GRANT MEMORIAL HOSPITAL
(A Component Unit of Grant County, West Virginia)

Financial Report
June 30, 2017

Arnett Carbis Toothman llp
CPAs & Advisors

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Grant Memorial Hospital
Petersburg, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Grant Memorial Hospital (a component unit of Grant County, West Virginia) (Hospital) which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of revenue and expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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. 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 the Hospital as of June 30, 2017 and 2016, and the results of its operations 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 8 to the financial statements, the June 30, 2016, financial statements reflect a retroactive change in estimated third-party payor settlements. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 - 5 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 audits 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.

Arnett Carbis Toothman LLP

Pittsburgh, Pennsylvania
December 12, 2017

Overview

This discussion and analysis of the financial performance of Grant Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2017 and 2016. This narrative should be read in conjunction with the audited financial statements and the accompanying notes to those financial statements.

Financial Statements

The key to understanding the financial health of any organization is to understand the relationship between the basic financial statements and how each statement affects the other. The statement of financial position represents the assets, liabilities, and net position of an organization as of a specific date. The statement of revenue and expenses and changes in net position reports those key elements over a year that will determine those items reported on the statement of financial position.

A summary of the Hospital's statements of financial position as of June 30, 2017 and 2016, is presented below:

Cash and cash equivalents increased by approximately $1,982,000. Patient receivables decreased by approximately $235,000 during the year ended June 30, 2017, while net days in accounts receivable went from 47 to 43 days. This compares favorably with similar hospitals. The decrease in net days in accounts receivable had a positive effect on the cash balance.

Another issue that affects the change in cash during the year ended June 30, 2017, was the expenditure of approximately $1,122,000 for capital items during the year. The Hospital prepares a three year capital budget every year to prioritize what the equipment needs will be for the next three years. The Hospital has established a goal of purchasing between $1,000,000 and $1,500,000 of capital assets each year.

During the year ended June 30, 2016, the Hospital executed a $1,500,000 five year equipment financing lease for the purchase of multiple equipment items including hospital beds, IV pumps, telephone system and mammography unit. All of the existing long-term debt will be paid off by 2020, and the Hospital's present debt to equity ratio is less than 1.00.

The Hospital has approximately $5,390,000 in assets whose use is limited. These funds are managed externally under a board approved Investment Policy and are available for future capital programs, including the construction of a new hospital, or other uses designated by the board. The portfolio's market value increased by approximately $622,000 during the year ended June 30, 2017. The portfolio is subject to future market volatility.

Net estimated third-party payor settlements increased by approximately $326,000 during the year ended June 30, 2017, due to the recognition of estimated settlement amounts that exist with outstanding cost reports. For Medicare, cost reports are still open going back to 2012, and for Medicaid, there are open cost report settlements going back to 2010 and Medicaid Disproportionate Share settlements going back to 2012. Even though there have been a couple of years settled for Medicare where a portion of the Medicaid provider tax was disallowed, this issue is still being debated, and it is difficult to determine what the final outcome will be. There are similar issues pertaining to the Medicaid Program.

The June 30, 2016, financial statements were restated as outlined in Note 8 to accrue for liabilities related to disproportionate share payments received from the state of West Virginia. The impact of the restatement on estimated third-party payor settlements was approximately $1,600,000.

A summary of the Hospital's statements of revenue and expenses and changes in net position for the years ended June 30, 2017 and 2016, is presented below:

During the year ended June 30, 2017, total operating revenues increased by approximately $4,000,000 primarily due to volume changes, the hospital's annual rate increase, changes in the third-party contractual allowances, and changes in estimated third-party payor settlements. Total operating expenses increased by approximately $1,300,000, or 3.6%. The major components of this expense increase are professional fees and purchased services of approximately $1,053,000 and licenses and taxes of approximately $621,000 (primarily the West Virginia Provider Tax).

Challenges Facing the Hospital

During the year ended June 30, 2016, the county received a donation from the Grant Memorial Trust Foundation of four parcels of land (approximately 59 acres), with a value of $625,000, to be used for the construction of a new hospital facility. The Hospital has seven years from February 2016 to begin construction of the project or the funds must be repaid to the Grant Memorial Trust Foundation.

Investment Bankers were contacted and a preliminary debt capacity study was completed. Timelines have been established to ensure that the project is completed as quickly as possible and at the lowest cost.

The Hospital realized approximately $357,000 in operating income during the year ended June 30, 2017. Expected future repayment of estimated prior years' Disproportionate Share overpayments impacted prior year operating margins. The Hospital is currently focusing its efforts on adding/eliminating select clinical programs and services; staffing levels; and outside purchased services to offset payor payment reductions.

Although the Hospital has benefited from the Medicaid expansion, there is concern regarding the State's ability to continue to fund this program. In addition, the risk of increased bad debts due to insured patients with higher deductibles and co-pays is a concern, and the Hospital has made changes in the revenue cycle process to address these issues.

Changing Health Care Environment

There are major initiatives at both the federal and state level to switch payment from volume-based to a value-based system. Under this system, payments will be determined based upon the number of lives in a geographic area, and hospitals will be at risk to provide care in the most appropriate and least expensive setting as possible.

