

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENTS EXAMINATION REPORT
OF

PUTNAM COUNTY HOSPITAL
A COMPONENT UNIT OF PUTNAM COUNTY
PUTNAM COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
04/25/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chief Executive Officer	Dennis Weatherford	01-01-15 to 12-31-17
Chairman of the Hospital Board	David Bray	01-01-15 to 12-31-17
President of the Board of County Commissioners	David Berry	01-01-15 to 12-31-17



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE PUTNAM COUNTY HOSPITAL,
A COMPONENT UNIT OF PUTNAM COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of Putnam County Hospital (Hospital), a component unit of Putnam County, Indiana, for the year for the year ended December 31, 2015. The financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on the financial statements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2015, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the Management's Discussion and Analysis, Schedules of Changes in the Net Pension Liability and Related Ratios, and Schedule of Contributions, that accounting principles generally accepted in the United States of America, requires to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Government 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. Our opinion on the basic financial statements is not affected by this missing information.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

April 12, 2017

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FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

The financial statements and accompanying notes were prepared by management of the Hospital. The financial statements and notes are presented as intended by the Hospital.

PUTNAM COUNTY HOSPITAL
A COMPONENT UNIT OF PUTNAM COUNTY
STATEMENT OF NET POSITION
December 31, 2015

<u>Assets</u>	<u>Primary Government</u>
Current assets:	
Cash and cash equivalents	\$ 7,416,179
Patient accounts receivable, net of estimated uncollectibles of \$5,894,511	5,727,143
Supplies and other current assets	1,453,735
Investment in Affiliate Partner	26,224
Noncurrent cash and investments:	
Internally designated	42,162
Restricted by contributors and grantors	196,535
Capital assets:	
Land and construction in progress	451,364
Depreciable capital assets, net of accumulated depreciation	13,880,244
Other assets	<u>1,929,292</u>
 Total assets	 <u>\$ 31,122,878</u>
 <u>Liabilities and Net Position</u>	
Current liabilities:	
Current maturities of long-term debt	\$ 3,370,506
Accounts payable and accrued expenses	1,695,992
Estimated third-party payor settlements	143,947
Other current liabilities	680,630
Long-term debt, net of current maturities	<u>10,522,556</u>
 Total liabilities	 <u>16,413,631</u>
Net position:	
Net investment in capital assets	438,544
Restricted:	
Expendable for specific operating activities	196,535
Unrestricted	<u>14,074,168</u>
 Total net position	 <u>14,709,247</u>
 Total liabilities and net position	 <u>\$ 31,122,878</u>

The accompanying notes are an integral part of the financial statements.

PUTNAM COUNTY HOSPITAL
A COMPONENT UNIT OF PUTNAM COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended December 31, 2015

	<u>Primary Government</u>
Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 31,067,395
Net Nursing Home Operating Revenue	66,018,502
Other	<u>235,556</u>
Total operating revenues	<u>97,321,453</u>
Operating expenses:	
Salaries and benefits	62,192,930
Medical supplies, drugs and food	3,766,359
Insurance	461,902
Other supplies	8,135,220
Depreciation and amortization	2,248,059
Hospital assessment fee	525,142
Other operating expense	<u>22,732,832</u>
Total operating expenses	<u>100,062,444</u>
Operating loss	<u>(2,740,991)</u>
Nonoperating revenues (expenses):	
Investment income	1,216
Interest expense	(554,397)
Noncapital grants and contributions	72,593
Other nonoperating revenue	6,792,926
Profit/(Loss) on Affiliate Partner	(24,777)
Nonoperating expense	<u>(110,660)</u>
Total nonoperating revenues (expenses)	<u>6,176,901</u>
Increase in net position	3,435,910
Net position beginning of the year	<u>11,273,337</u>
Net position end of the year	<u>\$ 14,709,247</u>

The accompanying notes are an integral part of the financial statements.

