,213
Organization's covered-employee payroll	$ 10,588,571
Organization's proportionate share of the net OPEB liability as a pecentage of its covered-employee payroll	76.65%
Plan fiduciary net position as a percentage of the total OPEB liability	54.14%

Schedule of the Organization's OPEB Contributions

	2018	2017
Contractually required contribution	**$ 60,221**	$ 144,109
Contribution in relation to the contractually required contribution	**(60,221)**	(144,109)
Contribution deficiency (excess)	**$ -**	$ -
Organization's covered-employee payroll	**$ 12,263,429**	$ 10,588,571
Contributions as a percentage of covered-employee payroll	**0.49%**	1.36%

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Mark Milford Hicksville Joint Township Hospital District and Subsidiary (the Organization), which comprise the balance sheet, as of December 31, 2018, and the related statements of operations and changes in net position (deficit), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 1, 2019. Our report also contains an emphasis of matter paragraph to describe the restatement of net position for the implementation of a new Accounting Standard Statement No. 75 of the Government Accounting Standards Board, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to these matters.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Arnett Carbis Toothman LLP

Charleston, West Virginia
July 1, 2019

SCHEDULE OF AUDIT FINDINGS AND RESPONSES
Year Ended December 31, 2018

Findings Required to be Reported by Government Auditing Standards:

No matters were reported.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES
Year Ended December 31, 2017

Findings Required to be Reported by Government Auditing Standards:

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

Criteria or Specific Requirement

During 2018, the consolidated financial statements of the Organization for the year ended December 31, 2017, were not submitted within 150 days of their fiscal year end as required per Ohio Rev. Code section 117.38.

Current Status

Management has corrected the issue and have submitted the consolidated financial statements on a timely basis.

OHIO AUDITOR OF STATE
KEITH FABER

MARK-MILFORD-HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 20, 2019

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