This population health model will mandate that hospitals collaborate with each other so that patients can be treated in the most appropriate setting. An important part of this will be the education of the patient to take better care of themselves through wellness programs and to seek care initially through "coaches" and primary care providers. On the other end of the spectrum, patients will be encouraged to better utilize "medical homes" and similar models to ensure that the end of life care is as appropriate and inexpensive as possible. The Hospital has taken a proactive approach in joining the national rural accountable care organization in order to be prepared to meet the objectives of population health management and to be in alignment with the mandated changes in reimbursement from volume to value.

Due to these changes, the Hospital/physician relationship will change in that more physicians will seek employment by the Hospital. This is also predicated upon the mandates of meaningful use, reporting of quality measures, payment based upon quality, and implementation of IT systems to meet the demands of the changing health care environment.

Recruitment

For the last several years, the Hospital has placed an emphasis on physician recruitment and has concentrated primarily on specialists and internists. Consistent with national and regional trends, most new physicians are hired as hospital employees. As was discussed above under the "Changing Health Care Environment," the key to the future population health model will be primary care physicians. There is a shortage of primary care physicians not only in the tri-county area but throughout the entire country.

A small, rural hospital always struggles to find qualified Registered Nurses (RNs). At various times, the Hospital has had difficulty finding and employing RNs. When openings do occur, the Hospital has been forced to fill these vacancies with Agency Nurses.

Request for Information

This financial report is designed to provide a general overview of the Hospital's finances. Questions concerning any information provided in this report or requests for additional information should be addressed to CFO, Grant Memorial Hospital, P.O. Box 1019, Petersburg, West Virginia 26847.

GRANT MEMORIAL HOSPITAL
(A Component Unit of Grant County, West Virginia)

STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016 (Restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 4,238,248**	$ 2,256,360
Accounts receivable:		
Patients (net of allowance for doubtful accounts 2017 $1,455,176; 2016 $1,780,536)	**4,119,954**	4,354,950
Other	**220,059**	717,610
Estimated third-party payor settlements	**565,450**	365,137
Inventories of supplies	**1,112,983**	1,170,122
Prepaid expenses and other current assets	**290,728**	207,200
Total current assets	**10,547,422**	9,071,379
ASSETS WHOSE USE IS LIMITED	**5,389,560**	4,767,997
CAPITAL ASSETS, NET	**6,738,896**	7,809,687
OTHER ASSETS, NET	**857,761**	822,242
Total assets	**$ 23,533,639**	$ 22,471,305
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current maturities of long-term debt	**$ 566,636**	$ 604,849
Accounts payable and accrued expenses	**1,616,941**	1,387,353
Accrued salaries and benefits	**1,457,815**	1,592,895
Estimated third-party payor settlements	**3,511,486**	2,984,738
Total current liabilities	**7,152,878**	6,569,835
LONG-TERM DEBT, net of current portion	**502,643**	1,069,510
ESTIMATED MEDICAL MALPRACTICE CLAIMS LIABILITY	**250,000**	250,000
Total liabilities	**7,905,521**	7,889,345
NET POSITION		
Invested in capital assets, net of related debt	**5,669,617**	6,135,328
Unrestricted	**9,958,501**	8,446,632
Total net position	**15,628,118**	14,581,960
Total liabilities and net position	**$ 23,533,639**	$ 22,471,305

See Notes to Financial Statements

GRANT MEMORIAL HOSPITAL
(A Component Unit of Grant County, West Virginia)

STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2017 and 2016

	2017	2016 (Restated)
Operating revenue:		
Patient service revenue (net of contractual allowances and discounts)	**$ 38,242,785**	$ 33,967,762
Provision for bad debts	**(1,638,231)**	(1,401,250)
Net patient service revenue	**36,604,554**	32,566,512
Other revenue	**401,479**	437,056
Total operating revenue	**37,006,033**	33,003,568
Operating expenses:		
Salaries and wages	**14,130,091**	14,236,524
Professional fees and purchased services	**8,659,811**	7,606,070
Supplies	**5,019,494**	5,061,728
Employee benefits	**2,932,617**	3,249,481
Depreciation	**2,188,299**	2,069,972
Licenses and taxes	**1,056,593**	435,447
Repairs and maintenance	**910,176**	978,781
Utilities	**624,856**	563,773
Insurance	**389,662**	475,863
Miscellaneous expenses	**737,578**	682,272
Total operating expenses	**36,649,177**	35,359,911
Operating income (loss)	**356,856**	(2,356,343)
Non-operating income (expenses):		
Investment income	**748,317**	239,473
Noncapital grants and contributions	**806**	1,494
(Loss) on disposal of capital assets	**(4,119)**	(71,197)
Interest expense	**(55,702)**	(71,091)
Total non-operating income	**689,302**	98,679
Excess (deficiency) of revenue and non-operating income over expenses	**1,046,158**	(2,257,664)
Net position, beginning	**14,581,960**	16,839,624
Net position, ending	**$ 15,628,118**	$ 14,581,960

See Notes to Financial Statements

GRANT MEMORIAL HOSPITAL
(A Component Unit of Grant County, West Virginia)