PUTNAM COUNTY HOSPITAL
A COMPONENT UNIT OF PUTNAM COUNTY
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 96,277,522
Payments to suppliers and contractors	(13,586,556)
Payments to employees	(62,181,350)
Other receipts and payments, net	<u>(23,196,269)</u>
Net cash used by operating activities	<u>(2,686,653)</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions net of expenses	(38,067)
Other	<u>6,762,506</u>
Net cash provided by noncapital financing activities	<u>6,724,439</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(1,568,093)
Interest paid on long-term debt	(615,907)
Proceeds from issuance of long-term debt	2,195,885
Acquisition and construction of capital assets	<u>(782,786)</u>
Net cash used by capital and related financing activities	<u>(770,901)</u>
Cash flows from investing activities:	
Interest and dividends on investments	<u>1,216</u>
Net increase in cash and cash equivalents	3,268,101
Cash and cash equivalents at beginning of year	<u>4,386,775</u>
Cash and cash equivalents at end of year	<u>\$ 7,654,876</u>
Reconciliation of cash and cash equivalents to the Statement of Net Position:	
Cash and cash equivalents in current assets	\$ 7,416,179
Restricted cash and cash equivalents	<u>238,697</u>
Total Cash and Cash Equivalents	<u>\$ 7,654,876</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (2,740,991)
Adjustments to reconcile operating loss to net cash flows used in operating activities:	
Depreciation and Amortization	2,248,059
(Increase) decrease in current assets:	
Patient accounts receivable (net)	(808,374)
Supplies and other current assets	(164,508)
Other assets	(804,433)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	(558,900)
Other current liabilities	142,494
Estimated third-party payor settlements	<u>-</u>
Net cash used in operating activities	<u>\$ (2,686,653)</u>
Non-Cash Transactions:	
The hospital entered into two capital leases during the year. One for copiers in the amount of \$6,180 and one for Nuance software in the amount of \$35,700.	

The accompanying notes are an integral part of the financial statements.

PUTNAM COUNTY HOSPITAL
A COMPONENT UNIT OF PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Putnam County Hospital (Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Putnam County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Putnam County.

The accompanying financial statements present the activities of the Hospital (primary government). There are no significant component units which require inclusion.

B. Long-Term Care Facilities

Pursuant to the provision of long-term care, the Hospital owns the operations of sixteen long-term care facilities by way of an arrangement with the managers of the following facilities:

- Wesleyan Homes of Indiana, Inc. a 43 bed licensed comprehensive care facility
- The Waters of Princeton II, LLC. a 95 bed licensed comprehensive facility
- Asbury Towers a 48 bed licensed comprehensive care facility with 75 licensed residential care beds.
- Providence Health Care, Inc. a 70 bed licensed comprehensive care facility
- Williamsburg Health Care a 116 bed licensed comprehensive care facility
- The Waters of Martinsville, LLC a 103 bed licensed comprehensive care facility
- The Waters of Greencastle, LLC a 91 bed licensed comprehensive care facility
- Trilogy Healthcare of Vigo, LLC (Cobblestone Crossing) a 60 bed comprehensive care facility
- Vernon Manor Children's Home, LLC a 119 bed licensed care facility
- Trilogy Healthcare of Spencer, LLC (Owen Valley Health Campus) a 113 bed licensed comprehensive care facility
- Trilogy Healthcare Operations of Greencastle, LLC (Mill Pond Health Campus) a 107 bed licensed comprehensive care facility
- Exceptional Living Centers of Brazil a 105 bed licensed comprehensive care facility
- Richland Bean-Blossom, LLC a 70 bed licensed care facility
- RHS Partners of Terre Haute, LLC (Harrison's Crossing) a 102 bed licensed care facility
- LCS Avon, LLC (Wellbrooke of Avon) a 100 bed licensed comprehensive care facility
- LCS Crawfordsville, LLC (Wellbrooke of Crawfordsville) a 108 bed licensed comprehensive care facility

These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

During 2015, the Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital will pay the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of

PUTNAM COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS

the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

C. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

D. 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 disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities and Net Position or Equity

1. Deposits and Investments

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

Short-term investments are investments with remaining maturities of up to ninety days.

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the statement of revenues, expenses, and changes in net position.

2. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated

PUTNAM COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS

current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land improvements	\$ 1,000	Straight-line	2-25 Years
Buildings and improvements	1,000	Straight-line	10-40 Years
Equipment	1,000	Straight-line	3-25 Years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Hospital during the current year was \$554,397. None of the amount was included as part of the cost of capital assets under construction.

3. Net Position

Net position of the Hospital is classified in three components.

Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, contributors, or enabling legislation external to the hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note II G.

The financial statements report \$196,535 of restricted net position, none of which is restricted by enabling legislation.

Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted.

F. Grants and Contributions

From time to time, the Hospital receives grants from Putnam County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

PUTNAM COUNTY HOSPITAL
A COMPONENT UNIT OF PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS

G. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, state law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note II G.

H. 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.

I. Operating Revenues and Expenses

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

J. Net Patient Service Revenue

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 represents 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 adjusted in future periods as final settlements are determined.

K. Premium Revenue

The Hospital has agreements with various health management organizations (HMO's) to provide medical services to subscribing participants. Under these agreements, the Hospital receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Hospital. In addition, the HMO's make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules. Premium Revenue is reported as "Other Non-Operating Revenue" on the Statement of Operating Revenues, Expenses and Changes in Net Position.

L. Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30th).

The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

PUTNAM COUNTY HOSPITAL
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The Hospital recognizes EHR incentive payments as other operating revenue when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific contract requirements. In addition, the consolidated financial statement effects of the revenue must be both recognizable and measureable. Under the ratable recognition method, the Hospital recognizes revenue ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive revenue is included in other operating revenue in the consolidated statement of revenues, expenses and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

M. Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the agency does not expect payment, estimated charges for charity are not included in revenue.

N. Supplies

Inventories of drugs and other supplies are stated at the lower of cost (first-in, first-out) or market.

O. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid days off, to a maximum of 72 days.

Paid days off are accrued when incurred and reported as a liability. This amount is reported under "Accounts Payable and Accrued Expenses" on the Statement of Net Position.

P. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

The carrying amount reported in the statement of net position for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the statement of net position is the investment's fair value on the day it becomes a short-term investment.

Investments

PUTNAM COUNTY HOSPITAL
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Fair values, which are the amounts reported in the statement of net position, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the statement of net position for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the statement of net position for estimated third-party payor settlements approximates its fair value.

Long Term Debt

Fair values of the Hospital's revenue notes are based on current traded value. The fair value of the Hospital's remaining long term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-16 allows a Hospital Governing Board to deposit public funds in a financial institution. The Hospital does not have a deposit policy for custodial credit risk. At December 31, 2015, the Hospital had deposit balances in the amount of \$7,654,876.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. The Hospital does not have any investments at December 31, 2015.

PUTNAM COUNTY HOSPITAL
A COMPONENT UNIT OF PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS

B. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 4,755,621
Receivable from Medicare	5,322,281
Receivable from Medicaid	<u>1,543,752</u>
 Total patient accounts receivable	 11,621,654
 Less allowance for uncollectible amounts	 <u>5,894,511</u>
 Patient accounts receivable, net	 <u><u>\$ 5,727,143</u></u>

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 876,273
Payable to suppliers	398,356
Other	<u>421,363</u>
 Total accounts payable and accrued expenses	 <u><u>\$ 1,695,992</u></u>

