



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2016 AND 2015

CPAs / ADVISORS



CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

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Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Cameron Memorial Community Hospital, Inc.
Angola, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Cameron Memorial Community Hospital, Inc. (the Hospital), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General in the United States and Guidelines for Examination of Entities Receiving Financial Assistance From Governmental Sources, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

Board of Directors
Cameron Memorial Community Hospital Inc.
Angola, Indiana

Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2016 and 2015, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 3 to the consolidated financial statements, the Hospital adopted new accounting guidance, Accounting Standards Update 2015-03, *Interest – Imputation of Interest*, which simplifies the presentation of deferred financing costs. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the balance sheet, results of operations, changes in net assets and cash flows of the individual entities, and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

Board of Directors
Cameron Memorial Community Hospital Inc.
Angola, Indiana

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
December 16, 2016

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 2,002,847 | \$ 4,365,614 |
| Patient accounts receivable, less allowances for uncollectible accounts of \$4,094,000 in 2016 and \$3,018,000 in 2015 | 9,552,230 | 8,504,724 |
| Other receivables | 291,226 | 218,119 |
| Inventory | 921,866 | 853,493 |
| Prepaid expenses | 978,840 | 789,430 |
| Estimated third-party settlements | 342,749 | 209,376 |
| Notes receivable, current portion | 234,718 | 216,225 |
| Total current assets | 14,324,476 | 15,156,981 |
| Assets whose use is limited | | |
| Donor restricted | 90,185 | 194,406 |
| Held by trustee | 140,714 | 889,236 |
| Board designated for capital improvements | 796,016 | 1,162,131 |
| Total assets whose use is limited | 1,026,915 | 2,245,773 |
| Investments | 16,942,752 | 15,685,934 |
| Property and equipment, net | 59,457,240 | 58,294,571 |
| Other assets | | |
| Notes receivable, less current portion | 458,524 | 428,481 |
| Receivable from Cameron Hospital Foundation, Inc. | 148,425 | 208,151 |
| Total other assets | 606,949 | 636,632 |
| Total assets | <u>\$ 92,358,332</u> | <u>\$ 92,019,891</u> |

See accompanying notes to consolidated financial statements.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2016 AND 2015

LIABILITIES AND NET ASSETS

| | 2016 | 2015 |
|--|-----------------------------|-----------------------------|
| Current liabilities | | |
| Accounts payable | \$ 3,603,414 | \$ 2,004,043 |
| Accrued wages and related liabilities | 1,699,121 | 2,101,064 |
| Accrued expenses and other liabilities | 1,208,919 | 1,313,792 |
| Current portion of long-term debt | 1,037,239 | 800,970 |
| Total current liabilities | <u>7,548,693</u> | <u>6,219,869</u> |
| Long-term liabilities | | |
| Long-term debt, less current portion | 45,161,262 | 46,253,332 |
| Total liabilities | <u>52,709,955</u> | <u>52,473,201</u> |
| Net assets | | |
| Unrestricted | 39,409,767 | 39,144,133 |
| Temporarily restricted | 238,610 | 402,557 |
| Total net assets | <u>39,648,377</u> | <u>39,546,690</u> |
| Total liabilities and net assets | <u><u>\$ 92,358,332</u></u> | <u><u>\$ 92,019,891</u></u> |

See accompanying notes to consolidated financial statements.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|---|---------------|---------------|
| Unrestricted revenue, gains and other support | | |
| Net patient service revenue | \$ 59,037,185 | \$ 54,443,805 |
| Less provision for bad debts | 5,266,382 | 4,917,196 |
| Net patient service revenue net of provision for bad debts | 53,770,803 | 49,526,609 |
| Other revenue | 1,916,067 | 1,884,688 |
| Net assets released from restrictions | 106,001 | 5,745 |
| Total unrestricted revenue, gains and other support | 55,792,871 | 51,417,042 |
| Expenses | | |
| Salaries and wages | 19,165,961 | 18,031,581 |
| Employee benefits | 5,666,523 | 5,404,259 |
| Purchased services and professional fees | 11,624,811 | 11,518,452 |
| Supplies | 4,292,005 | 4,084,159 |
| Repair and maintenance | 1,259,137 | 1,102,541 |
| Utilities | 712,142 | 738,303 |
| Building and equipment rent | 1,872,912 | 1,397,295 |
| Insurance | 422,155 | 394,711 |
| Interest | 1,540,941 | 1,148,150 |
| Depreciation and amortization | 5,666,298 | 3,273,650 |
| Other | 4,147,106 | 3,075,852 |
| Total expenses | 56,369,991 | 50,168,953 |
| Operating income (loss) | (577,120) | 1,248,089 |
| Nonoperating income (loss) | | |
| Investment income (loss) | 1,276,962 | (520,680) |
| Loss on disposal of property and equipment | (237,586) | (84,601) |
| Other | (197,400) | -0- |
| Contribution to Cameron Hospital Foundation | (105,951) | -0- |
| Total nonoperating income (loss) | 736,025 | (605,281) |
| Excess of revenues over expenses | 158,905 | 642,808 |
| Other changes in net assets | | |
| Net assets released from restrictions for property | 106,729 | 346,635 |
| Change in unrestricted net assets | 265,634 | 989,443 |
| Temporarily restricted net assets | | |
| Contributions | 47,003 | 262,296 |
| Investment income (loss) | 1,780 | (6,126) |
| Net assets released from restrictions | (212,730) | (352,380) |
| Change in temporarily restricted net assets | (163,947) | (96,210) |
| Change in net assets | 101,687 | 893,233 |
| Net assets | | |
| Beginning of year | 39,546,690 | 38,653,457 |
| End of year | \$ 39,648,377 | \$ 39,546,690 |

