Highland County Joint Township District Hospital

Independent Auditor’s Reports and Financial Statements

December 31, 2019 and 2018

OHIO AUDITOR OF STATE
KEITH FABER

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Board of Governors
Highland County Joint Township District Hospital
1275 North High Street
Hillsboro, Ohio 45133

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

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

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

June 24, 2020

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Highland County Joint Township District Hospital
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Highland County Joint Township District Hospital as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Highland County Joint Township District Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Highland County Joint Township District Hospital, as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, the financial impact of COVID-19 and the ensuing measures may impact subsequent periods of Highland County Joint Township District Hospital. 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, pension, and other postemployment benefit information as 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 also have issued our report dated May 11, 2020, on our consideration of Highland County Joint Township District Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Highland County Joint Township District Hospital's 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 Highland County Joint Township District Hospital's internal control over financial reporting and compliance.

BKD, LLP

Cincinnati, Ohio
May 11, 2020

Highland County Joint Township District Hospital
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2019 and 2018

Introduction

This management's discussion and analysis of the financial performance of Highland County Joint Township District Hospital and its blended component units (collectively, the "Organization") provides an overview of the Organization's financial activities for the years ended December 31, 2019 and 2018. It should be read in conjunction with the accompanying financial statements of the Organization.

Financial Highlights

- Cash and investments decreased in 2019 by $1,736,108, or 6.57% and increased in 2018 by $860,845, or 3.37%.
- Assets limited as to use, net of amounts required to meet current obligations, decreased in 2019 and 2018 by $6,244,195 and $110,849, or 68.91% and 1.21%, respectively.
- The Organization's net position decreased $2,066,612, or 11.29% in 2019, while net position increased $711,695, or 2.44% in 2018. The 2018 net position was also impacted by a separate cumulative change in accounting principle of $11,524,796, which then resulted in an overall 2018 decrease to net position of $10,813,101, or 37.13%.
- The Organization reported an operating loss in 2019 of $2,364,199. The operating loss in 2019 was a decrease of $2,997,225 or 473.48% over the operating income of $633,026 reported in 2018. The operating income in 2018 increased by $210,890 or 49.96% over the operating income of $422,136 reported in 2017.
- Net nonoperating activity improved by $663,351 or 181.36% in 2019 compared to 2018, and by $419,119 or 53.40% percent in 2018 compared to 2017.
- The cumulative effect of adopting Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* has been a $35,614,487 reduction in Hospital net position through December 31, 2019.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The Organization's Net Position

The Organization's net position is the difference between its assets, liabilities and deferred inflows and outflows of resources. The Organization's net position decreased by $2,066,612 or 11.29% in 2019 over 2018, as shown in Table 1. Excluding the cumulative effect of change in accounting principle of $11,524,796, the Organization's net position increased by $711,695, or 2.44% in 2019 compared to 2018. The 2017 values within Table 1 do not reflect the impact of GASB Statement No. 75, as the Organization's adoption date of the standard was January 1, 2018.

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

	2019	2018	2017
Assets			
Patient accounts receivable, net	$ 7,040,697	$ 6,689,593	$ 6,506,720
Other current assets	5,059,200	6,787,234	5,500,827
Capital assets, net	25,473,500	14,282,745	12,657,048
Net pension asset	160,268	166,622	59,434
Other noncurrent assets	24,919,993	31,803,330	30,967,677
Total assets	62,653,658	59,729,524	55,691,706
Deferred Outflows of Resources	10,510,719	5,465,715	10,365,319
Total assets and deferred outflows of resources	$ 73,164,377	$ 65,195,239	$ 66,057,025
Liabilities			
Long-term debt	$ 2,605,000	$ 3,505,000	$ 4,395,000
Net pension liability	30,565,799	17,473,833	25,379,250
Net OPEB liability	15,140,611	12,554,394	-
Other current and noncurrent liabilities	8,082,586	8,239,246	6,976,968
Total liabilities	56,393,996	41,772,473	36,751,218
Deferred Inflows of Resources	525,729	5,111,502	181,442
Net Position			
Net investment in capital assets	22,868,500	10,777,745	8,262,048
Restricted expendable	933,336	1,139,717	1,402,920
Unrestricted	(7,557,184)	6,393,802	19,459,397
Total net position	16,244,652	18,311,264	29,124,365
Total liabilities, deferred inflows of resources and net position	$ 73,164,377	$ 65,195,239	$ 66,057,025

The most significant changes in the Organization's financial position during 2019 were the use of cash and assets limited as to use to fund construction projects at the Organization's main facility, and changes in the actuarial calculations associated with both the pension and OPEB liabilities also heavily impacted the Organization's financial results for 2019 compared to 2018.

Operating Results and Changes in the Organization's Net Position

In 2019, the Organization's net position decreased by $2,066,612 or 11.29%, as shown in Table 2. This decrease was primarily driven by changes in the actuarial calculations associated with both the pension and OPEB liabilities and represents a decline of $2,778,307 or 390.38% compared with the increase in net position for 2018 of $711,695. The 2017 values within Table 2 do not reflect the impact of GASB Statement No. 75, as the Organization's adoption date of the standard was January 1, 2018.

Highland County Joint Township District Hospital
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2019 and 2018

Table 2: Operating Results and Changes in Net Position

	2019	2018	2017
Operating Revenues			
Net patient service revenue	$ 49,985,603	$ 47,544,198	$ 47,105,184
Other operating revenues	1,203,036	1,091,120	1,050,910
Total operating revenues	51,188,639	48,635,318	48,156,094
Operating Expenses			
Salaries, wages and employee benefits	31,843,534	28,564,099	30,006,444
Purchased services and professional fees	9,155,245	7,748,138	7,102,114
Depreciation and amortization	2,255,948	2,244,357	2,132,591
Other operating expenses	10,298,111	9,445,698	8,492,809
Total operating expenses	53,552,838	48,002,292	47,733,958
Operating Income (Loss)	(2,364,199)	633,026	422,136
Nonoperating Revenues (Expenses)			
Investment income	1,119,388	563,686	346,041
Grant expense	(900,000)	(1,225,000)	(1,025,000)
Interest expense	(148,781)	(184,896)	(213,833)
Noncapital grants and gifts	226,980	480,446	107,909
Total nonoperating revenues (expenses)	297,587	(365,764)	(784,883)
Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts	(2,066,612)	267,262	(362,747)
Capital Gifts	-	444,433	404,185
Increase (Decrease) in Net Position	$ (2,066,612)	$ 711,695	$ 41,438

Operating Income (Loss)

The first component of the overall change in the Organization's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services.

The operating loss for 2019 decreased by $2,997,225 or 473.48% compared to the operating income for 2018. The primary components of the operating performance are:

- An increase in net patient service revenue of $2,441,405 or 5.14%.
- An increase in salaries, wages and employee benefits for the Organization's employees of $3,279,435 or 11.48%. This increase includes an increase in pension expense in 2019 of $2,947,379 or 74.12% and in OPEB expense of $391,358 or 39.35% compared to 2018. Excluding pension and OPEB expense, overall salaries, wages, and benefits decreased by $59,302 or .25%.
- An increase in purchased services and professional fees of $1,407,107 or 18.16%.
- An increase in other operating expenses of $852,413 or 9.02%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense and grant expense. The Organization experienced an increase in investment return in 2019 compared to 2018 as a result of changing market conditions throughout the year, and had a decrease in grant expense due to improved performance by the grant recipient.

The Organization's Cash Flows

Changes in the Organization's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2019, 2018 and 2017, discussed earlier. Cash provided by operating activities remained strong in 2019 at $5,257,232, a decrease of $461,869 or 8.08% compared to the net cash provided by operating activities in 2018.

Participation in the Ohio Public Employees Retirement System

As discussed in Notes 11 and 12 to the financial statements, the Organization participates in the Ohio Public Employees Retirement System (OPERS), which includes multiple-employer cost-sharing defined-benefit and defined-contribution pension retirement plans, as well as a multiple-employer cost-sharing defined benefit plan offering postemployment benefits other than pensions.

The Ohio Revised Code establishes statutory authority for determining employer contributions to the state's cost-sharing retirement plans. The Organization remits the statutorily required contributions to the retirement system in the month subsequent to the related pay periods. These statutorily required contributions constitute the full legal funding requirements of the Organization for the participation of its employees in the pension and OPEB retirement plans. Although accounting standards require the recognition of the net pension and OPEB liability, net pension asset, and the related deferred outflows of resources, deferred inflows of resources and additional actuarially determined defined-benefit pension and defined-benefit OPEB expense, they do not represent legal claims on the Organization's resources and there are no additional cash flows or funding requirements outside of the statutorily required contributions.