PUTNAM COUNTY HOSPITAL
A COMPONENT UNIT OF PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS

C. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 159,364	\$ -	\$ -	\$ 159,364
Construction in progress	<u>575,066</u>	<u>292,000</u>	<u>575,066</u>	<u>292,000</u>
Total capital assets, not being depreciated	<u>734,430</u>	<u>292,000</u>	<u>575,066</u>	<u>451,364</u>
Capital assets, being depreciated:				
Land improvements	298,403	-	-	298,403
Buildings and improvements	29,038,427	38,352	-	29,076,779
Equipment	<u>20,172,284</u>	<u>1,107,732</u>	-	<u>21,280,016</u>
Totals	<u>49,509,114</u>	<u>1,146,084</u>	-	<u>50,655,198</u>
Less accumulated depreciation for:				
Land improvements	(239,029)	(3,274)	-	(242,303)
Buildings and improvements	(18,721,929)	(1,000,511)	-	(19,722,440)
Equipment	<u>(15,565,937)</u>	<u>(1,244,274)</u>	-	<u>(16,810,211)</u>
Totals	<u>(34,526,895)</u>	<u>(2,248,059)</u>	-	<u>(36,774,954)</u>
Total capital assets, being depreciated, net	<u>14,982,219</u>	<u>(1,101,975)</u>	-	<u>13,880,244</u>
Total primary government capital assets, net	<u>\$ 15,716,649</u>	<u>\$ (809,975)</u>	<u>\$ 575,066</u>	<u>\$ 14,331,608</u>

D. Construction Commitments

Construction work in progress is composed of the following:

PUTNAM COUNTY HOSPITAL
A COMPONENT UNIT OF PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS

<u>Project</u>	Expended to December 31, <u>2015</u>	<u>Committed</u>
Putnam County Hospital New Sign	\$ 660	\$ 1,000
Putnam County Hospital Temperature Control System	8,460	10,000
Putnam County Hospital Gym	773	1,000
Putnam County Hospital Chiller Replacement	15,222	260,000
Putnam County Hospital ER Remodel	1,668	40,000
Putnam County Hospital Orchard Software	31,142	35,000
Putnam County Hospital Front Entrance	133,071	150,000
Putnam County Hospital Poe Switch	81,761	100,000
Putnam County Hospital Registration Partition	14,400	15,000
Putnam County Hospital 3rd Floor Renovation	4,843	250,000
Totals	<u>\$ 292,000</u>	<u>\$ 862,000</u>

E. Leases

1. Operating Leases

The Hospital has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for a postage machine and copy machines. Rental expenditures for these leases were \$1,932. The following is a schedule by years of future minimum rental payments as of year end:

2016	\$ 1,251
2017	-
Total	<u>\$ 1,251</u>

2. Capital Leases

The Hospital has entered into various capital leases for medical equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of year-end, are as follows:

2016	\$ 461,011
2017	346,162
2018	321,558
2019	278,450
2020	273,923
Thereafter	<u>127,668</u>
Total minimum lease payments	1,808,772
Less amount representing interest	<u>209,057</u>
Present value of net minimum lease payments	<u>\$ 1,599,715</u>

PUTNAM COUNTY HOSPITAL
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Assets acquired through capital leases still in effect are as follows:

Equipment	\$ 4,505,010
Accumulated depreciation	<u>(2,576,223)</u>
Total	<u><u>\$ 1,928,787</u></u>

F. Long-Term Liabilities

1. Notes Payable

The Hospital has entered into various notes. Annual debt service requirements to maturity for the notes, including interest of \$2,506,069, are as follows:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 2,980,529	\$ 422,964
2017	941,613	363,308
2018	970,584	333,337
2019	1,017,002	289,810
2020	1,000,361	244,985
2021-2025	4,257,277	619,619
2026-2030	546,657	177,628
2031-2035	<u>579,324</u>	<u>54,418</u>
Totals	<u><u>\$ 12,293,347</u></u>	<u><u>\$ 2,506,069</u></u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital leases	\$ 2,269,296	41,880	711,461	\$ 1,599,715	\$ 396,686
Notes payable	<u>10,954,094</u>	<u>2,195,885</u>	<u>856,632</u>	<u>12,293,347</u>	<u>2,973,820</u>
Total long-term liabilities	<u><u>\$ 13,223,390</u></u>	<u><u>\$ 2,237,765</u></u>	<u><u>\$ 1,568,093</u></u>	<u><u>\$ 13,893,062</u></u>	<u><u>\$ 3,370,506</u></u>

G. Endowments and Restricted Net Position

Restricted, expendable net position is available for the following purposes:

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	<u>2015</u>
Restricted by contributors:	
General	<u>\$ 196,535</u>

Unless the contributor provides specific instructions, state statute permits the Hospital Board to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Hospital Board is required to consider the Hospital's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

H. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

1. Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. 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 audits thereof by the Medicare fiscal intermediary.