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2017 and 2016

	2017	2016 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	**$ 37,165,985**	$ 32,792,992
Payments to employees	**(17,197,788)**	(17,177,880)
Payments to suppliers and contractors	**(17,194,971)**	(16,133,425)
Other receipts and payments, net	**899,030**	695,511
Net cash provided by operating activities	**3,672,256**	177,198
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions	**806**	1,494
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	**(1,121,627)**	(1,405,994)
Interest paid	**(55,702)**	(71,091)
Proceeds from long-term debt	**-**	1,275,028
Principal paid on long-term debt	**(605,080)**	(493,272)
Net cash (used in) capital and related financing activities	**(1,782,409)**	(695,329)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	**748,317**	239,473
Investment in physician practice	**(35,519)**	-
Purchase of investments	**(621,563)**	(221,562)
Net cash provided by investing activities	**91,235**	17,911
Increase (decrease) in cash and cash equivalents	**1,981,888**	(498,726)
Cash and cash equivalents:		
Beginning	**2,256,766**	2,755,492
Ending	**$ 4,238,654**	$ 2,256,766
Reconciliation of Cash and Cash Equivalents to the Statements of Financial Position:		
Cash and cash equivalents	**$ 4,238,248**	$ 2,256,360
Assets whose use is limited	**406**	406
Total cash and cash equivalents	**$ 4,238,654**	$ 2,256,766

See Notes to Financial Statements

	2017	2016 (Restated)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	**$ 356,856**	$ (2,356,343)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	**2,188,299**	2,069,972
Provision for bad debts	**1,638,231**	1,401,250
Changes in assets and liabilities:		
(Increase) in patient accounts receivable	**(1,403,235)**	(1,868,361)
Decrease in accounts receivable, other	**497,551**	258,455
Decrease in inventories of supplies	**57,139**	20,008
(Increase) decrease in prepaid expenses and other current assets	**(83,528)**	47,831
Increase (decrease) in accounts payable and accrued expenses and accrued salaries and benefits	**94,508**	(89,205)
Increase (decrease) in estimated third-party payor settlements	**326,435**	693,591
Net cash provided by operating activities	**$ 3,672,256**	$ 177,198

See Notes to Financial Statements

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

Nature of operations and reporting entity: Grant Memorial Hospital (Hospital) is a Critical Access Hospital operating under the authority of the Grant County Commission (County Commission). The Hospital provides acute, emergency, long-term nursing care, and physician clinic medical services to Grant, Hardy, and Pendleton counties in West Virginia and the surrounding communities. The Hospital, a discretely-presented component unit of the County Commission, is governed by a Board of Trustees (Board) approved by the Commission.

A summary of significant accounting policies is as follows:

Enterprise fund accounting: The Hospital uses enterprise fund accounting. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting* guidance contained in Pre-November 30, 1989, Financial Accounting Standards Board (FASB) and AICPA Pronouncements, the Hospital has elected to apply the provision of all relevant pronouncements of the FASB and AICPA Pronouncements into the GASB authoritative literature, including those issued after November 30, 1989, that does not conflict with or contradict GASB pronouncements.

Net position:

Net position of the Hospital is classified in three components as follows:

- ***Net investment in capital assets*** – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows or resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.
- ***Unrestricted net position*** – The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.
- ***Restricted net position*** – Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

The Hospital has no assets in a restricted net position.

Industry risks: The U.S. health care industry continues to experience significant change. Today, the primary force for change is being created by a competitive marketplace resulting in rapid change in health care delivery and financing, as well as significant regulatory change.

An increasing number of the Hospital's third-party payors are adopting prospective payment systems similar to those used by the federal government's Medicare program which shift financial risk from the payor/insurer to the health care provider. The Hospital has signed provider contracts with several managed care organizations, which emphasize utilization control and cost containment. Managed care organizations either directly transfer risk to health care providers through capitation payment arrangements or pay for units of service on a steeply discounted basis.

Laws and regulations: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers.

Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

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

Cash and cash equivalents: Cash and cash equivalents include investments in highly liquid debt instruments purchased with an original maturity of three months or less, excluding assets whose use is limited. The fair value of cash and cash equivalents approximates cost.

Patient accounts receivable: Patient accounts receivable are reported at estimated net realizable value after deduction of allowances for doubtful accounts. The allowance for doubtful accounts is based on historical losses and an analysis of currently outstanding amounts for each of its major payor sources. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Accounts are written off when they are determined to be uncollectable. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectable deductibles and copayments on accounts for which the third-party payor has not yet paid). For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. It is reasonably possible that the Hospital's estimate of the allowance for doubtful accounts will change. Net patient service revenue decreased approximately $326,000 during the year ended June 30, 2017, and decreased approximately $693,000 during the year ended June 30, 2016, due to changes in estimates in estimated third-party payor settlements.

Other accounts receivable: Other accounts receivable include advances to physicians, scholarships, and receivables related to the Hospital provider tax.

Inventories of supplies: Inventories of supplies are stated at the lower of cost (first-in, first-out), determined using the average cost method, or market.

Assets whose use is limited: Assets whose use is limited include assets designated by the Board for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Investments: The Hospital has investments in marketable equity securities that are traded or listed on the national exchanges. Management must determine the appropriate classification of securities at the date individual investment securities are acquired and the appropriateness of such classification is reassessed at each statement of financial position date.

Investments included in assets whose use is limited are reported at fair value based on quoted market prices. The Hospital invests in mutual funds that are in accordance with the Hospital's investment policy. Investment income (including realized and unrealized gains and losses on investments, interest, and dividends) is included in non-operating income when earned.