Capital Asset and Debt Administration

Capital Assets

At the end of 2019, the Organization had $25,473,500 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2019, the Organization purchased new equipment and incurred construction costs totaling $13,472,685. In September 2018, the Organization broke ground on a 39,000 square foot building expansion project. The project includes the addition of all private inpatient rooms, a separate orthopedic and sports medicine outpatient clinic, on-site and expanded outpatient rehabilitation, additional patient registration access points, a new cancer care unit, an expanded and remodeled surgery unit, and a more easily accessible patient entrance. The building expansion project is expected to be complete in the fall of 2020.

Debt

At December 31, 2019, the Organization had $2,605,000 in revenue bonds outstanding. The Organization did not issue any new debt in 2019 or 2018. The Organization's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Organization's debt ratings in the past two years. In 2007, the Organization entered into a pay-fixed, receive-variable interest rate swap with a fixed rate of 3.942%, which terminates on December 1, 2021. The fair value of the swap as of December 31, 2019 was a liability of $53,335.

Other Economic Factors

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

- Changes in the local economy, which may cause volumes to significantly increase or decrease. Bad debts, charity care, financial mix and utilization may also be impacted.
- Federal and state government budget changes, which could change the funding for Medicare and Medicaid.
- The Patient Protection and Affordable Care Act (PPACA) continues to be scrutinized by Congress. Changes or delays in the law's provisions could have an impact on the Organization's net patient service revenue going forward.
- Physician relationships/alignment will continue to develop, which impacts the quality, cost and services provided to the community.
- In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. Subsequent to year-end, the spread of COVID-19 began to cause some business disruption through reduced patient revenue, specifically related to elective procedures and physician office visits. The financial impact and duration cannot be reasonably estimated at this time.

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

Contacting the Organization's Financial Management

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

Meghann Ackley
Chief Financial Officer

Highland County Joint Township District Hospital
Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	$ 3,214,960	$ 4,444,702
Assets limited as to use - current portion	295,400	295,952
Patient accounts receivable, net of allowance for uncollectible accounts; 2019 - $5,518,412, 2018 - $4,464,563	7,040,697	6,689,593
Contributions receivable	90,800	102,600
Notes receivable	168,398	90,417
Other receivables	334,971	898,590
Supplies	487,421	479,174
Prepaid expenses and other current assets	467,250	475,799
Total current assets	12,099,897	13,476,827
Assets Limited as to Use		
Internally designated for specific purpose	2,430,790	8,568,610
Restricted by donors for capital improvements	386,868	493,243
Held by trustee under bond indenture agreements	295,400	295,952
	3,113,058	9,357,805
Less amounts required to meet current obligations	(295,400)	(295,952)
	2,817,658	9,061,853
Long-Term Investments	21,469,228	21,975,594
Notes Receivable	633,107	684,583
Contributions Receivable	-	81,300
Capital Assets, net	25,473,500	14,282,745
Net Pension Asset	160,268	166,622
Total assets	62,653,658	59,729,524
Deferred Outflows of Resources		
Deferred outflows related to pension	9,181,175	4,412,462
Deferred outflows related to OPEB	1,276,209	970,153
Other deferred outflows	53,335	83,100
	10,510,719	5,465,715
Total assets and deferred outflows of resources	$ 73,164,377	$ 65,195,239

Highland County Joint Township District Hospital
Balance Sheets (Continued)
December 31, 2019 and 2018

	2019	2018
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 2,605,000	$ 900,000
Accounts payable	3,425,772	2,615,966
Accrued expenses	3,114,390	3,469,603
Estimated amounts due to third-party payers	1,489,089	2,070,577
Total current liabilities	10,634,251	9,056,146
Long-Term Debt	-	2,605,000
Interest Rate Swap Agreement	53,335	83,100
Net Pension Liability	30,565,799	17,473,833
Net Other Postemployment Benefits Liability	15,140,611	12,554,394
Total liabilities	56,393,996	41,772,473
Deferred Inflows of Resources		
Deferred inflows related to pension	484,648	4,176,283
Deferred inflows related to OPEB	41,081	935,219
	525,729	5,111,502
Net Position		
Net investment in capital assets	22,868,500	10,777,745
Restricted - expendable for		
Capital improvements	477,668	677,143
Debt service	295,400	295,952
Pensions	160,268	166,622
Unrestricted	(7,557,184)	6,393,802
Total net position	16,244,652	18,311,264
Total liabilities, deferred inflows of resources and net position	$ 73,164,377	$ 65,195,239

Highland County Joint Township District Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 - $7,941,328, 2018 - $5,504,694	$ 49,985,603	$ 47,544,198
Other	1,203,036	1,091,120
Total operating revenues	51,188,639	48,635,318
Operating Expenses		
Salaries and wages	19,973,853	19,709,262
Employee benefits	3,559,817	3,883,710
Pension expense	6,923,842	3,976,463
OPEB expense	1,386,022	994,664
Purchased services	5,564,956	5,446,585
Supplies	8,008,846	7,254,807
Insurance	273,663	293,465
Utilities	836,559	905,303
Physician fees	3,465,640	2,144,536
Depreciation and amortization	2,255,948	2,244,357
Franchise fees	620,653	418,417
Rental and lease expenses	151,152	159,592
Professional fees	124,649	157,017
Other operating expenses	407,238	414,114
Total operating expenses	53,552,838	48,002,292
Operating Income (Loss)	(2,364,199)	633,026
Nonoperating Revenues (Expenses)		
Investment income	1,119,388	563,686
Grant expense	(900,000)	(1,225,000)
Interest expense	(148,781)	(184,896)
Noncapital grants and gifts	226,980	480,446
Total nonoperating revenues (expenses)	297,587	(365,764)
Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts	(2,066,612)	267,262
Capital Gifts	-	444,433
Increase (Decrease) in Net Position	(2,066,612)	711,695
Net Position, Beginning of Year	18,311,264	17,599,569
Net Position, End of Year	$ 16,244,652	$ 18,311,264

Highland County Joint Township District Hospital
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients	$ 49,053,011	$ 47,397,617
Payments to suppliers and contractors	(17,202,956)	(14,359,054)
Payments to employees	(26,174,752)	(25,350,411)
Other operating payments, net	(418,071)	(1,969,051)
Net cash provided by operating activities	5,257,232	5,719,101
Noncapital Financing Activities		
Noncapital grants and gifts	226,980	480,446
Other noncapital financing payments	(926,505)	(2,000,000)
Net cash used in noncapital financing activities	(699,525)	(1,519,554)
Capital and Related Financing Activities		
Capital gifts and grants	-	444,433
Principal paid on long-term debt	(900,000)	(890,000)
Interest paid on notes payable to banks and long-term debt	(148,781)	(184,896)
Purchase of capital assets	(12,615,069)	(3,792,173)
Proceeds from the sale of capital assets	5,900	412,832
Net cash used in capital and related financing activities	(13,657,950)	(4,009,804)
Investing Activities		
Interest and dividends on investments	1,119,388	563,686
Purchase of investments and assets limited as to use	(18,491,625)	(2,018,363)
Proceeds from sale of investments and assets limited as to use	25,136,143	1,572,180
Net cash provided by investing activities	7,763,906	117,503
Increase (Decrease) in Cash and Cash Equivalents	(1,336,337)	307,246
Cash and Cash Equivalents, Beginning of Year	4,848,375	4,541,129
Cash and Cash Equivalents, End of Year	$ 3,512,038	$ 4,848,375
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 3,214,960	$ 4,444,702
Restricted cash	297,078	403,673
Total cash and cash equivalents	$ 3,512,038	$ 4,848,375
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income (loss)	$ (2,364,199)	$ 633,026
Depreciation and amortization	2,255,948	2,244,357
Provision for uncollectible accounts	7,941,328	5,504,694
Changes in operating assets and liabilities:		
Patient accounts receivable	(8,292,432)	(5,687,567)
Estimated amounts due from and to third-party payers	(581,488)	36,292
Accounts payable and accrued expenses	(385,831)	1,089,072
Net pension asset and net pension liability	13,098,320	(8,012,605)
Net other postemployment benefits liability	2,586,217	994,664
Deferred inflows of resources - pension	(3,691,635)	4,827,853
Deferred inflows of resources - OPEB	(894,138)	970,153
Deferred outflows of resources - pension	(4,768,713)	4,930,060
Deferred outflows of resources - OPEB	(306,056)	(935,219)
Other assets and liabilities	659,911	(875,679)
Net cash provided by operating activities	$ 5,257,232	$ 5,719,101
Supplemental Cash Flows Information		
Change in fair value of interest rate swap	$ (29,765)	$ (71,751)
Capital asset acquisitions in accounts payable	1,232,425	392,001

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

Nature of Operations and Reporting Entity

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

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

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

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts.