2. Medicaid and hospital assessment fee

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

During 2015, Indiana Hospital Assessment Fee (HAF) Program was approved by the Centers for Medicare & Medicaid Services. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals. 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. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates.

During 2015, the Hospital recognized HAF Program expense of approximately \$525,142. The HAF Program expense is included in expenses in the consolidated statements of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program are included in patient service revenue in the consolidated statements of revenues, expenses and changes in net position.

Revenue from the Medicare and Medicaid programs as a percent of the Hospital's net patient revenues cannot be accurately determined. Laws and regulations governing the Medicare and

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Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2015 net patient service revenue has not been adjusted for any prior-year settlements or years that are no longer subject to audits, reviews, and investigations.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, HMO's, 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.

I. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$1,232,790 (less than 2%) for 2015.

J. Internally Designated Assets

Non-current cash and investments internally designated include the following:

Funded Depreciation – Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by IC 16-22-3-13.

Internally designated:

Funded depreciation:

Cash and cash equivalents	<u>\$ 42,162</u>
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K. Investment in Affiliate

In June 2015, the Hospital entered into an operating agreement with Pain Management Group, LLC an Ohio limited liability company to form Putnam County Pain Management Center, LLC. The Hospital contributed \$51,000 to obtain a 51% equity interest in the new company whose purpose is to operate a pain management clinic within the Hospital. The agreement will continue until the Company is dissolved. The investment is accounted for by the equity method of accounting.

As a result of this joint venture, the Hospital recognized a \$24,777 loss at December 31, 2015. The loss is included within the Hospital's non-operating revenue in the consolidated statements of operations and changes in net position.

The affiliate has separate audited financial statements that can be acquired by contacting the management company at the following address:

Pain Management Group
123 E. Crawford St.
Findlay, OH 45840

III. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical

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benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees, and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past 3 years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees and Dependents

The Hospital participates in a self-funded health plan covering substantially all employees. Covered services include medical benefits. The plan has annual reinsurance coverage started at a specific level of \$70,000 per individual with an unlimited specific lifetime maximum reimbursement per covered person and no aggregate limit. Total health claims expense was approximately \$2,539,518 at December 31, 2015.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

However, claim liabilities cannot be reasonably estimated.

B. Subsequent Events

There are no significant subsequent events that have occurred within the Hospital after December 31, 2015.

C. Contingent Liabilities

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

D. Fair Value Measurements

The Hospital has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

Investments recorded in the statement of net position are categorized based on the inputs to valuation techniques as follows:

Level 1 – These are investments where values are based on unadjusted quoted prices for identical assets in an active market which the Hospital has the ability to access. Investments include mutual funds and corporate equity securities.

Level 2 – These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of corporate and

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municipal bonds that trade infrequently and privately held securities and certificates of deposit.

Level 3 – These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments could be certain private equity investments.

The Hospital did not have investments at December 31, 2015.

E. Pension Plan

Defined Contribution Pension Plan

Putnam County Hospital Employee Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by Lincoln Financial Group as authorized by IC 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

Lincoln Financial Group
P.O. Box 2340
Fort Wayne, IN 46801-2340
Phone: 800-248-0838

Benefit Terms

The vesting schedule for the defined contribution pension plan is as follows:

0-2 years of plan participation 0%
3 years of plan participation 20%
4 years of plan participation 40%
5 years of plan participation 60%
6 years of plan participation 80%
7 years of plan participation 100%

Plan participation is defined as the time in which the employee was enrolled in the pension plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital fully funds the plan by contributing 4% of the annual covered payroll. A second provision of the plan established pursuant to Section 403(b) of the Internal Revenue Code of 1986, as amended, allows for voluntary contributions for the purpose of purchasing retirement annuity contracts. Employer and employee contributions to the plan were \$257,440 and \$485,331 respectively. The forfeiture expense for 2015 was \$3,703.

OTHER REPORTS

In addition to this report, other reports may have been issued for the Hospital. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.