Dividend and interest income is accrued as earned. The cost of marketable securities sold is determined by the average cost method.

Capital assets, net: Capital assets, net are carried at cost for purchased assets or fair market value at the date of donation for donated assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	15 to 40 years
Fixed equipment	10 to 20 years
Movable equipment	5 to 15 years
Land improvements	10 to 20 years

When capital assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred. Renewals and betterments are capitalized, and a deduction is made for the retirements resulting from the renewals or betterments.

Impairment losses are recognized on the statements of revenue and expenses and changes in net position as a component of operating revenue and expenses as they are determined. Capital assets, net are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recognized for the difference between the estimated fair value and the carrying value of the asset. There were no impairment losses recognized in 2017 or 2016.

Other assets, net: Other assets, net include an investment in a home health agency recorded at cost in addition to goodwill associated with the purchase price of a physician practice. Management has evaluated each investment to determine applicability of the appropriate method of accounting. The Hospital records as goodwill the excess of purchase price over the fair value of identifiable net assets acquired. Authoritative guidance related to goodwill and other intangible assets prescribes the application of a two-step process for impairment testing of goodwill if adverse qualitative factors exist indicating that it is more likely than not that goodwill is impaired. This is performed annually, as well as when an event triggering impairment may have occurred. Upon determination that goodwill is more than likely to be impaired, the two-step process would be applied. The first step tests for impairment while the second step, if necessary, measures impairment. The Hospital has selected June 30 in which to perform its annual evaluation of goodwill for impairment. No indicators of impairment were identified for the 2017 period in which goodwill was present.

Compensated absences: The Hospital's employees earn vacation days at varying rates depending on years of service and employment status. Paid time off and sick leave benefits are accumulated based on varying rates depending on years of service. Employees may accumulate paid time off and sick leave benefits up to a specified maximum. Employees are not paid for accumulated sick leave if their employment with the Hospital is terminated.

Net patient service revenue and patient accounts receivables: The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Charity care and community service benefits: The Hospital accepts all patients regardless of their ability to pay. Policies established by the Hospital are used to determine if a patient should be classified as a charity patient. These policies define charity services as those services for which no payment is anticipated. These estimated charges are not included in net patient service revenue.

The Hospital's gross patient service revenue is comprised of approximately 46% and 45% of Medicare program revenue, and approximately 20% and 18% of Medicaid program revenue, for the years ended June 30, 2017 and 2016, respectively.

Provider tax: The State of West Virginia assesses a health care provider tax based on net patient service revenue at rates ranging from 2.5% to 5.5% of such revenue. Provider taxes of approximately $840,000 and $615,000 were incurred by the Hospital for the years ended June 30, 2017 and 2016, respectively.

Operating revenue and expenses: The Hospital's statements of revenue and expenses and changes in net position distinguish between operating revenue and non-operating income (expenses). Operating revenue results from exchange transactions associated with providing health care services, the Hospital's principal activity. Non-exchange transactions, including grants and contributions received for purposes other than capital asset acquisition, investment income, (losses) on disposal of capital assets, and interest expense are reported as non-operating income (expenses). Operating expenses are all expenses incurred to provide health care services, other than financing costs.

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

Medical malpractice: The provision and related liability for estimated general and professional liability claims includes estimates of the ultimate cost for both reported claims and claims incurred but not reported and, in management's opinion, provides an adequate reserve for loss contingencies.

Income tax status: The Hospital is a not-for-profit corporation and is exempt from income taxes under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been provided. The Hospital follows the guidance for accounting for uncertainty in income taxes recognized in a company's financial statements that prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The guidance also addresses derecognition, classification, interest and penalties, accounting in interim periods, and disclosure.

Management has determined that this guidance had no material effect on the financial statements. The Hospital's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no interest or penalties recognized on the statements of revenue and expenses and changes in net position as a result of this guidance. Generally, tax returns for the years ended June 30, 2014, and thereafter remain subject to examination by federal and state taxing authorities.

Advertising costs: Advertising costs are expensed as incurred. Advertising costs were approximately $106,000 and $100,000 for the years ended June 30, 2017 and 2016, respectively, and are included in miscellaneous expenses on the accompanying statements of revenue and expenses and changes in net position.

Grants and contributions: From time to time, the Hospital receives grants from federal and state agencies as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating income. Amounts restricted to capital acquisitions would be reported as a change in restricted net position. There were no amounts restricted for capital acquisitions in 2017 or 2016.

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

Subsequent events: In preparing these financial statements, the Hospital evaluated events that occurred through December 12, 2017, the date the financial statements were available to be issued, for potential recognition or disclosure.

Note 2. Cash and Cash Equivalents

Custodial credit risk is the risk that, in the event of a financial institution failure, the Hospital's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk, as a governmental not-for-profit entity, is to require all deposits with financial institutions to be entirely insured or collateralized by securities held by financial institutions. Approximately $3,800,000 as of June 30, 2017, and $1,497,000 as of June 30, 2016, of the Hospital's financial institution deposits were exposed to custodial credit risk as these deposits were not covered by depository insurance. However, these deposits were collateralized with securities held by the pledging financial institution in the Hospital's name.