Patient Accounts Receivable

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

Supplies

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

Investments, Investment Income and Assets Limited as to Use

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

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

Contributions Receivable

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

Capital Assets

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

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

Deferred Outflows of Resources

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

Compensated Absences

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

Risk Management

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

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

Cost-Sharing Multiple-Employer Defined-Benefit Pension Plans

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

Cost-Sharing Multiple-Employer Defined-Benefit Other Postemployment Benefit Plan

The Hospital participates in a cost-sharing multiple-employer defined-benefit other postemployment benefit plan administered by the Ohio Public Employees Retirement System, (the OPEB Plan). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position has been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

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

Net Position

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

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

As a political subdivision of the State of Ohio, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The HDH Foundation, PSC and HJTDH Foundation are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. The HDH Foundation, PSC and HJTDH Foundation are subject to federal income tax on any unrelated business taxable income. During the calendar years ended December 31, 2019 and 2018, the entities did not report any unrelated business income.

Foundations

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

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

Note 2: Net Patient Service Revenue

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

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

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

Approximately 63% and 56% of net patient service revenue was from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term. The 2019 net patient service revenue increased approximately $600,000 due to removal of previously estimated amounts that are no longer necessary as a result of final settlements.

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

Note 3: Deposits, Investments and Investment Income

Deposits

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

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

At December 31, 2019 and 2018, $4,367,620 and $4,291,380 of the Organization's bank balances of $6,760,180 and $7,184,000 were exposed to custodial credit risk as follows:

	2019	2018
Uninsured and uncollateralized	$ 135,820	$ 281,180
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Organization's name	4,231,800	4,010,200
	$ 4,367,620	$ 4,291,380

Investments

The Organization may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities. At December 31, 2019 and 2018, the Organization had the following investments and maturities:

	2019		
		Maturities in Years	
Type	Fair Value	Less Than 1	More Than 1
Certificates of deposit	$ 1,679,016	$ 773,997	$ 905,019
U.S. Treasury obligations	402,886	402,886	-
U.S. government agency bonds	22,003,466	-	22,003,466
	24,085,368	$ 1,176,883	$ 22,908,485
Corporate stocks	199,840		
	$ 24,285,208		

	2018		
		Maturities in Years	
Type	Fair Value	Less Than 1	More Than 1
Certificates of deposit	$ 2,655,225	$ 2,225,430	$ 429,795
U.S. Treasury obligations	366,958	366,958	-
U.S. government agency bonds	27,760,471	3,053,868	24,706,603
	30,782,654	$ 5,646,256	$ 25,136,398
Corporate stocks	147,072		
	$ 30,929,726		

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

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2019 and 2018, the credit quality ratings of U.S. government agency bonds not directly guaranteed by the U. S. government were as follows:

Type	Fair Value	Rating	Rating Organization
December 31, 2019			
U.S. government agency bonds	$ 21,997,838	AA+	Standard & Poor's
December 31, 2018			
U.S. government agency bonds	$ 20,478,915	AA+	Standard & Poor's

Concentration of Credit Risk - The Organization places no limit on the amount that may be invested in any one issuer. The Organization's investment in U.S. government agency bonds of Federal Home Loan Mortgage Corporation and Federal National Mortgage Association constituted 52% and 34% of its total investments at December 31, 2019 and 2018, respectively. Amounts invested in these government-sponsored agencies are not backed by the full faith and credit of the U.S. government. Additionally, the Organization's investments in U.S. government agency bonds of Government National Mortgage Association constituted 11% and 10% of its total investments at December 31, 2019 and 2018, respectively. Amounts invested in this federal government agency are backed by the full faith and credit of the U.S. government.

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

Summary of Carrying Values

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

	2019	2018
Carrying value:		
Deposits and money market accounts	$ 3,512,038	$ 4,848,375
Certificates of deposit	1,679,016	2,655,225
U.S. government securities	22,406,352	28,127,429
Stocks	199,840	147,072
	$ 27,797,246	$ 35,778,101
Included in the following balance sheet captions:		
Cash and cash equivalents	$ 3,214,960	$ 4,444,702
Assets limited as to use	3,113,058	9,357,805
Long-term investments	21,469,228	21,975,594
	$ 27,797,246	$ 35,778,101

Disclosures About Fair Value of Assets and Liabilities

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

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

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

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

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

Note 4: Patient Accounts Receivable

The Organization grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2019 and 2018 consisted of:

	2019	2018
Medicare	$ 6,431,588	$ 6,778,137
Medicaid	2,807,037	3,929,161
Other third-party payers	4,830,432	4,322,461
Patients	6,902,739	5,610,276
	20,971,796	20,640,035
Less allowances and reserves for uncollectible accounts	(13,931,099)	(13,950,442)
	$ 7,040,697	$ 6,689,593

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2019 and 2018:

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 290,137	$ -	$ -	$ -	$ 290,137
Land improvements	848,354	-	-	43,402	891,756
Buildings and leasehold improvements	20,137,099	128,820	762	2,016,160	22,281,317
Equipment	28,883,757	764,447	242,187	203,413	29,609,430
Construction in progress	1,687,222	12,579,418	-	(2,262,975)	12,003,665
	51,846,569	13,472,685	242,949	-	65,076,305
Less accumulated depreciation:					
Land improvements	704,951	19,827	-	-	724,778
Buildings and leasehold improvements	14,194,946	755,646	762	-	14,949,830
Equipment	22,663,927	1,480,475	216,205	-	23,928,197
	37,563,824	2,255,948	216,967	-	39,602,805
Capital assets, net	$ 14,282,745	$ 11,216,737	$ 25,982	$ -	$ 25,473,500

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 46,906	$ 243,231	$ -	$ -	$ 290,137
Land improvements	848,354	-	-	-	848,354
Buildings and leasehold improvements	20,166,924	141,940	261,303	89,538	20,137,099
Equipment	29,545,279	1,896,980	2,609,450	50,948	28,883,757
Construction in progress	111,022	1,716,686	-	(140,486)	1,687,222
	50,718,485	3,998,837	2,870,753	-	51,846,569
Less accumulated depreciation:					
Land improvements	686,765	18,185	-	-	704,950
Buildings and leasehold improvements	13,709,175	743,179	257,408	-	14,194,946
Equipment	23,665,497	1,482,993	2,484,562	-	22,663,928
	38,061,437	2,244,357	2,741,970	-	37,563,824
Capital assets, net	$ 12,657,048	$ 1,754,480	$ 128,783	$ -	$ 14,282,745

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31, 2019 and 2018 consisted of:

	2019	2018
Payable to suppliers and contractors	$ 3,425,772	$ 2,615,966
Payroll and related amounts	2,278,678	2,170,878
Employee health insurance	461,196	495,340
Pension	299,073	729,641
Other	75,443	73,744
	$ 6,540,162	$ 6,085,569

Note 7: Medical Malpractice Claims

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

Note 8: Employee Health Claims

Substantially all of the Organization's employees and their dependents are eligible to participate in the Organization's employee health insurance plan. The Organization is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $100,000 and $70,000 in 2019 and 2018, respectively. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Organization's estimate will change by a material amount in the near term. Activity in the Organization's accrued employee health care claims liability account during 2019 and 2018 is summarized as follows:

	2019	2018
Balance, beginning of year	$ 495,340	$ 424,422
Current year claims incurred and changes in estimates for claims incurred in prior years	2,532,251	2,940,687
Claims and expenses paid	(2,566,395)	(2,869,769)
Balance, end of year	$ 461,196	$ 495,340

Note 9: Long-Term Debt

The following is a summary of long-term debt transactions for the Organization for the years ended December 31, 2019 and 2018:

2019	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds payable:					
Series 2004	$ 1,480,000	$ -	$ (225,000)	$ 1,255,000	$ 1,255,000
Series 2007	2,025,000	-	(675,000)	1,350,000	1,350,000
Total long-term debt	$ 3,505,000	$ -	$ (900,000)	$ 2,605,000	$ 2,605,000

2018	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds payable:					
Series 2004	$ 1,695,000	$ -	$ (215,000)	$ 1,480,000	$ 225,000
Series 2007	2,700,000	-	(675,000)	2,025,000	675,000
Total long-term debt	$ 4,395,000	$ -	$ (890,000)	$ 3,505,000	$ 900,000

Revenue Bonds Payable - Series 2004

The Series 2004 revenue bonds payable consist of Hospital Facilities Revenue and Refunding Bonds (2004 Bonds) in the original amount of $3,905,000 dated August 15, 2004, which bear interest at a variable rate determined weekly. At December 31, 2019 and 2018, the interest rate was 1.79% and 1.92%, respectively. The 2004 Bonds are payable in varying annual installments through August 1, 2024. Proceeds from the issuance of the 2004 Bonds were used to finance the recladding of Organization facilities and to retire the Series 2001 bonds. The 2004 Bonds are secured by an irrevocable bank letter of credit, which expires on July 1, 2021.