See accompanying notes to consolidated financial statements.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|---|--------------|--------------|
| Operating activities | | |
| Change in net assets | \$ 101,687 | \$ 893,233 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | |
| Depreciation | 5,666,298 | 3,273,650 |
| Amortization of deferred financing costs | 20,872 | 20,523 |
| Provision for bad debts | 5,266,382 | 4,917,196 |
| Loss on disposal of property and equipment | 237,586 | 84,601 |
| Realized and unrealized (gain) loss on investments | (659,549) | 1,256,284 |
| Contributions restricted for long-term purposes | (47,003) | (262,296) |
| Change in operating assets and liabilities | | |
| Patient accounts receivable | (6,313,888) | (6,110,690) |
| Other receivables | (13,381) | (124,947) |
| Inventory and prepaid expenses | (257,783) | (130,938) |
| Notes receivable | (48,536) | (74,108) |
| Accounts payable, accrued wages and related liabilities | (683,044) | (2,312,073) |
| Accrued expenses and other liabilities | (104,873) | 561,494 |
| Estimated third-party settlements | (133,373) | (694,044) |
| Net cash flows from operating activities | 3,031,395 | 1,297,885 |
| Investing activities | | |
| Proceeds from sale of investments | 2,859,956 | 11,249,136 |
| Purchase of investments | (2,238,367) | (1,730,443) |
| Purchase of property and equipment | (5,198,081) | (10,237,159) |
| Proceeds from disposal of property and equipment | 12,000 | 37,846 |
| Net cash flows from investing activities | (4,564,492) | (680,620) |
| Financing activities | | |
| Contributions restricted for long-term purposes | 47,003 | 262,296 |
| Proceeds from issuance of long-term debt | 37,000,000 | 10,000,000 |
| Payments for deferred financing costs | (27,880) | (87,728) |
| Payments on long-term debt | (37,848,793) | (10,633,722) |
| Net cash from financing activities | (829,670) | (459,154) |
| Net change in cash and cash equivalents | (2,362,767) | 158,111 |
| Cash and cash equivalents | | |
| Beginning of year | 4,365,614 | 4,207,503 |
| End of year | \$ 2,002,847 | \$ 4,365,614 |
| Supplemental disclosure of cash flows information | | |
| Cash paid for interest net of amounts capitalized of \$80,000 in 2016 and \$181,000 in 2015 | \$ 1,540,941 | \$ 1,148,150 |
| Property and equipment in accounts payable | \$ 1,880,472 | \$ 79,387 |
| Property and equipment acquired through capital leases | \$ -0- | \$ 1,379,968 |

See accompanying notes to consolidated financial statements.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

1. ORGANIZATION

Nature of Operations

Cameron Memorial Community Hospital, Inc. (the Hospital), a not-for-profit organization, is a general acute care facility in Angola, Indiana with 25 licensed beds and associated ancillary service departments including outpatient services, home health care and an urgent care center. The Hospital provides health care services primarily in the northeast portion of Indiana. Expenses relate to the provision of medical care and related general and administrative costs.

Cameron Medical Outreach, Inc. (CMO), a not-for-profit organization, is a community outreach organization providing health care needs of indigent individuals, medically underserved areas and the community as a whole. CMO earns revenue from rental and leasing arrangements and healthcare services. The Hospital is the sole member of CMO which began operations on October 1, 2007. CMO operates an assisted living facility as well as a General Surgery and Family Practice office in Angola, Indiana.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Hospital and CMO. Intercompany transactions and balances have been eliminated in the consolidation.

Use of Estimates

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

Cash and Cash Equivalents

The Hospital considers highly liquid investments available for operating purposes with an original maturity of 90 days or less to be cash and cash equivalents for the purposes of the consolidated statements of cash flows. The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

Patient Accounts Receivable and Net Patient Service Revenue

Patient service revenue and the related accounts receivable are recorded at the time services to patients are performed. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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. These estimated retroactive adjustments under reimbursement agreements are included with estimated third-party payor settlements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Allowance for Uncollectible Accounts

Patient accounts receivable are reduced by an allowance for uncollectible accounts based on the Hospital's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to its service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary. For receivables associated with self-pay payments, 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 or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

During 2016, the Hospital's allowance for uncollectible accounts for patient services increased approximately \$1,076,000 from \$3,018,000 to \$4,094,000. The uncollectible allowance for self-pay balances increased approximately \$1,109,000 during the year ended September 30, 2016. The uncollectible allowance for third-party payor accounts increased approximately \$56,000 during the year ended September 30, 2016. The changes are mainly the result of shifts in payor mix due to health care reform and an increase in insurance coverage for patients who were previously uninsured.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

In addition, the Hospital's write-offs related primarily to self-pay decreased by approximately \$502,000 to approximately \$4,190,000 in 2016 from approximately \$4,692,000 in 2015. The change was the result of trends experienced in the collection of amounts from self-pay and self-pay after third-party insurance patients during 2016. The Hospital did not change its charity care policy during 2016.

As of September 30, 2016, the allowance for uncollectible accounts of approximately \$4,094,000 was comprised of \$3,613,000 reserved for self-pay balances and \$481,000 reserved for third-party payor balances. As of September 30, 2015, the allowance for uncollectible accounts of approximately \$3,018,000 was comprised of \$2,726,000 reserved for self-pay balances and \$292,000 reserved for third-party payor balances.

Estimated Third-Party Settlements

Estimated third-party settlements for the Medicare and Medicaid programs reflect the differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year, and any differences owed to or by the Hospital after such reports have been audited. As of September 30, 2016, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through September 30, 2014.

Changes to any previous year's estimated settlement are reflected in the period the intermediary finalizes its audit of cost reports, or when additional information becomes available. During 2016 and 2015, the Hospital recognized an increase in net patient service revenue of approximately \$225,000 and \$32,000, respectively, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

Inventory

Inventory consists mainly of pharmaceuticals and medical supplies and is stated at the lower of cost, determined using the first-in, first-out (FIFO) method, or market.

Assets Limited as to Use

Assets limited as to use include: (1) assets restricted by donors, (2) assets held by trustees under bond indenture agreements and (3) assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

Investments and Investment Income (Loss)

Investments in equity securities, having a readily determinable fair value, and all debt securities are carried at fair value. The Hospital has classified all of its investments in debt and equity securities as trading securities. Investment return includes dividend, interest and other investment income, and realized and unrealized gains and losses on investments carried at fair value. Investment income that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment income is reflected in the consolidated statements of operations and changes in net assets as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

Property, Equipment and Depreciation

Property and equipment other than that received by donation, are reported at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The estimated useful lives are as follows:

| | <u>Estimated Useful Lives</u> |
|-------------------------------------|-----------------------------------|
| Buildings and building improvements | 5-50 years |
| Fixed equipment | 3-20 years |

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred at September 30 was:

| | <u>2016</u> | <u>2015</u> |
|------------------------------------|---------------------|---------------------|
| Total interest incurred | \$ 1,620,860 | \$ 1,329,494 |
| Less net interest cost capitalized | 79,919 | 181,344 |
| Total interest expense | <u>\$ 1,540,941</u> | <u>\$ 1,148,150</u> |

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

Deferred Financing Costs and Original Issue Discounts

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are amortized over the term of the respective debt. The deferred financing costs and discounts incurred in issuing the debt are classified with long-term debt and are amortized using the effective-interest method over the respective term of the debt issues.

Notes Receivable

During 2016 and 2015, the Hospital extended credit in the form of notes receivable for patient service accounts where the patient established a long-term payment plan with the Hospital through a third-party collection agency. Notes receivable are for a period of up to five years, are interest free, unsecured and require monthly payments. The credit quality indicator is performance determined by delinquency status. Delinquency status is updated monthly. All notes receivable are considered performing.

Notes receivable are carried at their estimated collectible amounts and are periodically evaluated based on historical collections and current financial conditions. An estimated allowance for uncollectible amounts is established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of note recipients to repay the amounts due in accordance with the terms of the note agreements. The Hospital determines the estimated allowance for uncollectible amounts on notes receivable first by performing an evaluation of the individual notes and second by analyzing the overall performance of the aggregate notes receivable portfolio balance outstanding. After two missed payments, the notes receivable are charged against the allowance and remitted to a third-party collection agency. The evaluation of the collectability of notes receivable involves the use of significant estimates and assumptions. It is at least reasonably possible that management's estimate of uncollectible notes receivable will change in the near term.