Note 3. Patients Accounts Receivable

Patients accounts receivable reported as current assets by the Hospital as of June 30 consist of the following:

	2017	2016
Receivables from patients and their insurance carriers	**$ 5,824,974**	$ 7,670,078
Receivables from Medicare	**2,699,197**	1,830,932
Receivables from Medicaid	**884,607**	510,408
Total patients accounts receivable	**9,408,778**	10,011,418
Less reserve for contractual allowances	**3,833,648**	3,875,932
Less allowance for doubtful accounts	**1,455,176**	1,780,536
Patients accounts receivable, net	**$ 4,119,954**	$ 4,354,950

Note 4. Assets Whose Use is Limited and Investment Risk

The composition of assets whose use is limited as of June 30 is as follows:

	2017	2016
Internally designated for capital improvements:		
Cash and cash equivalents	**$ 406**	$ 406
Mutual funds, equity	**5,389,154**	4,767,591
Total	**$ 5,389,560**	$ 4,767,997

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Board's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the Board's investment horizon within the Board's risk tolerance and cash requirements.

Custodial credit risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Hospital will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Hospital's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Hospital, or are held by either the counterparty or the counterparty's trust department or agent but not in the Hospital's name. As of June 30, 2017 and 2016, the Hospital's investments were not exposed to custodial credit risk since the full amount was insured or registered or consisted of securities held by the Hospital or its agent in the Hospital's name.

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized and total portfolio efficiency is enhanced.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Hospital's investment in a single issuer. Disclosure is required for investments in any one issuer that represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. As of June 30, 2017 and 2016, the Hospital had no concentrations in excess of 5%.

Note 5. Capital Assets, Net

Capital asset activity for the year ended June 30, 2017, is as follows:

	July 1, 2016	Additions	Transfers	Disposals	June 30, 2017
Capital assets not being depreciated:					
Land	$ 70,684	$ -	$ -	$ -	$ 70,684
Construction in progress	54,311	-	-	-	54,311
Total capital assets not being depreciated	$ 124,995	$ -	$ -	$ -	$ 124,995
Other capital assets:					
Land/land improvements	$ 438,134	$ -	$ -	$ -	$ 438,134
Buildings and improvements	16,195,036	514,272	-	-	16,709,308
Equipment	15,583,213	607,355	-	(231,410)	15,959,158
Total other capital assets	$ 32,216,383	$ 1,121,627	$ -	$ (231,410)	$ 33,106,600
Accumulated depreciation:					
Land improvements	$ (438,133)	$ -	$ -	$ -	$ (438,133)
Buildings and improvements	(12,954,175)	(570,339)	-	-	(13,524,514)
Equipment	(11,139,383)	(1,617,960)	-	227,291	(12,530,052)
Total accumulated depreciation	$ (24,531,691)	$ (2,188,299)	$ -	$ 227,291	$ (26,492,699)
Other capital assets, net	$ 7,684,692	$ (1,066,672)	$ -	$ (4,119)	$ 6,613,901
Capital assets summary:					
Capital assets not being depreciated	$ 124,995	$ -	$ -	$ -	$ 124,995
Other capital assets	32,216,383	1,121,627	-	(231,410)	33,106,600
Total cost of capital assets	32,341,378	1,121,627	-	(231,410)	33,231,595
Less accumulated depreciation	(24,531,691)	(2,188,299)	-	227,291	(26,492,699)
Capital assets, net	$ 7,809,687	$ (1,066,672)	$ -	$ (4,119)	$ 6,738,896

Capital asset activity for the year ended June 30, 2016, is as follows:

	July 1, 2015	Additions	Transfers	Disposals	June 30, 2016
Capital assets not being depreciated:					
Land	$ 70,684	$ -	$ -	$ -	$ 70,684
Construction in progress	3,400	50,911	-	-	54,311
Total capital assets not being depreciated	$ 74,084	$ 50,911	$ -	$ -	$ 124,995
Other capital assets:					
Land/land improvements	$ 438,134	$ -	$ -	$ -	$ 438,134
Buildings and improvements	15,994,336	-	335,622	(134,922)	16,195,036
Equipment	14,579,281	1,355,083	(335,622)	(15,529)	15,583,213
Total other capital assets	$ 31,011,751	$ 1,355,083	$ -	$ (150,451)	$ 32,216,383
Accumulated depreciation:					
Land improvements	$ (437,311)	$ (822)	$ -	$ -	$ (438,133)
Buildings and improvements	(12,468,656)	(553,428)	-	67,909	(12,954,175)
Equipment	(9,635,006)	(1,515,722)	-	11,345	(11,139,383)
Total accumulated depreciation	$ (22,540,973)	$ (2,069,972)	$ -	$ 79,254	$ (24,531,691)
Other capital assets, net	$ 8,470,778	$ (714,889)	$ -	$ (71,197)	$ 7,684,692
Capital assets summary:					
Capital assets not being depreciated	$ 74,084	$ 50,911	$ -	$ -	$ 124,995
Other capital assets	31,011,751	1,355,083	-	(150,451)	32,216,383
Total cost of capital assets	31,085,835	1,405,994	-	(150,451)	32,341,378
Less accumulated depreciation	(22,540,973)	(2,069,972)	-	79,254	(24,531,691)
Capital assets, net	$ 8,544,862	$ (663,978)	$ -	$ (71,197)	$ 7,809,687