Revenue Bonds Payable - Series 2007

The Series 2007 revenue bonds payable consist of Hospital Facilities Revenue Refunding Bonds (2007 Bonds) in the original amount of $10,180,000 dated June 7, 2007, which bear interest at a variable rate determined weekly. At December 31, 2019 and 2018, the interest rate was 1.76% and 1.81%, respectively. The 2007 Bonds are payable in varying annual installments through December 1, 2021. Proceeds from the issuance of the 2007 Bonds were used to retire the Series 1999 bonds. The 2007 Bonds are secured by an irrevocable bank letter of credit, which expires on July 1, 2021.

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

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

The Organization did not meet certain covenant requirements listed above for the year ended December 31, 2019. As a result, all outstanding principal and interest amounts are callable at the lender’s discretion at December 31, 2019. Accordingly the remaining outstanding debt balances are presented as current liabilities in the accompanying balance sheet.

If not for the circumstances described previously, the debt service requirements as of December 31, 2019, are as follows:

Years Ending December 31,	Total to be Paid	Principal	Interest (A)	Interest Rate Swap (B)
2020	$ 976,545	$ 910,000	$ 33,040	$ 33,505
2021	942,316	915,000	25,588	1,728
2022	267,895	250,000	17,895	-
2023	269,893	260,000	9,893	-
2024	271,589	270,000	1,589	-
	$ 2,728,238	$ 2,605,000	$ 88,005	$ 35,233

(A) Anticipated interest on the 2004 Bonds only, calculated at the variable rate as of December 31, 2019, includes letter of credit fees

(B) Anticipated interest on the 2007 Bonds only, adjusted for terms of interest rate swap (*Note 10*) and presented net of the variable rate as of December 31, 2019, includes letter of credit fees

Note 10: Interest Rate Swap Agreement

Objective of the Interest Rate Swap

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

Terms

The agreement was entered into on June 1, 2007, is scheduled to end on December 1, 2021 and required no initial net cash receipt or payment by the Organization. The agreement provides for the Organization to receive interest from the counterparty at the Securities Industry and Financial Markets Association (SIFMA) municipal swap index and to pay interest to the counterparty at a fixed rate of 3.942% on a notional amount of $1,350,000 and $2,025,000 at December 31, 2019 and 2018, respectively. The notional amount of the swap and the principal amount of the associated debt were equal at inception of the swap, and the notional amount declines by a corresponding amount each time a principal payment becomes due on the associated debt. Under the agreement, the Organization pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

Fair Value

As of December 31, 2019 and 2018, the agreement had a fair value of $53,335 and $83,100, respectively, calculated using the par-value method, *i.e.*, the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the estimated market value of the fixed component from the established market value of the variable component. The fair value of the agreement is recognized within long-term liabilities in the Organization's balance sheets. As the swap is an effective hedging instrument, the offsetting balance is reflected as a deferred outflows of resources on the Organization's balance sheets. The change in fair value of the swap of $29,765 and $71,751 for the years ended December 31, 2019 and 2018, is shown as an adjustment to the carrying amount of the related deferred outflows of resources on the balance sheets.

Credit Risk

The swap's fair value represented the Organization's credit exposure to the counterparty as of December 31, 2019 and 2018. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Organization has a maximum possible loss equivalent to the swap's fair value at that date. As of December 31, 2019 and 2018, the Organization was not exposed to credit risk because the swap had a negative fair value. The swap counterparty was rated AA- by Fitch Ratings, A+ by Standard & Poor's and Aa3 by Moody's Investors Service as of December 31, 2019 and 2018.

Basis Risk

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

Termination Risk

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

Note 11: Pension Plans

Plan Descriptions

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

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

OPERS issues a stand-alone financial report. This report 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 Hospital does not have any employees included in the public safety or law enforcement 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. State and local members of group C are eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. Final average salary represents the average of the three highest years of earnings over a member's career for groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount.

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

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

All employees are required to become contributing members of OPERS when they begin employment at the Hospital unless they are exempted or excluded as defined by the ORC. For actuarial purposes, employees who have earned sufficient service credit (60 contributing months) are entitled to a future benefit from OPERS. As of December 31, 2019 and 2018, 360 and 348 employees, respectively, participated in the OPERS defined-benefit pension plans and 11 and 13 employees, respectively, participated in the defined-contribution pension plan. The Hospital's proportionate share of inactive members is included in the net pension liability and net pension asset as discussed in the following notes.

Contributions

The ORC provides OPERS statutory authority over employee and employer contributions. The required statutorily determined contribution rates of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The statutorily required contribution rates for all three plans for the employee and the Hospital, stated as a percent of covered payroll, are as follows for each of the years ended December 31, 2019 and 2018:

	OPERS
Employee	10%
Hospital	14%

For the years ended December 31, 2019 and 2018, contributions to the defined-benefit pension plans from the Hospital were as follows:

	OPERS 2019	OPERS 2018
Traditional Plan	$ 2,198,162	$ 2,111,952
Combined Plan	87,709	84,269
Total	$ 2,285,871	$ 2,196,221

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

As of December 31, 2019 and 2018, the Hospital reported a net pension liability and net pension asset for its share of the OPERS defined-benefit plans as follows:

	Net Pension Liability (Asset) 2019	Net Pension Liability (Asset) 2018
Traditional Plan	$ 30,565,799	$ 17,473,833
Combined Plan	(160,268)	(166,622)

The net pension liabilities and net pension assets were measured as of December 31, 2019 and 2018 and the total pension liability and total pension asset used to calculate the net pension liability and net pension asset were determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability and net pension asset were based on the Hospital's share of contributions to the respective defined-benefit pension plans relative to the contributions of all participating employers during the measurement period. At December 31, 2019, the Hospital's proportionate share was 0.111603% for the Traditional Plan and 0.1433324% for the Combined Plan. At December 31, 2018, the Hospital's proportionate share was 0.111383% for the Traditional Plan and 0.122397% for the Combined Plan.

For the years ended December 31, 2019 and 2018, the Hospital recognized pension expense related to the defined-benefit pension plans of $6,923,842 and $3,976,463 as follows:

	Pension Expense 2019	Pension Expense 2018
Traditional Plan	$ 6,886,203	$ 3,952,738
Combined Plan	37,639	23,725
	$ 6,923,842	$ 3,976,463

At December 31, 2019 and 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to defined-benefit pensions from the following sources:

2019

	Traditional Plan		Combined Plan		Total Defined-Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,410	$ -	$ -	$ -	$ 1,410	$ -
Net difference between projected and actual earnings on pension plan investments	4,148,634	401,347	34,524	65,458	4,183,158	466,805
Change in actuarial assumption	2,660,827	-	35,795	-	2,696,622	-
Change in the Hospital's proportionate share of the net pension liability (asset)	14,114	17,843	-	-	14,114	17,843
Hospital's contributions subsequent to the measurement date	2,198,162	-	87,709	-	2,285,871	-
	$ 9,023,147	$ 419,190	$ 158,028	$ 65,458	$ 9,181,175	$ 484,648

2018

	Traditional Plan		Combined Plan		Total Defined-Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 17,845	$ 3,751,402	$ -	$ 26,289	$ 17,845	$ 3,777,691
Net difference between projected and actual earnings on pension plan investments	-	344,354	-	49,638	-	393,992
Change in actuarial assumption	2,088,240	-	14,561	-	2,102,801	-
Change in the Hospital's proportionate share of the net pension liability (asset)	95,595	-	-	4,600	95,595	4,600
Hospital's contributions subsequent to the measurement date	2,111,952	-	84,269	-	2,196,221	-
	$ 4,313,632	$ 4,095,756	$ 98,830	$ 80,527	$ 4,412,462	$ 4,176,283