As of September 30, 2016 and 2015, notes receivables approximated \$693,000 and \$645,000, respectively. As of September 30, 2016 and 2015, the current portion of notes receivables approximated \$235,000 and \$216,000, respectively, with the remaining portion reported as long-term. The notes receivable are net of provisions made by the Hospital for amounts estimated to be uncollectible of approximately \$298,000 and \$279,000 as of September 30, 2016 and 2015, respectively.

Temporarily Restricted Net Assets

Restricted net assets, the use of which is restricted by donors or grantors, are used to differentiate from unrestricted net assets on which donors or grantors place no restrictions or that arise as a result of the operations of the Hospital for its stated purposes. Restricted gifts and other restricted resources are recorded as additions to the appropriate restricted net assets at fair market value at the date of donation.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

Resources restricted by donors for property and equipment replacement or expansion are added to unrestricted net assets to the extent expended within the period. Temporarily restricted net assets include property and equipment with a net book value of approximately \$-0- and \$154,000 as of September 30, 2016 and 2015, respectively.

Charity Care

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

The Hospital's patient assistance policy reflects the current economic conditions and other factors unique to the Hospital's customer base. Patient assistance provided during 2016 and 2015, measured at established rates, was approximately \$605,000 and \$1,059,000, respectively. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The Hospital receives reimbursements from certain governmental payors to assist in the funding of patient assistance.

Of the Hospital's total expenses reported, an estimated \$301,000 and \$505,000 arose from providing services to charity patients during 2016 and 2015, respectively. The estimated costs of providing patient assistance services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses to gross patient service revenue.

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair values at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Receipts of contributions which are conditional are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Income Taxes

The Hospital and CMO are not-for-profit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. As such, the Hospital and CMO are generally exempt from income taxes. However, the Hospital and CMO are required to file Federal Form 990 – Return of Organizations Exempt from Income Tax, which is an informational return only.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and CMO and recognize a tax liability if the Hospital or CMO have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and CMO, and has concluded that as of September 30, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Hospital and CMO are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Hospital and CMO have filed their federal and state income tax returns for periods through September 30, 2015. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include a performance indicator, excess of revenues over expenses. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue, gains, support, and expenses. Transactions incidental to the provision of patient care services are reported as nonoperating income and expense. Changes in unrestricted net assets which are excluded from the performance indicator consistent with industry practice, include unrealized gains and losses on investments in other-than-trading securities and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets).

Reclassifications

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation. These reclassifications had no impact on net assets and changes in net assets for 2015, as previously reported.

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is December 16, 2016.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

3. CHANGE IN ACCOUNTING PRINCIPLE

During 2016, the Hospital early adopted Accounting Standards Update 2015-03, *Interest – Imputation of Interest*, which simplifies the presentation of deferred financing costs by presenting them as direct deduction from face amount of the related long-term debt. Previously, deferred financing costs were aggregated and presented as a deferred charge within the other assets section of the consolidated balance sheet. Deferred financing costs will continue to be amortized over the term of the related long-term debt, but are now are presented as a component of interest expense in the consolidated statement of operations.

The 2015 consolidated financial statements have been retroactively restated to adopt this new guidance as detailed in the following table.

| | As previously reported | Effects of implementation | As restated |
|--|---------------------------|------------------------------|---------------|
| <u>Balance sheet</u> | | | |
| Deferred financing costs | \$ 806,922 | \$ (806,922) | \$ -0- |
| Long-term debt | \$ 47,060,254 | \$ (806,922) | \$ 46,253,332 |
| <u>Statement of operations</u> | | | |
| Depreciation and amortization | \$ 3,294,173 | \$ (20,523) | \$ 3,273,650 |
| Interest expense | \$ 1,127,627 | \$ 20,523 | \$ 1,148,150 |
| <u>Statement of cash flows</u> | | | |
| Depreciation and amortization | \$ 3,294,173 | \$ (20,523) | \$ 3,273,650 |
| Amortization of deferred financing costs | \$ -0- | \$ 20,523 | \$ 20,523 |

4. NET PATIENT SERVICE REVENUE

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

Medicare

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). In February 2003, the Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

Medicaid and Hospital Assessment Fee Program

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

During 2012, Hospital Assessment Fee (HAF) Program was approved by Centers for Medicare & Medicaid Services (CMS). The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana hospitals as reflected in the HAF Program expense reported in the consolidated statements of operations and changes in net assets. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. During 2016 and 2015, the Hospital recognized HAF Program expense of approximately \$704,000 and \$316,000, respectively, which resulted in increased Medicaid reimbursement. The HAF Program expense is included in other expenses and the associated increase in Medicaid reimbursement is included in net patient service revenue on the consolidated statements of operations and changes in net assets. The HAF Program is approved for extension by CMS through June 30, 2017.

Other Payment Arrangements

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

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A summary of net patient service revenue, contractual adjustments, and patient service revenue forgone for patient assistance, at standard charges, for 2016 and 2015 follows:

| | 2016 | 2015 |
|---|---------------|---------------|
| Gross patient service revenue | | |
| Routine services | \$ 5,696,700 | \$ 5,669,274 |
| Inpatient services | 10,898,969 | 12,100,566 |
| Outpatient services | 96,694,105 | 87,355,949 |
| Total gross patient service revenue | 113,289,774 | 105,125,789 |
| Less deductions from revenue | | |
| Charity care | 604,683 | 1,058,828 |
| Contractual allowances | 53,647,906 | 49,623,156 |
| Total deductions from revenue | 54,252,589 | 50,681,984 |
| Net patient service revenue | 59,037,185 | 54,443,805 |
| Less provision for bad debts | 5,266,382 | 4,917,196 |
| Net patient service revenue net of provision for bad debts | \$ 53,770,803 | \$ 49,526,609 |

5. CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are area residents and are insured under third-party payer agreements. The mix of receivables and revenue from patients and third-party payers at September 30 was:

| | Receivables | | Revenues | |
|--------------------------|-------------|------|----------|------|
| | 2016 | 2015 | 2016 | 2015 |
| Medicare | 34% | 26% | 27% | 26% |
| Medicaid | 10% | 15% | 10% | 11% |
| Blue Cross | 7% | 7% | 16% | 16% |
| Other third-party payors | 17% | 19% | 39% | 39% |
| Self pay | 32% | 33% | 8% | 8% |
| | 100% | 100% | 100% | 100% |