Note 6. Accrued Salaries and Benefits

The components of accrued salaries and benefits as of June 30 are as follows:

	2017	2016
Accrued retirement costs	**$ 95,000**	$ 250,000
Accrued vacation and sick leave	**789,172**	763,980
Accrued payroll and withholding and other	**573,643**	578,915
	$ 1,457,815	$ 1,592,895

Note 7. Long-Term Debt

Long-term debt activity for the years ended June 30, 2017 and 2016, is as follows:

	July 1, 2016	Proceeds	Repayments	June 30, 2017	Amounts Due Within One Year
Long-term debt:					
Notes payable	**$ 1,666,086**	**$ -**	**(596,807)**	**$ 1,069,279**	**$ 566,636**
Capital lease payable	**8,273**	**-**	**(8,273)**	**-**	**-**
Total long-term debt	**$ 1,674,359**	**$ -**	**$ (605,080)**	**$ 1,069,279**	**$ 566,636**

	July 1, 2015	Proceeds	Repayments	June 30, 2016	Amounts Due Within One Year
Long-term debt:					
Notes payable	$ 872,492	$ 1,275,028	$ (481,434)	$ 1,666,086	$ 308,489
Capital lease payable	20,111	-	(11,838)	8,273	296,360
Total long-term debt	$ 892,603	$ 1,275,028	$ (493,272)	$ 1,674,359	$ 604,849

Long-term debt consists of the following as of June 30:

	2017	2016
Note payable, due in monthly installments of $26,942 including interest at 2.94%, matures October 2020, remaining available draws $224,972, secured by equipment.	**$ 799,435**	$ 1,087,754
Series 2011 Note, due in monthly installments of $20,911 including interest at 4.52%, matures December 2018.	**218,659**	453,686
Note payable, due in monthly installments of $6,527 including interest at 5.25%, matures February 2018, secured by a deed of trust.	**51,185**	124,646
Capital lease payable, due in monthly installments of $1,419 including interest at 5.7%, through February 2017, secured by equipment.	**-**	8,273
	1,069,279	1,674,359
Less current maturities	**566,636**	604,849
Long-term debt	**$ 502,643**	$ 1,069,510

The scheduled principal and interest repayments for long-term debt are as follows as of June 30, 2017:

	Notes and Capital Lease Payable	
Years Ending June 30:	**Principal**	**Interest**
2018	$ 566,636	$ 32,488
2019	305,760	17,550
2020	196,883	8,328
Total	$ 1,069,279	$ 58,366

In December 2011, the Grant County Development Authority issued a $1,500,000 Series 2011 Note on behalf of the Hospital to refund all of the outstanding Series 1998C Hospital Revenue Refunding Bonds. On the date of issuance, $100,000 of the proceeds from the Series 2011 Note was applied as a prepayment of principal. The Series 2011 Note is secured by an assignment of leases and rentals of the Hospital, security interest in the Hospital's accounts receivable, a deed of trust lien on the Hospital facility, and a lien on and security interest in the equipment of the Hospital.

The terms of the Series 2011 Note include certain financial covenants, including a requirement that the Hospital maintain a minimum fixed charge coverage ratio. The covenants also restrict the Hospital from exceeding $3,000,000 in long-term indebtedness. The Hospital believes they were in compliance with their covenants as of June 30, 2017 and 2016.

Note 8. Net Patient Service Revenue and Restatement

Net patient service revenue is presented net of contractual allowances and discounts. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. As a Critical Access Hospital, the Hospital receives payment, on a reasonable cost basis, for inpatient and most outpatient services provided to eligible Medicare and Medicaid patients. A summary of the payment arrangements with major third-party payors follows:

Medicare: Inpatient services and most outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology at 101 percent of allowable cost. Other outpatient services are paid based on fee schedules, or prospectively paid. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and review thereof by the Medicare fiscal intermediary. The appropriateness of the admission of Medicare program beneficiaries is subject to an independent review by a peer review organization.

Medicaid: Inpatient services and most outpatient services rendered to Medicaid program beneficiaries are paid based on cost reimbursement methodology at 100 percent of allowable cost. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and review thereof by the Medicaid fiscal intermediary. Other outpatient services are reimbursed based upon the lesser of the Hospital's charge or predetermined fee schedule amounts.

Commercial insurance: The Hospital also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes various discounts from established charges.

West Virginia Health Care Authority: During the current year, legislation was passed that eliminated rate regulation for West Virginia hospitals. The Health Care Authority may not reduce a hospital's rates for exceeding limits established by their rate orders effective July 1, 2016. Existing rate orders must still be complied with and failure to do so could result in other sanctions or penalties, in particular denial of certificate of need applications. The new law permits the Health Care Authority to impose fines for failure to comply with existing statures and rules. However, the Authority has waived this requirement for Critical Access Hospitals.

Disproportionate Share Payments and Restatement

The State of West Virginia Disproportionate Share Hospital (DSH) State Plan provides for a settlement process among participating hospitals. The amounts received by the Hospital for this program have been audited through 2013. For future years, settlements could result. The laws and regulations governing the DSH settlement process are complex, involving statistical data from all participating hospitals, and subject to interpretation. Accordingly, the Hospital is not able to estimate the possible loss that could arise upon completion of the DSH settlement process. An unfavorable settlement could materially impact the Hospital's future results of operations or cash flows in a particular period.