At December 31, 2019 and 2018, the Hospital reported $2,285,871 and $2,196,221 as deferred outflows of resources related to pensions resulting from the Hospital's contributions subsequent to the measurement date and will be (were) recognized as a decrease (increase) in the net pension liability (asset) for the years ended December 31, 2020 and 2019, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2019, related to pensions will be recognized in pension expense as follows:

	Traditional Plan	Combined Plan	Total Defined-Benefit Plans
2020	$ 2,757,079	$ 5,413	$ 2,762,492
2021	1,338,156	(1,483)	1,336,673
2022	384,870	(756)	384,114
2023	1,925,690	10,053	1,935,743
2024		(4,139)	(4,139)
Thereafter	-	(4,227)	(4,227)
	$ 6,405,795	$ 4,861	$ 6,410,656

Actuarial Assumptions

The total pension liability and total pension asset for the years ended December 31, 2019 and 2018 were determined using the following actuarial valuations and actuarial assumptions for the respective plans:

OPERS Traditional Plan	2019	2018
Valuation date	December 31, 2018	December 31, 2017
Experience study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial cost method	Individual entry age	Individual entry age
Wage inflation	3.25%	3.25%
Projected salary increases	3.25% - 10.75% including wage inflation at 3.25%	3.25% - 10.75$ including wage inflation at 3.25%
Investment rate of return	7.20%	7.50%
Cost-of-living adjustments	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.15% simple	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.15% simple

OPERS Combined Plan	2019	2018
Valuation date	December 31, 2018	December 31, 2017
Experience study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial cost method	Individual entry age	Individual entry age
Wage inflation	3.25%	3.25%
Projected salary increases	3.25% - 8.25% including wage inflation at 3.25%	3.25% - 8.25% including wage inflation at 3.25%
Investment rate of return	7.20%	7.50%
Cost-of-living adjustments	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.15% simple	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.15%

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

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

	OPERS Defined-Benefit Plans	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	19.00%	6.21%
International equities	20.00%	7.83%
Fixed income	23.00%	2.79%
Real estate	10.00%	4.90%
Private equities	10.00%	10.81%
Other investments	18.00%	5.50%
	100.00%	5.95%

Discount Rate

The discount rate used to measure the total pension liability and total pension asset was 7.2% and 7.5% for the years ended December 31, 2019 and 2018, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total pension asset.

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

The Hospital's proportionate share of the net pension liability and net pension asset as of December 31, 2019 has been calculated using a discount rate of 7.2%. The following presents the Hospital's proportionate share of the net pension liability and net pension asset calculated using a discount rate 1 percent higher and 1 percent lower than the current rate.

	1% Decrease (6.2%)	Current Discount Rate (7.2%)	1% Increase (8.2%)
Traditional Plan Net Pension Liability	$ 45,154,574	$ 30,565,799	$ 18,442,396
Combined Plan Net Pension Asset	(53,030)	(160,268)	(237,918)

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plans

At December 31, 2019 and 2018, the Hospital had a payable for its employer share of approximately $195,000 and $498,000, respectively, for an outstanding amount of statutorily required contributions to the pension plans for the years ended December 31, 2019 and 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, 2019 and 2018 for employer contributions to the Member-Directed Plan was approximately $170,000 and $162,000, respectively.

Note 12: Other Post-Employment Benefits

Plan Description

The Hospital contributes to the Ohio Public Employees Retirement System (OPERS), which administers a cost-sharing multiple-employer defined-benefit other postemployment plan (the OPEB plan), which was established to provide hospital and medical insurance for eligible members receiving benefits from OPERS pension plans. All eligible employees are required to join the OPEB plan. The OPEB plan pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The OPEB plan is administered by the Board of Trustees of the OPERS. Benefit provisions are contained in the plan document and were established and can be amended by action of the state of Ohio.

OPERS issues a stand-alone financial report. This report 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

OPERS provides postemployment health care benefits to eligible members and surviving spouses of the Traditional and Combined pension plans with OPEB funding assets accumulated in a single health care trust (the 115 Trust). Coverage under the current program includes hospitalization, medical expenses and prescription drugs. Prior to January 1, 2015, 10 or more years of service were required to qualify for health care coverage. Beginning January 1, 2015, generally, members must be at least age 60 with 20 years of qualifying service credit to qualify for health care coverage or 30 years of qualifying service at any age. Health care coverage for disability benefit recipients and qualified survivor benefits is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB to its eligible members and beneficiaries.

Beginning in 2016, OPERS Traditional Pension Plan and Combined Plan retirees enrolled in Medicare A and B were eligible to participate in the OPERS Medicare Connector (Connector). The Connector, a vendor selected by OPERS, assists eligible retirees in the selection and purchase of Medicare supplemental coverage through the Medicare market. Retirees that purchase supplemental coverage through the Connector may receive a monthly allowance in their Health Reimbursement Account (HRA) that can be used to reimburse eligible health care expenses.

Contributions

The Ohio state legislature as authorized by Chapters 145 and 3307 of the Ohio Revised Code has the authority to establish and amend the contribution requirements of the Hospital for OPERS. Under Ohio law, funds to pay health care costs are permitted but not mandated to be deducted from employer contributions.

Under OPERS, for employees of the Hospital, the statutorily required employee contribution rate for the plan years ended December 31, 2018 and 2017 was 10 percent of their annual pay. The Hospital's statutorily required employer contribution rate including pensions and OPEB for the both the fiscal years ended December 31, 2019 and 2018 was 14 percent of annual payroll, actuarially determined as an amount that 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 plan administrator determines the allocation of the contributions between the defined-benefit retirement plans and the OPEB plan. During 2019 and 2018, all statutorily required employer contributions to OPERS for members participating in the Traditional and Combined Plan were allocated to the respective retirement plan. For members participating in the Member-Directed Plan, 4 percent of the statutorily required employer contribution rate was allocated to the defined-benefit OPEB plan.

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

As of December 31, 2019 and 2018, the Hospital reported a net OPEB liability of $15,140,611 and $12,554,394, respectively, for its proportionate share of the net OPEB liabilities. The total OPEB liability used to calculate the net OPEB liability was determined by actuarial valuations as of December 31, 2018 and 2017, respectively, rolled forward to December 31, 2019 and 2018, respectively. The Hospital's proportions of the net OPEB liabilities for OPERS were based on actual Hospital employer contributions to the Plan during the respective measurement periods in relation to total employer contributions to the Plan for the same periods. At December 31, 2019 and 2018, the Hospital's proportion for OPEB was 0.116130% and 0.115610%, respectively.

For the years ended December 31, 2019 and 2018, the Hospital recognized OPEB expense related to the OPEB Plan of $1,386,022 and $994,664, respectively. At December 31, 2019 and 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5,127	$ 41,081
Net difference between projected and actual earnings on OPEB plan investments	694,108	-
Change in actuarial assumption	488,151	-
Change in the Hospital's proportionate share of the net OPEB liability	40,654	-
Hospital's contributions subsequent to the measurement date	48,169	-
	$ 1,276,209	$ 41,081

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 9,780	$ -
Net difference between projected and actual earnings on OPEB plan investments	-	935,219
Change in actuarial assumption	914,093	-
Hospital's contributions subsequent to the measurement date	46,280	-
	$ 970,153	$ 935,219

At December 31, 2019, the Hospital reported $48,169 in deferred outflows of resources related to OPEB resulting from the Hospital's contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2019, related to OPEB will be recognized in OPEB expense as follows:

2020	$	562,699
2021		159,649
2022		114,941
2023		349,670
	$	1,186,959

Actuarial Assumptions

The total OPEB liability for the years ended December 31, 2019 and 2018 was determined using the following actuarial valuations and actuarial assumptions for the plan:

OPEB Plan	2019	2018
Valuation date	December 31, 2017	December 31, 2016
Rolled-Forward Measurement Date	December 31, 2018	December 31, 2017
Experience study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial cost method	Individual entry age normal	Individual entry age normal
Single discount rate	3.96%	3.85%
Municipal bond rate	3.71%	3.31%
Wage inflation	3.25%	3.25%
Projected salary increases	3.25% - 10.75% including wage inflation at 3.25%	3.25% - 10.75% including wage inflation at 3.25%
Investment rate of return	6.00%	6.50%
Health care cost trend rates	10% for 2019, decreasing 0.675% per year to an ultimate rate of 3.25% for 2029 and later years	7.5% for 2018, decreasing 0.425% per year to an ultimate rate of 3.25% for 2028 and later years

Mortality rates were based on the RP-2014 Employees and Healthy Annuitant Mortality tables for males and females, adjusted for mortality improvement back to the observation period base year of 2006. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of a five-year period actuarial experience study ended December 31, 2015.