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

6. INVESTMENTS AND INVESTMENT INCOME

Assets Whose Use is Limited

Assets limited as to use at September 30 include:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Donor restricted | | |
| Cash | \$ 16,403 | \$ 14,834 |
| Certificates of deposit | 73,782 | 179,572 |
| | <u>90,185</u> | <u>194,406</u> |
| Held by trustee | | |
| Cash | 140,714 | 889,236 |
| Board designated for capital improvements | | |
| Cash | 4,348 | 380,691 |
| Mutual funds | 791,668 | 781,440 |
| | <u>796,016</u> | <u>1,162,131</u> |
| Total assets whose use is limited | <u>\$ 1,026,915</u> | <u>\$ 2,245,773</u> |

Long-term Investments

Long-term investments at September 30 include:

| | <u>2016</u> | <u>2015</u> |
|---------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 13,330 | \$ 123,769 |
| Mutual funds | 16,929,422 | 15,562,165 |
| | <u>\$ 16,942,752</u> | <u>\$ 15,685,934</u> |

Total investment income (loss) is comprised of the following:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Interest and dividend income (net of fees of \$4,818 in 2016 and \$5,796 in 2015) | \$ 619,193 | \$ 729,478 |
| Realized gain (loss) on investments | (333,190) | 305,684 |
| Unrealized gain (loss) on investments | 992,739 | (1,561,968) |
| Total investment income (loss) | <u>\$ 1,278,742</u> | <u>\$ (526,806)</u> |

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

Total investment income (loss) is reflected in the consolidated statements of operations and changes in net assets as follows:

| | 2016 | 2015 |
|-----------------------------------|---------------------|---------------------|
| Unrestricted net assets | \$ 1,276,962 | \$ (520,680) |
| Temporarily restricted net assets | 1,780 | (6,126) |
| | <u>\$ 1,278,742</u> | <u>\$ (526,806)</u> |

7. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of September 30, 2016 and 2015:

- *Money market mutual funds*: Valued based at the subscription and redemption activity at a \$1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of securities.

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- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

The following tables set forth by level, within the hierarchy, the Hospital's assets measured at fair value on a recurring basis as of September 30, 2016 and 2015:

| | September 30, 2016 | | | |
|--------------------------------|----------------------|----------------------|-------------------|---------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Assets whose use is limited | | | | |
| Money market mutual funds | \$ 140,714 | \$ -0- | \$ 140,714 | \$ -0- |
| Mutual funds - fixed income | 791,668 | 791,668 | -0- | -0- |
| | <u>932,382</u> | <u>\$ 791,668</u> | <u>\$ 140,714</u> | <u>\$ -0-</u> |
| Cash | 20,751 | | | |
| Certificates of deposit * | 73,782 | | | |
| | <u>\$ 1,026,915</u> | | | |
| Investments | | | | |
| Mutual funds | | | | |
| Money market | \$ 120,716 | \$ -0- | \$ 120,716 | \$ -0- |
| Corporate fixed income | 1,242,229 | 1,242,229 | -0- | -0- |
| Diversified emerging markets | 625,155 | 625,155 | -0- | -0- |
| Foreign large blend | 552,501 | 552,501 | -0- | -0- |
| Foreign large growth | 626,821 | 626,821 | -0- | -0- |
| Foreign large value | 1,148,979 | 1,148,979 | -0- | -0- |
| Foreign small/mid value | 511,052 | 511,052 | -0- | -0- |
| Intermediate-term fixed income | 1,907,557 | 1,907,557 | -0- | -0- |
| Large growth | 1,082,145 | 1,082,145 | -0- | -0- |
| Large value | 2,160,409 | 2,160,409 | -0- | -0- |
| Mid-cap value | 1,046,228 | 1,046,228 | -0- | -0- |
| Non-traditional fixed income | 2,523,339 | 2,523,339 | -0- | -0- |
| Pacific/Asia ex-Japan | 408,111 | 408,111 | -0- | -0- |
| Small blend | 734,562 | 734,562 | -0- | -0- |
| Small value | 1,047,628 | 1,047,628 | -0- | -0- |
| World fixed income | 616,884 | 616,884 | -0- | -0- |
| World stock | 575,106 | 575,106 | -0- | -0- |
| Total mutual funds | <u>16,929,422</u> | <u>\$ 16,808,706</u> | <u>\$ 120,716</u> | <u>\$ -0-</u> |
| Cash | 13,330 | | | |
| | <u>\$ 16,942,752</u> | | | |

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

| | September 30, 2015 | | | |
|--------------------------------|--------------------|---------------|---------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Assets whose use is limited | | | | |
| Mutual funds - fixed income | \$ 781,440 | \$ 781,440 | \$ -0- | \$ -0- |
| Cash | 1,284,761 | | | |
| Certificates of deposit * | 179,572 | | | |
| | \$ 2,245,773 | | | |
| Investments | | | | |
| Mutual funds | | | | |
| Diversified emerging mkts | \$ 555,310 | \$ 555,310 | \$ -0- | \$ -0- |
| Foreign large blend | 535,389 | 535,389 | -0- | -0- |
| Foreign large growth | 597,354 | 597,354 | -0- | -0- |
| Foreign large value | 950,245 | 950,245 | -0- | -0- |
| Foreign small/mid value | 484,804 | 484,804 | -0- | -0- |
| Intermediate-term fixed income | 1,911,051 | 1,911,051 | -0- | -0- |
| Large growth | 1,024,982 | 1,024,982 | -0- | -0- |
| Large value | 1,998,616 | 1,998,616 | -0- | -0- |
| Mid-cap value | 868,465 | 868,465 | -0- | -0- |
| Non-traditional fixed income | 4,321,169 | 4,321,169 | -0- | -0- |
| Pacific/Asia ex-Japan stk | 181,645 | 181,645 | -0- | -0- |
| Small blend | 614,781 | 614,781 | -0- | -0- |
| Small growth | 978,939 | 978,939 | -0- | -0- |
| World stock | 539,415 | 539,415 | -0- | -0- |
| Total mutual funds | 15,562,165 | \$ 15,562,165 | \$ -0- | \$ -0- |
| Cash | 123,769 | | | |
| | \$ 15,685,934 | | | |

*Certificates of deposit are valued at contract value.

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2016 and 2015.

The market value of investments exceeded the cost by approximately \$539,000 as of September 30, 2016. The cost of investments exceeded market value by approximately \$454,000 as of September 30, 2015. The unrealized gains and losses are included in earnings for the period attributable to the change in unrealized gains and losses relating to assets held as of September 30, 2016 and 2015, and are reported in the consolidated statements of operations and changes in net assets as unrealized gain on trading securities.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

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

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts payable, accrued wages and related liabilities, accrued expenses and other liabilities, and estimated third-party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, accrued wages and related liabilities, accrued expense and other liabilities, and estimated third-party settlements approximate fair value based on short-term maturity.

Long-term debt: Fair value of the Hospital's long-term debt, based on current quoted market value of similar debt instruments, has an approximate fair value of \$47,790,000 as of September 30, 2016.

8. PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost, and at September 30 consist of:

| | 2016 | 2015 |
|-------------------------------------|----------------------|----------------------|
| Land | \$ 1,317,868 | \$ 1,317,868 |
| Buildings and building improvements | 61,087,672 | 55,134,011 |
| Fixed equipment | 17,442,126 | 15,388,744 |
| | <u>79,847,666</u> | <u>71,840,623</u> |
| Less accumulated depreciation | 21,181,495 | 15,515,197 |
| | <u>58,666,171</u> | <u>56,325,426</u> |
| Construction in progress | 791,069 | 1,969,145 |
| | <u>\$ 59,457,240</u> | <u>\$ 58,294,571</u> |

Construction in progress as of September 30, 2016 relates to the Hospital's new accounts receivable, medical records, and billing system. The estimated cost to complete this project as of September 30, 2016 is approximately \$502,000, of which all has been contractually committed.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

9. LINE OF CREDIT

The Hospital has a \$2,000,000 revolving bank line of credit expiring in April 2017. As of September 30, 2016 and 2015, there were no borrowings against this line. The line is unsecured. Variable interest is payable monthly and is 3.50% as of September 30, 2016 based on Wall Street Journal Prime rate plus .5%.

10. LONG-TERM DEBT

The Hospital's long-term debt as of September 30 consists of the following:

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Indiana Finance Authority Health Facility Revenue Bonds, Series 2013A, dated February 6, 2013, fixed interest of 2.20%, interest only payable in semi-annual installments until 2016, refinanced in 2016. | \$ -0- | \$ 37,000,000 |
| USDA Direct Loan, dated January 25, 2016, fixed interest of 3.125%, payable in monthly installments of approximately \$135,000 until January 25, 2056. | 36,687,906 | -0- |
| Fixed bank loan guaranteed by the USDA, dated December 12, 2014 due December 1, 2039, with monthly payments of approximately \$53,000 including principal and fixed interest of 4.95%. | 8,660,337 | 8,851,269 |
| Variable bank loan not guaranteed by the USDA, dated December 12, 2014 due December 1, 2039, with monthly payments of \$5,166 including principal and variable interest of 3.75% as of September 30, 2016. | 951,399 | 979,008 |
| Various capital lease obligations, imputed interest rates ranging from 3.28% to 4.83%, expiring through 2020, collateralized by equipment. | 954,127 | 1,278,808 |
| | <u>47,253,769</u> | <u>48,109,085</u> |
| Less unamortized discount | (247,862) | (247,861) |
| Less unamortized deferred financing costs | (807,406) | (806,922) |
| Less current portion | (1,037,239) | (800,970) |
| | <u>\$ 45,161,262</u> | <u>\$ 46,253,332</u> |

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

In February 2013, the Hospital, through the Indiana Finance Authority (Authority), issued the Series 2013A Bond Anticipation Notes (BANs) for \$37,000,000. The Series 2013A BANs required interest only payments at 2.20% during construction and matured February 1, 2016. The Series 2013A BANs were redeemed at the maturity date through the issuance of a United States Department of Agriculture (USDA) Direct Loan. The USDA Direct Loan has a term of 40 years at a fixed rate of 3.125%.

In conjunction with the issuance of the Series 2013A BANs, the Hospital, through the Authority, issued the Series 2013B Bonds and the Series 2013C Bonds, which were purchased by The Farmers & Merchants State Bank (Farmers & Merchants). On December 10, 2014, the Hospital refinanced the Series 2013B and 2013C Bonds with a variable and fixed rate bank loans with Farmers & Merchants. The fixed rate bank loan refinanced the 2013C bonds and carries a fixed interest rate of 4.95% that matures in December 2039. The variable rate bank loan refinanced the 2013B bonds and carries a variable interest rate of 3.75% as of September 30, 2016 that matures in December 2039. There was no gain or loss on defeasance in 2015 related to the Series 2013B and 2013C bonds.

The Hospital granted a security interest in its revenues and a mortgage on substantially all of its real property in order to secure obligations issued under the Master Trust Indenture and USDA Direct Loan among the Hospital and the Master Trustee. In addition to various financial covenants, the Hospital has covenanted in the Master Trust Indenture that it will not permit any lien or security interest on the Hospital's property and equipment other than certain permitted encumbrances. The Hospital believes it was in compliance with the financial covenants as of September 30, 2016.

The aggregate annual maturities of long-term debt as of September 30, 2016 are as follows:

| Year Ending September 30, | |
|------------------------------|----------------------|
| 2017 | \$ 1,037,239 |
| 2018 | 1,022,431 |
| 2019 | 1,059,607 |
| 2020 | 843,286 |
| 2021 | 824,458 |
| Thereafter | 42,466,748 |
| | <u>\$ 47,253,769</u> |

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

Property and equipment include the following property under capital leases:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|-------------------|------------------|
| Equipment | \$ 1,656,480 | \$ 1,656,480 |
| Less accumulated depreciation | <u>662,851</u> | <u>331,555</u> |
| | <u>\$ 993,629</u> | <u>1,324,925</u> |

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of September 30 are available for the following purpose:

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Health care services | | |
| Home health care | \$ 90,185 | \$ 194,406 |
| Funds for expansion, receivable due from Cameron Hospital Foundation, Inc. | <u>148,425</u> | <u>208,151</u> |
| | <u>\$ 238,610</u> | <u>\$ 402,557</u> |

During 2016 and 2015, net assets were released from donor restrictions by incurring expenses or satisfying the restricted purposes of approximately of \$213,000 and \$352,000, respectively.

12. OPERATING LEASES - LESSEE

Noncancelable operating leases for certain diagnostic equipment and computer software and hardware expire in various years through 2020. Rental payments include minimum rentals, plus contingent rentals based on the number of procedures performed using the equipment. Future minimum lease payments under non-cancelable operating leases as of September 30, 2016 that have initial or remaining lease terms in excess of one year are as follows:

| Year Ending September 30, | |
|------------------------------|-------------------|
| 2017 | \$ 276,268 |
| 2018 | 219,081 |
| 2019 | 192,792 |
| 2020 | <u>15,882</u> |
| | <u>\$ 704,023</u> |

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

Rental expense for all operating leases for 2016 and 2015 was approximately \$309,000 and \$391,000, respectively.

13. OPERATING LEASES - LESSOR

The Hospital and CMO own an oncology facility on the Hospital campus and an assisted living facility. A portion of the oncology facility is leased to physicians and tenants under various operating leases, with terms varying from one to two years with renewal options. The oncology facility is included in property with a cost of approximately \$1,312,000 and \$1,297,000 and accumulated depreciation of approximately \$516,000 and \$477,000 as of September 30, 2016 and 2015, respectively. The entities also operate an assisted living facility which leases apartments under cancellable month-to-month lease terms. The assisted living facility is also included in property and equipment, with a cost of approximately \$5,107,000 and \$4,807,000 and accumulated depreciation of \$2,036,000 and \$1,930,000 as of September 30, 2016 and 2015, respectively. Rental income under the term of these leases is included in other revenue and was approximately \$1,182,000 and \$1,454,000 in 2016 and 2015, respectively.