Included in net patient service revenue is Medicaid disproportionate share revenue of approximately $150,000 and $1,260,000, for the years ended June 30, 2017 and 2016, respectively. Future receipt of these funds will be strictly dependent upon the continuation of applicable federal and state laws and regulations.

During the year ended June 30, 2017, management of the Hospital, through extensive analysis of their estimated third-party payor settlements, noted that estimated third-party payor settlements for June 30, 2016, should have been adjusted based on the timing of information available to calculate such estimates and additional analysis of existing estimates. The Hospital participates in the West Virginia disproportionate share payment system and accordingly received approximately $1,000,000 during each of the years ended June 30, 2015 and 2016. These payments are based on informational surveys submitted on data related to the two years prior to the survey year. Medicaid expansion increased the number of patients covered under insurance which impacted the amount of eligible DSH payments for which the Hospital is entitled. Consequently, in late 2016, it came to the attention of management that they have been overpaid significantly for 2015 and 2016 based on survey results. Accordingly, management has restated the June 30, 2016 financial statements to incorporate an adjustment to estimated third-party payor settlements primarily related to DSH in addition to other minor changes in estimates noted through additional scrutiny. These changes had the effect of increasing estimated third-party payor settlements on the balance sheet by approximately $1,600,000 and decreasing the Hospital's net position by approximately $1,600,000 as of June 30, 2016. This change also had the effect of decreasing net patient service revenue and (deficiency) of revenue and non-operating income over expense by approximately $1,600,000 as of June 30, 2016.

Estimated calculations show a potential for re-payment for the years ended June 30, 2014 through 2017. Expected reserves included in third-party payor settlements on the statements of financial position are as follows:

Years Ending June 30:	
2014	$ 334,000
2015	1,000,000
2016	1,000,000
2017	-

Medicaid Provider Tax Disallowance

The Centers for Medicare and Medicaid Services (CMS) has recently directed some local intermediaries to disallow the cost of provider taxes claimed in cost reports. Hospitals claimed the tax assessment as an allowable cost under the applicable regulations and the Provider Reimbursement Manual (PRM) sections. Hospitals have relied upon the fact that CMS approved applicable State Plan Amendments relating to the Provider Tax Assessments. The Hospital paid the provider tax and included it as an allowable expense. The disallowance may be applied retroactively for several years and the impact could be significant, depending upon various factors. The Hospital has reserved 100% of the provider tax based on prior year cost report settlements. This reserve is included in third-party payor settlements on the statements of financial position. Management and various associations representing affected hospitals plan to appeal the disallowance. The ultimate outcome of the issue is unknown at this time.

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

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements, primarily with Medicare, Medicaid, and various commercial insurance companies. The Hospital maintains allowances for potential credit losses and such losses have historically been within management's expectations.

The mix of receivables as of June 30 from patients and third-party payors is as follows:

	2017	2016
Other third-party payors	**32 %**	37 %
Medicare	**30**	22
Self-pay (including self-pay after insurance)	**16**	23
Blue Cross	**12**	12
Medicaid	**10**	6
	100 %	100 %

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of discounted rates as provided by its policy. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows for the years ended June 30:

	2017			
	Third-Party Government Payors	**Third-Party Commercial Payors**	**Self-Pay**	**Total**
Patient service revenue (net of contractual allowances and discounts)	**$ 17,815,671**	**$ 19,543,750**	**$ 883,364**	**$ 38,242,785**

	2016			
	Third-Party Government Payors	**Third-Party Commercial Payors**	**Self-Pay**	**Total**
Patient service revenue (net of contractual allowances and discounts)	$ 12,836,152	$ 20,259,350	$ 872,260	$ 33,967,762

Note 9. Charity Care

The Hospital provides care to its patients who meet certain criteria under its patient financial assistance policy without charge or at amount less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized Federal Poverty Guidelines, but also includes certain cases where incurred charges are significant when compared to the patient's income. The costs associated with the charity care services provided are estimated by applying a cost-to-charge ratio to the amount of gross uncompensated charges for the patients receiving charity care. The costs of charity care provided by the Hospital amounted to approximately $410,000 and $365,000 for the years ended June 30, 2017 and 2016, respectively.

Note 10. Estimated Third-Party Payor Settlements

Estimated third-party payor settlements consist of amounts due from (to) Medicare and Medicaid for settlement of current and prior year cost reports and payments due from (to) the State of West Virginia under its disproportionate share program. These estimated settlements by program are as follows as of June 30:

	2017	2016
Amounts due from:		
Medicaid	**$ 565,450**	$ 365,137
Amounts due to:		
Medicare	**$ 959,459**	$ 621,092
Medicaid including DSH	**2,552,027**	2,363,646
Total	**$ 3,511,486**	$ 2,984,738

Note 11. Meaningful Use of Electronic Health Records

The American Recovery and Reinvestment Act of 2009 established one-time incentive payments under the Medicare and Medicaid programs for hospitals that meaningfully use certified electronic health records (EHR) technology. In general, a hospital may receive an incentive payment for up to four years, provided it successfully demonstrates meaningful use of certified EHR technology for the EHR reporting period. The key component of receiving the EHR incentive payments is "demonstrating meaningful use," which means meeting a series of objectives that make use of an EHR's potential related to the improvement of quality, efficiency, and patient safety. Meaningful use will be assessed on a year-by-year basis.