The long-term expected rate of return on OPEB Plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB Plan investment expense and inflation) 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 and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	34.00%	2.42%
Domestic equities	21.00%	6.21%
REITs	6.00%	5.98%
International equities	22.00%	7.83%
Other investments	17.00%	5.57%
	100.00%	5.16%

Discount Rate

A single discount rate of 3.96% and 3.85% was used to measure the OPEB liability on the measurement dates of December 31, 2018 and 2017, respectively. 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 2019 single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00% and a municipal bond rate of 3.71%. The projection of cash flows used to determine the discount rate assumed that participating employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2031. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the Hospital's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates

The Hospital's proportionate share of the net OPEB liability has been calculated using the discount rate of 3.96% for OPERS. The following presents the Hospital's proportionate share of the net OPEB liability calculated using a discount rate 1% higher and 1% lower than the current discount rate.

	1% Decrease (2.96%)	Current Discount Rate (3.96%)	1% Increase (4.96%)
OPERS net OPEB liability	$ 19,370,484	$ 15,140,611	$ 11,776,743

The Hospital's proportionate share of the net OPEB liability has been calculated using initial health care trend rate of 7.5% for OPERS. The following presents the Hospital's proportionate share of the net OPEB liability calculated using health care cost trend rates 1% higher and 1% lower than the current health care cost trend rates.

	1% Decrease	Current Health Care Cost Trend Rates	1% Increase
OPERS net OPEB liability	$ 14,553,412	$ 15,140,611	$ 15,816,906

OPEB Plan Fiduciary Net Position

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

Payable to OPERS

At December 31, 2019 and 2018, the Hospital reported no payables to OPERS for any outstanding amounts of contributions to the OPEB plan.

Note 13: Contingencies and Commitments

Litigation

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

Commitments

The Organization has entered into commitments with certain contractors for approximately $11 and $22 million in future construction at December 31, 2019 and 2018, respectively.

Note 14: Grants and Loans to Affiliated Organization

During 2014, the Hospital entered into a grant agreement with Highland Health Providers Corporation (HHPC), a third party, whereby HHPC's operating losses, not to exceed $1,500,000 on an annual basis, will be funded for the next two years with renewal options for successive one-year periods. Grant expense for 2019 and 2018 was $900,000 and $1,225,000, respectively, and is included in the statements of revenues, expenses and changes in net position. The agreement was renewed and in effect as of the date of the independent auditor's report.

During 2019, the Hospital executed two loan agreements with HHPC for $26,250 and $61,500. The loans are payable in forty-eight and sixty monthly installments beginning July 1, 2019, and March 1, 2019, respectively. Both are attached to an interest rate of 5.0%. During 2018, the Hospital executed a loan agreement with HHPC for $775,000. The loan is payable in sixty monthly installments beginning July 1, 2019 at an interest rate of 5.0%.

Note 15: Blended Component Units

The financial statements of Highland County Joint Township District Hospital include the financial statements of Highland District Hospital Foundation, Highland District Hospital Professional Services Corporation and Highland Joint Township District Hospital Foundation, which are blended component units of the Hospital as determined by GASB Statements No. 61 and No. 80. The following is a summary of the combined, condensed financial statements of the Hospital and its blended component units as of and for the years ended December 31, 2019 and 2018:

	December 31, 2019					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Current Assets						
Cash and cash equivalents	$ 2,999,107	$ 100,164	$ 27,629	$ 88,060	$ -	$ 3,214,960
Assets limited as to use - current portion	295,400	-	-	-	-	295,400
Patient accounts receivable, net of allowances	6,921,607	119,090	-	-	-	7,040,697
Contributions receivable	-	-	-	90,800	-	90,800
Notes receivable	168,398	-	-	-	-	168,398
Other receivables	251,229	59,041	-	24,701	-	334,971
Supplies	487,421	-	-	-	-	487,421
Prepaid expenses and other current assets	441,193	26,057	-	-	-	467,250
Due from affiliate	3,979	-	-	-	(3,979)	-
Total current assets	11,568,334	304,352	27,629	203,561	(3,979)	12,099,897
Assets Limited as to Use						
Internally designated for specific purpose	2,430,790	-	-	-	-	2,430,790
Restricted by donors for capital improvements	89,790	-	-	297,078	-	386,868
Held by trustee under bond indenture agreements	295,400	-	-	-	-	295,400
	2,815,980	-	-	297,078	-	3,113,058
Less amounts required to meet current obligations	(295,400)	-	-	-	-	(295,400)
	2,520,580	-	-	297,078	-	2,817,658
Long-Term Investments	21,140,763	-	328,465	-	-	21,469,228
Notes Receivable	633,107	-	-	-	-	633,107
Capital Assets, net	24,386,282	307,170	780,048	-	-	25,473,500
Net Pension Asset	160,268	-	-	-	-	160,268
Total assets	60,409,334	611,522	1,136,142	500,639	(3,979)	62,653,658
Deferred Outflows of Resources						
Deferred outflows related to pension	9,181,175	-	-	-	-	9,181,175
Deferred outflows related to OPEB	1,276,209	-	-	-	-	1,276,209
Other deferred outflows	53,335	-	-	-	-	53,335
	10,510,719	-	-	-	-	10,510,719
Total assets and deferred outflows of resources	$ 70,920,053	$ 611,522	$ 1,136,142	$ 500,639	$ (3,979)	$ 73,164,377

	December 31, 2019					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Current Liabilities						
Current maturities of long-term debt	$ 2,605,000	$ -	$ -	$ -	$ -	$ 2,605,000
Accounts payable	3,379,405	43,644	-	2,723	-	3,425,772
Accrued expenses	3,008,102	106,288	-	-	-	3,114,390
Estimated amounts due to third-party payers	1,489,089	-	-	-	-	1,489,089
Due to affiliate	-	3,979	-	-	(3,979)	-
Total current liabilities	10,481,596	153,911	-	2,723	(3,979)	10,634,251
Long-Term Debt	-	-	-	-	-	-
Interest Rate Swap Agreement	53,335	-	-	-	-	53,335
Net Pension Liability	30,565,799	-	-	-	-	30,565,799
Net OPEB Liability	15,140,611	-	-	-	-	15,140,611
Total liabilities	56,241,341	153,911	-	2,723	(3,979)	56,393,996
Deferred Inflows of Resources						
Deferred inflows related to pension	484,648	-	-	-	-	484,648
Deferred inflows related to OPEB	41,081	-	-	-	-	41,081
	525,729	-	-	-	-	525,729
Net Position						
Net investment in capital assets	21,781,282	307,170	780,048	-	-	22,868,500
Restricted - expendable for						
Capital improvements	89,790	-	-	387,878	-	477,668
Debt service	295,400	-	-	-	-	295,400
Pensions	160,268	-	-	-	-	160,268
Unrestricted	(8,173,757)	150,441	356,094	110,038	-	(7,557,184)
Total net position	14,152,983	457,611	1,136,142	497,916	-	16,244,652
Total liabilities, deferred inflows of resources and net position	$ 70,920,053	$ 611,522	$ 1,136,142	$ 500,639	$ (3,979)	$ 73,164,377

Highland County Joint Township District Hospital
Notes to Financial Statements
December 31, 2019 and 2018