Future minimum lease receipts at September 30, 2016 total approximately \$50,000 from 2017 to 2019.

14. PENSION PLAN

The Hospital has a defined contribution pension plan covering substantially all employees. The Hospital contributes 4% of eligible employees' compensation as a profit sharing contribution. The Hospital can also make a discretionary matching contribution as determined by the Board of Directors. There was no discretionary matching contribution in 2016 and 2015. Pension expense was approximately \$654,000 and \$538,000 for 2016 and 2015, respectively.

15. MEDICAL MALPRACTICE

The Hospital and CMO participate in the Indiana Medical Malpractice Act which limits the maximum recovery for qualified medical malpractice claims to \$1,250,000 per occurrence, the first \$250,000 of which would be the responsibility of the entities, with the balance paid by the state of Indiana Patient Compensation Fund. The Hospital 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 Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

16. SELF-INSURED EMPLOYEE HEALTH CLAIMS

The Hospital's employee health care insurance is provided through a combination of self-insurance and purchased re-insurance coverage from a commercial carrier. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. The specific annual attachment point for an individual is \$125,000 with an unlimited lifetime policy. The aggregate benefit maximum under the policy as of September 30, 2016 was \$1,000,000 per year. Total expense was approximately \$3,336,000 and \$3,331,000 during 2016 and 2015, respectively.

The liability for employee health claims represents management's estimate of all incurred and reported claims plus estimated incurred but not reported claims based on the Hospital's reporting system. The carrying amount of the liability was approximately \$350,000 as of September 30, 2016 and 2015, respectively. The liability is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. It is reasonably possible that the Hospital's estimate of losses will change by a material amount in the near term.

17. FUNCTIONAL EXPENSES

The Hospital and CMO provide general health care services to residents within their geographic location including pediatric care, cardiac intensive care and outpatient surgery. Expenses related to providing these services are as follows:

| | 2016 | 2015 |
|----------------------------|----------------------|----------------------|
| Health care services | \$ 47,914,492 | \$ 42,643,610 |
| General and administrative | 8,455,499 | 7,525,343 |
| | <u>\$ 56,369,991</u> | <u>\$ 50,168,953</u> |

Certain costs have been allocated among health care services and general and administrative categories based on the actual direct expenditures and cost allocations based upon time spent by the Hospital's personnel. Although the methods used were appropriate, alternative methods may provide different results.

18. RELATED PARTY TRANSACTIONS

The Hospital and Cameron Hospital Foundation, Inc. (the Foundation) are related parties that are not financially interrelated organizations. The Foundation was established to solicit contributions from the general public and to help support community and health care related educational events. In the absence of donor restrictions, funds are distributed as determined by the Foundation's Board of Directors, which are separately appointed from that of the Hospital.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

The Hospital provides accounting and financial management services to the Foundation and billed the Foundation \$20,000 during 2016 and 2015, respectively.

The Foundation conducted a capital campaign for the construction of the new Hospital facility where all funds collected were raised specifically for the Hospital's capital campaign. As a result, the Hospital recorded a receivable from the Foundation for approximately \$148,000 and \$208,000 as of September 30, 2016 and 2015, respectively. The Foundation made contributions to the Hospital of approximately \$47,000 and \$262,000 during 2016 and 2015, respectively. There were no significant intercompany payables as of September 30, 2016 and 2015.

19. COMMITMENTS AND CONTINGENCIES

Regulatory Investigations

The U.S. Department of Justice, the Internal Revenue Service, and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The Hospital is subject to these regulatory efforts. Management believes that any liability resulting from these matters will not have a material impact on the financial position, results of operations or cash flows of the Hospital.

Legal Matters

The Hospital is involved in various legal actions in the normal course of its operations. Management believes that any liability resulting from these matters will not have a material impact on the financial position, results of operations or cash flows of the Hospital.

SUPPLEMENTARY INFORMATION

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2016

| ASSETS | Cameron Memorial Community Hospital, Inc. | Cameron Medical Outreach, Inc. | Eliminations | Total |
|---|--|--------------------------------------|-----------------------|----------------------|
| Current assets | | | | |
| Cash and cash equivalents | \$ 40,124 | \$ 1,962,723 | \$ -0- | \$ 2,002,847 |
| Patient accounts receivable, net | 9,552,230 | -0- | -0- | 9,552,230 |
| Other receivables | 599,269 | 279,625 | (587,668) | 291,226 |
| Inventory | 921,866 | -0- | -0- | 921,866 |
| Prepaid expenses | 978,840 | -0- | -0- | 978,840 |
| Estimated third-party settlements | 342,749 | -0- | -0- | 342,749 |
| Notes receivable, current portion | 234,718 | -0- | -0- | 234,718 |
| Total current assets | 12,669,796 | 2,242,348 | (587,668) | 14,324,476 |
| Assets whose use is limited | | | | |
| Donor restricted | 90,185 | -0- | -0- | 90,185 |
| Held by trustee | 140,714 | -0- | -0- | 140,714 |
| Board designated for capital improvements | 796,016 | -0- | -0- | 796,016 |
| Total assets whose use is limited | 1,026,915 | -0- | -0- | 1,026,915 |
| Investments | 20,271,773 | -0- | (3,329,021) | 16,942,752 |
| Property and equipment, net | 56,019,101 | 3,438,139 | -0- | 59,457,240 |
| Other assets | | | | |
| Notes receivable, less current portion | 458,524 | -0- | -0- | 458,524 |
| Receivable from Cameron Hospital Foundation, Inc. | 148,425 | -0- | -0- | 148,425 |
| Total other assets | 606,949 | -0- | -0- | 606,949 |
| Total assets | <u>\$ 90,594,534</u> | <u>\$ 5,680,487</u> | <u>\$ (3,916,689)</u> | <u>\$ 92,358,332</u> |
| LIABILITIES AND NET ASSETS | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 3,740,143 | \$ 450,939 | \$ (587,668) | \$ 3,603,414 |
| Accrued wages and related liabilities | 1,699,121 | -0- | -0- | 1,699,121 |
| Accrued expenses and other liabilities | 1,208,919 | -0- | -0- | 1,208,919 |
| Current portion of long-term debt | 1,037,239 | -0- | -0- | 1,037,239 |
| Total current liabilities | 7,685,422 | 450,939 | (587,668) | 7,548,693 |
| Long-term liabilities | | | | |
| Long-term debt, less current portion | 45,161,262 | -0- | -0- | 45,161,262 |
| Total liabilities | 52,846,684 | 450,939 | (587,668) | 52,709,955 |
| Net assets | | | | |
| Unrestricted | 37,509,240 | 5,229,548 | (3,329,021) | 39,409,767 |
| Temporarily restricted | 238,610 | -0- | -0- | 238,610 |
| Total net assets | 37,747,850 | 5,229,548 | (3,329,021) | 39,648,377 |
| Total liabilities and net assets | <u>\$ 90,594,534</u> | <u>\$ 5,680,487</u> | <u>\$ (3,916,689)</u> | <u>\$ 92,358,332</u> |