Once the Hospital meets the requirements for an incentive payment, a preliminary payment is made by the Centers for Medicare and Medicaid Services. The incentive payment is the product of the reasonable costs for the purchase of a certified EHR system and the Hospital's Medicare Share plus 20 percentage points. The final amount of the payment is determined at the time the cost report for the period beginning in the payment year is settled, based on Medicare Share data from that cost report.

The Hospital attested as a meaningful user for the years ended June 30, 2017 and 2016. As a result, the Hospital recognized $0 and $21,250 under the Medicaid program as income for the years ended June 30, 2017 and 2016, respectively, which is included in other operating revenue on the accompanying statements of revenue and expenses and changes in net position.

Income recognized is based on management's estimate and it is reasonably possible that the estimates used could change materially in the near term. Any such changes would affect operations in the period in which they occur. The Hospital's attestation as a meaningful user is subject to audit by the federal government or its designee.

Note 12. Pension Plan

The Hospital maintains a profit sharing plan. Eligible employees include those who have completed one year of service. There is no minimum employee contribution required by the plan. Each year the Hospital may contribute a discretionary amount to the plan.

The Hospital contributed $239,353 in 2017 and $248,354 in 2016 to the plan. The Hospital has no additional liability to the plan. Pension plan contributions are included with employee benefits on the accompanying statements of revenue and expenses and changes in net position.

Note 13. Medical Malpractice Claims Coverage

The Hospital maintains primary coverage under the terms of an insurance contract which covers losses, if any, which are reported during the period the contract is in force, "claims-incurred coverage," subject to the per occurrence and aggregate limits of such contract. Additionally, the Hospital has an umbrella liability insurance contract that insures against losses in excess of the primary coverage reported during the period of policy coverage.

The Hospital believes it has adequate insurance coverages and accruals for all asserted claims, and it has no knowledge of unasserted claims which would exceed its insurance coverages and accruals.

Note 14. Functional Expenses

The Hospital provides health care and other related services to its patients. The classification of expenses related to providing these services approximates the following for the years ended June 30:

	2017	2016
Health care services	**$ 30,045,000**	$ 28,988,000
General and administrative	**6,604,000**	6,372,000
	$ 36,649,000	$ 35,360,000

Note 15. Commitments and Contingencies

Health care industry: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance that have not been provided for in the accompanying financial statements; however, the possible future financial effects of such matters on the Hospital, if any, are not presently determinable.

Litigation and claims: The Hospital is a defendant in various lawsuits where various amounts are being claimed. In the opinion of management and legal counsel, the likelihood of an unfavorable outcome in excess of insurance coverage is remote and the judgments, if unfavorable, would not have a material and adverse effect on the Hospital's financial statements.

Note 16. Fair Value Measurements and Financial Instruments

Authoritative guidance regarding *Fair Value Measurements* establishes a framework for measuring fair value. This guidance defines fair value, establishes a framework and hierarchy for measuring fair value, and outlines the related disclosure requirements. The guidance indicates that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability based upon an exit price model. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements).

Financial assets recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level I Quoted prices in active markets for identical assets or liabilities. Level I assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

Level II Observable inputs other than Level I 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 II assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments or derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

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

The fair values of financial instruments listed below were determined using the following valuation hierarchy as of June 30:

	2017				
	Carrying Value	**Fair Value**	**Level I**	**Level II**	**Level III**
Assets whose use is limited:					
Cash and cash equivalents	**$ 406**	**$ 406**	**$ 406**	**$ -**	**$ -**
Mutual funds, equity	**5,389,154**	**5,389,154**	**5,389,154**	**-**	**-**
Total	**$ 5,389,560**	**$ 5,389,560**	**$ 5,389,560**	**$ -**	**$ -**
Cash and cash equivalents	**$ 4,238,248**	**$ 4,238,248**	**$ 4,238,248**	**$ -**	**$ -**

	2016				
	Carrying Value	**Fair Value**	**Level I**	**Level II**	**Level III**
Assets whose use is limited:					
Cash and cash equivalents	$ 406	$ 406	$ 406	$ -	$ -
Mutual funds, equity	4,767,591	4,767,591	4,767,591	-	-
Total	$ 4,767,997	$ 4,767,997	$ 4,767,997	$ -	$ -
Cash and cash equivalents	$ 2,256,360	$ 2,256,360	$ 2,256,360	$ -	$ -

The following methods were used by the Hospital in estimating fair value of its financial instruments. There have been no changes in methodologies used as of June 30, 2017 or 2016:

Cash and cash equivalents: The carrying amounts approximate fair value because of the short maturity of these financial instruments.

Mutual funds, equity: Valued at closing price reported on the active market on which the individual securities are traded for mutual funds and quoted market prices in active markets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 17. Land Donation

The County received a donation from Grant Memorial Trust Foundation, Incorporated of four tracts of land with a total of approximately 59 acres, with a cost of $625,000, to be used for the construction of a new hospital by the Hospital. The Hospital has seven years from February 2016 to begin the construction of this project, or they will owe these funds back to Grant Memorial Trust Foundation, Incorporated.