	Year Ended December 31, 2019					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts; $7,941,328	$ 48,615,093	$ 1,885,911	$ -	$ -	$ (515,401)	$ 49,985,603
Other	1,889,391	21,295	23,400	-	(731,050)	1,203,036
Total operating revenues	50,504,484	1,907,206	23,400	-	(1,246,451)	51,188,639
Operating Expenses						
Salaries and wages	17,906,424	2,067,429	-	-	-	19,973,853
Employee benefits	3,330,837	228,980	-	-	-	3,559,817
Pension expense	6,923,842	-	-	-	-	6,923,842
OPEB expense	1,386,022	-	-	-	-	1,386,022
Purchased services	4,831,690	772,374	-	42,007	(81,115)	5,564,956
Supplies	7,959,754	19,280	796	29,016	-	8,008,846
Insurance	214,963	58,700	-	-	-	273,663
Utilities	817,833	18,726	-	-	-	836,559
Physician fees	3,980,863	-	-	178	(515,401)	3,465,640
Depreciation and amortization	2,218,736	20,361	16,851	-	-	2,255,948
Franchise fees	620,653	-	-	-	-	620,653
Rental and lease expenses	133,152	84,138	-	-	(66,138)	151,152
Professional fees	124,649	-	-	-	-	124,649
Other operating expenses	321,778	83,853	600	1,007	-	407,238
Total expenses and losses	50,771,196	3,353,841	18,247	72,208	(662,654)	53,552,838
Operating Income (Loss)	(266,712)	(1,446,635)	5,153	(72,208)	(583,797)	(2,364,199)
Nonoperating Revenues (Expenses)						
Investment income	1,112,519	-	6,869	-	-	1,119,388
Grant expense	(900,000)	-	-	(583,797)	583,797	(900,000)
Interest expense	(148,781)	-	-	-	-	(148,781)
Noncapital grants and gifts	-	(8,373)	-	235,353	-	226,980
Total nonoperating revenues (expenses)	63,738	(8,373)	6,869	(348,444)	583,797	297,587
Excess (Deficiency) of Revenues Over Expenses Before Transfers	(202,974)	(1,455,008)	12,022	(420,652)	-	(2,066,612)
Transfer From (To) Affiliates	(1,400,000)	1,400,000	-	-	-	-
Increase (Decrease) in Net Position	(1,602,974)	(55,008)	12,022	(420,652)	-	(2,066,612)
Net Position, Beginning of Year	15,755,957	512,619	1,124,120	918,568	-	18,311,264
Net Position, End of Year	$ 14,152,983	$ 457,611	$ 1,136,142	$ 497,916	$ -	$ 16,244,652

	Year Ended December 31, 2019					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Cash Provided By (Used In):						
Operating activities	$ 6,968,264	$ (1,395,060)	$ 22,004	$ 245,821	$ (583,797)	$ 5,257,232
Noncapital financing activities	(926,505)	(8,373)	-	(348,444)	583,797	(699,525)
Capital and related financing activities	(14,882,630)	1,401,701	(177,021)	-	-	(13,657,950)
Investing activities	7,763,775	-	131	-	-	7,763,906
Decrease in cash and cash equivalents	(1,077,096)	(1,732)	(154,886)	(102,623)	-	(1,336,337)
Cash and Cash Equivalents, Beginning of Year	4,479,876	101,896	182,515	84,088	-	4,848,375
Cash and Cash Equivalents, End of Year	$ 3,402,780	$ 100,164	$ 27,629	$ (18,535)	$ -	$ 3,512,038

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2019 and 2018

	December 31, 2018					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Current Assets						
Cash and cash equivalents	$ 4,076,203	$ 101,896	$ 182,515	$ 84,088	$ -	$ 4,444,702
Assets limited as to use - current portion	295,952	-	-	-	-	295,952
Patient accounts receivable, net of allowances	6,418,068	271,525	-	-	-	6,689,593
Contributions receivable	-	-	-	102,600	-	102,600
Notes receivable	90,417	-	-	-	-	90,417
Other receivables	606,979	44,600	-	247,011	-	898,590
Supplies	479,174	-	-	-	-	479,174
Prepaid expenses and other current assets	442,419	33,380	-	-	-	475,799
Due from affiliate	2,966	-	-	-	(2,966)	-
Total current assets	12,412,178	451,401	182,515	433,699	(2,966)	13,476,827
Assets Limited as to Use						
Internally designated for specific purpose	8,568,610	-	-	-	-	8,568,610
Restricted by donors for capital improvements	89,570	-	-	403,673	-	493,243
Held by trustee under bond indenture agreements	295,952	-	-	-	-	295,952
	8,954,132	-	-	403,673	-	9,357,805
Less amounts required to meet current obligations	(295,952)	-	-	-	-	(295,952)
	8,658,180	-	-	403,673	-	9,061,853
Long-Term Investments	21,653,867	-	321,727	-	-	21,975,594
Notes Receivable	684,583	-	-	-	-	684,583
Contributions Receivable	-	-	-	81,300	-	81,300
Capital Assets, Net	13,333,635	329,232	619,878	-	-	14,282,745
Net Pension Asset	166,622	-	-	-	-	166,622
Total assets	56,909,065	780,633	1,124,120	918,672	(2,966)	59,729,524
Deferred Outflows of Resources						
Deferred outflows related to pension	4,412,462	-	-	-	-	4,412,462
Deferred outflows related to OPEB	970,153	-	-	-	-	970,153
Other deferred outflows	83,100	-	-	-	-	83,100
	5,465,715	-	-	-	-	5,465,715
Total assets and deferred outflows of resources	$ 62,374,780	$ 780,633	$ 1,124,120	$ 918,672	$ (2,966)	$ 65,195,239

	December 31, 2018					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Current Liabilities						
Current maturities of long-term debt	$ 900,000	$ -	$ -	$ -	$ -	$ 900,000
Accounts payable	2,539,258	76,604	-	104	-	2,615,966
Accrued expenses	3,281,159	188,444	-	-	-	3,469,603
Estimated amounts due to third-party payers	2,070,577	-	-	-	-	2,070,577
Due to affiliate	-	2,966	-	-	(2,966)	-
Total current liabilities	8,790,994	268,014	-	104	(2,966)	9,056,146
Long-Term Debt	2,605,000	-	-	-	-	2,605,000
Interest Rate Swap Agreement	83,100	-	-	-	-	83,100
Net Pension Liability	17,473,833	-	-	-	-	17,473,833
Net OPEB Liability	12,554,394	-	-	-	-	12,554,394
Total liabilities	41,507,321	268,014	-	104	(2,966)	41,772,473
Deferred Inflows of Resources						
Deferred inflows related to pension	4,176,283	-	-	-	-	4,176,283
Deferred inflows related to OPEB	935,219	-	-	-	-	935,219
	5,111,502	-	-	-	-	5,111,502
Net Position						
Net investment in capital assets	9,828,635	329,232	619,878	-	-	10,777,745
Restricted - expendable for						
Capital improvements	89,570	-	-	587,573	-	677,143
Debt service	295,952	-	-	-	-	295,952
Pensions	166,622	-	-	-	-	166,622
Unrestricted	5,375,178	183,387	504,242	330,995	-	6,393,802
Total net position	15,755,957	512,619	1,124,120	918,568	-	18,311,264
Total liabilities, deferred inflows of resources and net position	$ 62,374,780	$ 780,633	$ 1,124,120	$ 918,672	$ (2,966)	$ 65,195,239

Highland County Joint Township District Hospital

Notes to Financial Statements

December 31, 2019 and 2018

	Year Ended December 31, 2018					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts; $5,504,694	$ 45,533,678	$ 2,515,170	$ -	$ -	$ (504,650)	$ 47,544,198
Other	1,768,117	19,926	-	-	(696,923)	1,091,120
Total operating revenues	47,301,795	2,535,096	-	-	(1,201,573)	48,635,318
Operating Expenses						
Salaries and wages	17,121,489	2,587,773	-	-	-	19,709,262
Employee benefits	3,460,486	423,224	-	-	-	3,883,710
Pension expense	3,976,463	-	-	-	-	3,976,463
OPEB expense	994,664	-	-	-	-	994,664
Purchased services	4,697,466	823,626	-	40,118	(114,625)	5,446,585
Supplies	7,192,907	28,642	-	33,258	-	7,254,807
Insurance	195,602	97,863	-	-	-	293,465
Utilities	875,049	30,254	-	-	-	905,303
Physician fees	2,647,277	-	-	175	(502,916)	2,144,536
Depreciation and amortization	2,222,349	22,008	-	-	-	2,244,357
Franchise fees	418,417	-	-	-	-	418,417
Rental and lease expenses	114,064	110,524	-	-	(64,996)	159,592
Professional fees	157,017	-	-	-	-	157,017
Other operating expenses	296,525	115,977	-	1,612	-	414,114
Total expenses and losses	44,369,775	4,239,891	-	75,163	(682,537)	48,002,292
Operating Income (Loss)	2,932,020	(1,704,795)	-	(75,163)	(519,036)	633,026
Nonoperating Revenues (Expenses)						
Investment income	557,174	-	6,491	21	-	563,686
Grant expense	(1,225,000)	-	-	(519,036)	519,036	(1,225,000)
Interest expense	(184,896)	-	-	-	-	(184,896)
Noncapital grants and gifts	-	236,935	243,231	280	-	480,446
Total nonoperating revenues (expenses)	(852,722)	236,935	249,722	(518,735)	519,036	(365,764)
Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts and Transfers	2,079,298	(1,467,860)	249,722	(593,898)	-	267,262
Capital Gifts	-	-	-	444,433	-	444,433
Transfer From (To) Affiliates	(1,850,000)	1,300,000	550,000	-	-	-
Increase (Decrease) in Net Position	229,298	(167,860)	799,722	(149,465)	-	711,695
Net Position, Beginning of Year	15,526,659	680,479	324,398	1,068,033	-	17,599,569
Net Position, End of Year	$ 15,755,957	$ 512,619	$ 1,124,120	$ 918,568	$ -	$ 18,311,264