See Report of Independent Auditors on pages 1-3.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2015

| ASSETS | Cameron Memorial Community Hospital, Inc. | Cameron Medical Outreach, Inc. | Eliminations | Total |
|---|--|--------------------------------------|-----------------------|----------------------|
| Current assets | | | | |
| Cash and cash equivalents | \$ 1,827,133 | \$ 2,538,481 | \$ -0- | \$ 4,365,614 |
| Patient accounts receivable, net | 8,504,724 | -0- | -0- | 8,504,724 |
| Other receivables | 376,223 | 40,000 | (198,104) | 218,119 |
| Inventory | 853,493 | -0- | -0- | 853,493 |
| Prepaid expenses | 789,430 | -0- | -0- | 789,430 |
| Estimated third-party settlements | 209,376 | -0- | -0- | 209,376 |
| Notes receivable, current portion | 216,225 | -0- | -0- | 216,225 |
| Total current assets | 12,776,604 | 2,578,481 | (198,104) | 15,156,981 |
| Assets whose use is limited | | | | |
| Donor restricted | 194,406 | -0- | -0- | 194,406 |
| Held by trustee | 889,236 | -0- | -0- | 889,236 |
| Board designated for capital improvements | 1,162,131 | -0- | -0- | 1,162,131 |
| Total assets whose use is limited | 2,245,773 | -0- | -0- | 2,245,773 |
| Investments | 19,014,955 | -0- | (3,329,021) | 15,685,934 |
| Property and equipment, net | 55,417,286 | 2,877,285 | -0- | 58,294,571 |
| Other assets | | | | |
| Notes receivable, less current portion | 428,481 | -0- | -0- | 428,481 |
| Receivable from Cameron Hospital Foundation, Inc. | 208,151 | -0- | -0- | 208,151 |
| Total other assets | 636,632 | -0- | -0- | 636,632 |
| Total assets | <u>\$ 90,091,250</u> | <u>\$ 5,455,766</u> | <u>\$ (3,527,125)</u> | <u>\$ 92,019,891</u> |
| LIABILITIES AND NET ASSETS | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 2,038,771 | \$ 163,376 | \$ (198,104) | \$ 2,004,043 |
| Accrued wages and related liabilities | 2,101,064 | -0- | -0- | 2,101,064 |
| Accrued expenses and other liabilities | 1,313,792 | -0- | -0- | 1,313,792 |
| Current portion of long-term debt | 800,970 | -0- | -0- | 800,970 |
| Total current liabilities | 6,254,597 | 163,376 | (198,104) | 6,219,869 |
| Long-term liabilities | | | | |
| Long-term debt, less current portion | 46,253,332 | -0- | -0- | 46,253,332 |
| Total liabilities | 52,507,929 | 163,376 | (198,104) | 52,473,201 |
| Net assets | | | | |
| Unrestricted | 37,180,764 | 5,292,390 | (3,329,021) | 39,144,133 |
| Temporarily restricted | 402,557 | -0- | -0- | 402,557 |
| Total net assets | 37,583,321 | 5,292,390 | (3,329,021) | 39,546,690 |
| Total liabilities and net assets | <u>\$ 90,091,250</u> | <u>\$ 5,455,766</u> | <u>\$ (3,527,125)</u> | <u>\$ 92,019,891</u> |

See Report of Independent Auditors on pages 1-3.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED SEPTEMBER 30, 2016

| | Cameron Memorial Community Hospital, Inc. | Cameron Medical Outreach, Inc. | Eliminations | Total |
|---|--|--------------------------------------|----------------|---------------|
| Unrestricted revenue, gains and other support | | | | |
| Net patient service revenue | \$ 58,167,231 | \$ 869,954 | \$ -0- | \$ 59,037,185 |
| Less provision for bad debts | 5,266,382 | -0- | -0- | 5,266,382 |
| Net patient service revenue net of provision for bad debts | 52,900,849 | 869,954 | -0- | 53,770,803 |
| Other revenue | 789,752 | 1,528,732 | (402,417) | 1,916,067 |
| Net assets released from restrictions | 106,001 | -0- | -0- | 106,001 |
| Total revenue, gains and other support | 53,796,602 | 2,398,686 | (402,417) | 55,792,871 |
| Expenses | | | | |
| Salaries and wages | 18,500,971 | 664,990 | -0- | 19,165,961 |
| Employee benefits | 5,666,523 | -0- | -0- | 5,666,523 |
| Purchased services and professional fees | 11,401,672 | 223,139 | -0- | 11,624,811 |
| Supplies | 4,292,005 | -0- | -0- | 4,292,005 |
| Repair and maintenance | 1,232,386 | 26,751 | -0- | 1,259,137 |
| Utilities | 601,605 | 110,537 | -0- | 712,142 |
| Building and equipment rent | 1,664,699 | 370,091 | (161,878) | 1,872,912 |
| Insurance | 422,155 | -0- | -0- | 422,155 |
| Interest | 1,540,941 | -0- | -0- | 1,540,941 |
| Depreciation | 5,513,317 | 152,981 | -0- | 5,666,298 |
| Other | 3,672,006 | 715,639 | (240,539) | 4,147,106 |
| Total expenses | 54,508,280 | 2,264,128 | (402,417) | 56,369,991 |
| Operating income (loss) | (711,678) | 134,558 | -0- | (577,120) |
| Nonoperating income (loss) | | | | |
| Investment income | 1,276,962 | -0- | -0- | 1,276,962 |
| Loss on disposal of property and equipment | (237,586) | -0- | -0- | (237,586) |
| Other | -0- | (197,400) | -0- | (197,400) |
| Contribution to Cameron Hospital Foundation | (105,951) | -0- | -0- | (105,951) |
| Total nonoperating income (loss) | 933,425 | (197,400) | -0- | 736,025 |
| Excess of revenues over (under) expenses | 221,747 | (62,842) | -0- | 158,905 |
| Other changes in net assets | | | | |
| Net assets released from restrictions for property | 106,729 | -0- | -0- | 106,729 |
| Change in unrestricted net assets | 328,476 | (62,842) | -0- | 265,634 |
| Temporarily restricted net assets | | | | |
| Contributions | 47,003 | -0- | -0- | 47,003 |
| Investment income | 1,780 | -0- | -0- | 1,780 |
| Net assets released from restrictions | (212,730) | -0- | -0- | (212,730) |
| Change in temporarily restricted net assets | (163,947) | -0- | -0- | (163,947) |
| Change in net assets | 164,529 | (62,842) | -0- | 101,687 |
| Net assets | | | | |
| Beginning of year | 37,583,321 | 5,292,390 | (3,329,021) | 39,546,690 |
| End of year | \$ 37,747,850 | \$ 5,229,548 | \$ (3,329,021) | \$ 39,648,377 |