	Year Ended December 31, 2018					
	Hospital	PSC	HDH Foundation	HJTDH Foundation	Eliminations	Total
Cash Provided By (Used In):						
Operating activities	$ 8,171,198	$ (1,745,714)	$ -	$ (187,348)	$ (519,035)	$ 5,719,101
Noncapital financing activities	(2,000,000)	236,935	243,232	(518,756)	519,035	(1,519,554)
Capital and related financing activities	(5,927,203)	1,536,076	(63,110)	444,433	-	(4,009,804)
Investing activities	(124,556)	-	1,837	240,222	-	117,503
Increase (decrease) in cash and cash equivalents	119,439	27,297	181,959	(21,449)	-	307,246
Cash and Cash Equivalents, Beginning of Year	4,360,437	74,599	556	105,537	-	4,541,129
Cash and Cash Equivalents, End of Year	$ 4,479,876	$ 101,896	$ 182,515	$ 84,088	$ -	$ 4,848,375

Note 16: Future Changes in Accounting Principles

GASB Statement No. 87, *Leases*, supersedes and amends the requirements in previous statements of the National Council on Governmental Accounting (NCGAS) and Governmental Accounting Standards Board (GASB) as they relate to standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 requires 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 agreement. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, 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 activities. This Statement is effective for periods beginning after December 15, 2020.

The Government Accounting Standards Board recently issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement removes the concept of capitalized interest from all types of governmental entities. This Statement is effective for periods beginning after December 15, 2020, and should be applied prospectively.

Note 17: Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, fair value of investments, results of operations, and cash flows of the Hospital. The duration of these uncertainties along with the ultimate financial effects cannot be reasonably estimated at this time.

Required Supplementary Information

Highland County Joint Township District Hospital

Schedules of the Hospital's Proportionate Share of the Net Pension Liability (Asset)

Traditional Defined-Benefit Pension Plan

	2019	2018	2017	2016	2015
Hospital's proportion of the net pension liability	0.11%	0.11%	0.11%	0.11%	0.11%
Hospital's proportionate share of the net pension liability	$ 30,565,799	$ 17,473,833	$ 25,379,250	$ 18,858,523	$ 13,072,514
Hospital's covered-employee payroll	$ 15,085,371	$ 14,719,380	$ 14,452,206	$ 13,574,182	$ 13,013,402
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	202.62%	118.71%	175.61%	138.93%	100.45%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	84.66%	77.25%	81.08%	86.45%

Combined Defined-Benefit Pension Plan

	2019	2018	2017	2016	2015
Hospital's proportion of the net pension asset	0.14%	0.12%	0.11%	0.12%	0.10%
Hospital's proportionate share of the net pension asset	$ (160,268)	$ (166,622)	$ (59,434)	$ (57,957)	$ (48,698)
Hospital's covered-employee payroll	$ 601,921	$ 501,275	$ 416,850	$ 417,450	$ 356,105
Hospital's proportionate share of the net pension asset as a percentage of its covered-employee payroll	-26.63%	-33.24%	-14.26%	-13.88%	-13.68%
Plan fiduciary net position as a percentage of the total pension asset	126.64%	137.28%	116.55%	116.90%	114.83%

For the Hospital's fiscal years ended December 31, the above amounts are presented as of the date of the actuarial valuation as December 31 of the prior year, respectively.

Highland County Joint Township District Hospital
Schedules of the Hospital's Pension Contributions

Traditional Defined-Benefit Pension Plan	2019	2018	2017	2016	2015
Statutorily required contributions	$ 2,198,162	$ 2,111,952	$ 1,913,519	$ 1,734,265	$ 1,628,902
Contributions in relation to the statutorily required contributions	(2,198,162)	(2,111,952)	(1,913,519)	(1,734,265)	(1,628,902)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Hospital's covered-employee payroll	15,701,157	15,085,371	14,719,380	14,452,206	13,574,182
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	12.00%	12.00%

Combined Defined-Benefit Pension Plan	2019	2018	2017	2016	2015
Statutorily required contributions	$ 87,709	$ 84,269	$ 65,166	$ 50,022	$ 50,094
Contributions in relation to the statutorily required contributions	(87,709)	(84,269)	(65,166)	(50,022)	(50,094)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Hospital's covered-employee payroll	626,490	601,921	501,275	416,850	417,450
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	12.00%	12.00%

The above amounts are presented as of December 31 of the respective fiscal years.

Highland County Joint Township District Hospital
Schedules of the Hospital's Proportionate Share of the Net Other Postretirement Employment Benefits Liability

	2019	2018
Hospital's proportion of the net OPEB liability	0.12%	0.12%
Hospital's proportionate share of the net OPEB liability	15,140,611	$ 12,554,394
Hospital's covered-employee payroll	15,687,292	$ 16,375,718
Hospital's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	96.52%	76.66%
Plan fiduciary net position as a percentage of the total OPEB liability	46.33%	54.14%

For the Hospital's fiscal years ended December 31, the above amounts are presented as of the date of the actuarial valuation as December 31 of the prior year, respectively.

Highland County Joint Township District Hospital
Schedule of the Hospital's OPEB Contributions

	2019	2018
Statutorily required contributions	48,169	$ 46,280
Contributions in relation to the statutorily required contributions	(48,169)	(46,280)
Contribution deficiency (excess)	$ -	$ -
Hospital's covered-employee payroll	16,327,647	$ 15,687,292
Contributions as a percentage of covered-employee payroll	0.30%	0.30%

The above amounts are presented as of December 31.

Changes of Benefit Terms (Defined-Benefit Pension Plans)

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

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

Changes of Assumptions (Defined-Benefit Pension Plans)

In 2016, the OPERS' Board of Trustees' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions for the actuarial valuation as of December 31, 2016 used for the Hospital's 2017 fiscal year. Amounts reported in the Hospital's 2017 fiscal year for the OPERS pension plans reflect the following change of assumptions from the amounts reported for the 2016 fiscal year based on the experience study:

- Actuarially assumed expected rate of investment return decreased from 8.0% to 7.2%.
- Actuarially assumed wage inflation decreased from 3.75% to 3.25%.
- Projected salary increases range changed from 4.25% - 10.05% to 3.25% - 10.75% for the Traditional Pension Plan and changed from 4.25% - 8.05% to 3.25% - 8.25% for the Combined Plan.
- Mortality assumptions increased to reflect longer life expectancies.

Changes of Assumptions (Postemployment Benefits Other than Pensions)

Amounts reported in 2019 for OPEB reflect the following changes in assumptions based on an experience study for the five-year period ending December 31, 2015:

- The single discount rate increased to 3.96% from 3.85%.
- Actuarially assumed expected rates of investment return decreased from 6.50% to 6.00%.
- Health care cost trend rate increased from 7.5% to 10%.

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Highland County Joint Township District Hospital, an enterprise fund of Highland County, Ohio, and its component units (collectively, the "Organization"), which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, expenses and change in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 11, 2020. Our report contained an emphasis of matter paragraph regarding COVID-19.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

BKD, LLP

Cincinnati, Ohio
May 11, 2020

Highland County Joint Township District Hospital

Schedule of Findings and Responses
Year Ended December 31, 2019

Reference Number	Finding
	No matters are reportable.

Highland County Joint Township District Hospital

Schedule of Prior Audit Findings and Responses
Year Ended December 31, 2019

Reference Number	Finding	Status

No matters are reportable.

OHIO AUDITOR OF STATE
KEITH FABER

HIGHLAND COUNTY JOINT TOWNSHIP DISTRICT HOSPITAL

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 7, 2020