See Report of Independent Auditors on pages 1-3.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED SEPTEMBER 30, 2015

| | Cameron Memorial Community Hospital, Inc. | Cameron Medical Outreach, Inc. | Eliminations | Total |
|---|--|--------------------------------------|----------------|---------------|
| Unrestricted revenue, gains and other support | | | | |
| Net patient service revenue | \$ 53,503,684 | \$ 940,121 | \$ -0- | \$ 54,443,805 |
| Less provision for bad debts | 4,917,196 | -0- | -0- | 4,917,196 |
| Net patient service revenue net of provision for bad debts | 48,586,488 | 940,121 | -0- | 49,526,609 |
| Other revenue | 782,475 | 1,474,935 | (372,722) | 1,884,688 |
| Net assets released from restrictions | 5,745 | -0- | -0- | 5,745 |
| Total revenue, gains and other support | 49,374,708 | 2,415,056 | (372,722) | 51,417,042 |
| Expenses | | | | |
| Salaries and wages | 17,387,024 | 644,557 | -0- | 18,031,581 |
| Employee benefits | 5,404,259 | -0- | -0- | 5,404,259 |
| Purchased services and professional fees | 11,224,859 | 293,593 | -0- | 11,518,452 |
| Supplies | 4,084,159 | -0- | -0- | 4,084,159 |
| Repair and maintenance | 1,076,828 | 25,713 | -0- | 1,102,541 |
| Utilities | 628,925 | 109,378 | -0- | 738,303 |
| Building and equipment rent | 1,510,955 | 25,252 | (138,912) | 1,397,295 |
| Insurance | 394,711 | -0- | -0- | 394,711 |
| Interest | 1,148,150 | -0- | -0- | 1,148,150 |
| Depreciation | 3,144,284 | 129,366 | -0- | 3,273,650 |
| Other | 2,724,643 | 585,019 | (233,810) | 3,075,852 |
| Total expenses | 48,728,797 | 1,812,878 | (372,722) | 50,168,953 |
| Operating income | 645,911 | 602,178 | -0- | 1,248,089 |
| Nonoperating income (loss) | | | | |
| Investment income | (520,680) | -0- | -0- | (520,680) |
| Loss on disposal of property and equipment | (84,601) | -0- | -0- | (84,601) |
| Total nonoperating income (loss) | (605,281) | -0- | -0- | (605,281) |
| Excess of revenues over expenses | 40,630 | 602,178 | -0- | 642,808 |
| Other changes in net assets | | | | |
| Net assets released from restrictions for property | 346,635 | -0- | -0- | 346,635 |
| Change in unrestricted net assets | 387,265 | 602,178 | -0- | 989,443 |
| Temporarily restricted net assets | | | | |
| Contributions | 262,296 | -0- | -0- | 262,296 |
| Investment income | (6,126) | -0- | -0- | (6,126) |
| Net assets released from restrictions | (352,380) | -0- | -0- | (352,380) |
| Change in temporarily restricted net assets | (96,210) | -0- | -0- | (96,210) |
| Change in net assets | 291,055 | 602,178 | -0- | 893,233 |
| Net assets | | | | |
| Beginning of year | 37,292,266 | 4,690,212 | (3,329,021) | 38,653,457 |
| End of year | \$ 37,583,321 | \$ 5,292,390 | \$ (3,329,021) | \$ 39,546,690 |

See Report of Independent Auditors on pages 1-3.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2016

| Grantor/ Pass-through Grantor(s)/ Program Title | Grant ID # | CFDA Number | Federal Expenditures |
|---|-------------------|--------------------|-----------------------------|
| Major program | | | |
| United States Department of Agriculture (USDA) Community Facilities Loans and Grants | N/A | 10.766 | \$ 748,522 |
| Non-major programs | | | |
| Department of Health and Human Services Pass through the Indiana State Department of Health Pass through District 3 Hospital Corporation National Bioterrorism Hospital Preparedness Program | A70-5-05322515 | 93.074 | 8,693 |
| Department of Health and Human Services Pass through the Indiana State Department of Health Small Rural Hospital Improvement Program Grant | A70-3-079946 | 93.301 | 9,000 |
| Total non-major programs | | | 17,693 |
| Total federal expenditures | | | \$ 766,215 |

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Hospital under programs of the federal government for the year ended September 30, 2016. The information in this schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Because the schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Hospital.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – OTHER

There were no federal awards passed through to subrecipients during 2016.

NOTE D – USDA LOAN

The following loan was outstanding as of September 30, 2016 to the USDA.

| Grantor/ Pass-through Grantor(s)/ Program Title | Grant ID # | CFDA Number | Amount Outstanding |
|--|-------------------|--------------------|---------------------------|
| USDA - Community Facilities Loans and Grants | N/A | 10.766 | \$ 36,687,906 |

See Report of Independent Auditors on pages 1-3.



Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS 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*

Board of Directors
Cameron Memorial Community Hospital, Inc.
Angola, Indiana

Report on the Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Cameron Memorial Community Hospital, Inc. (the Hospital) which comprise the consolidated balance sheet as of September 30, 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 16, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital'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.

Board of Directors
Cameron Memorial Community Hospital Inc.
Angola, Indiana

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

Compliance and Other Matters

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

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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Blue & Co., LLC

Indianapolis, Indiana
December 16, 2016



Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Cameron Memorial Community Hospital, Inc.
Angola, Indiana

Report on Compliance for Each Major Federal Program

We have audited Cameron Memorial Community Hospital, Inc. (the Hospital) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended September 30, 2016. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Hospital's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

Board of Directors
Cameron Memorial Community Hospital Inc.
Angola, Indiana

Opinion on Each Major Federal Program

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
December 16, 2016

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2016

Summary of Auditor's Results

Consolidated Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ___ yes x none reported

Significant deficiency(ies) identified that are
not considered to be material weakness(es)? ___ yes x none reported

Noncompliance material to financial statements noted? ___ yes x none reported

Federal Awards

Internal controls over major programs:

Material weakness(es) identified? ___ yes x none reported

Significant deficiency(ies) identified that are
not considered to be material weakness(es)? ___ yes x none noted

Type of auditor's report issued on compliance for
major programs: Unmodified

Any audit findings disclosed that are required to be reported
as defined by Uniform Guidance [2 CFR 200.516(a)]? ___ yes x no

Identification of major program:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|--|
| 10.766 | United States Department of Agriculture Community facilities loans and grants |

Dollar threshold used to distinguish between
type A and B programs: \$750,000

Auditee qualified as low-risk auditee? x yes ___ no

**Section II – Findings related to financial statements reported in accordance with
Government Auditing Standards:**

No matters reported

Section III – Findings and questioned costs relating to Federal awards:

No matters reported

Section IV – Summary schedule of prior audit findings:

No matters reported
