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Web Site: www.in.gov/sboa

February 9, 2017

Board of Trustees
Floyd Memorial Hospital and Health Services
1850 State Street
New Albany, IN 47150

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2016 to September 30, 2016. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of Floyd Memorial Hospital and Health Services, as of September 30, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The audit report is filed with this letter in our office as a matter of public record.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

Floyd Memorial Hospital and Health Services
A Component Unit of Floyd County, Indiana

Independent Auditor's Reports and Financial Statements

For the Period From January 1, 2016 Through September 30, 2016
and for the Year Ended December 31, 2015

BKD LLP
CPAs & Advisors

Floyd Memorial Hospital and Health Services
A Component Unit of Floyd County, Indiana
For the Period From January 1, 2016 Through September 30, 2016
and for the Year Ended December 31, 2015

Contents

BKD LLP
CPAs & Advisors

600 N. Hurstbourne Parkway, Suite 350 // P.O. Box 22127 // Louisville, KY 40252-0127
502.581.0435 // fax 502.581.0723 // bkd.com

Independent Auditor's Report

Dr. James Y. McCullough
Transferor Representative
Floyd Memorial Hospital and Health Services
New Albany, Indiana

Report on the Financial Statements

We have audited the accompanying balance sheets of Floyd Memorial Hospital and Health Services (Hospital), a component unit of Floyd County, Indiana, as of September 30, 2016, and December 31, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the period January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2016, and December 31, 2015, and the changes in its financial position and its cash flows for the period January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 20 to the financial statements, subsequent to September 30, 2016, the Hospital entered into an asset purchase agreement to sell certain assets and liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2017, on our consideration of the Hospital's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Louisville, Kentucky
January 24, 2017

Floyd Memorial Hospital and Health Services
A Component Unit of Floyd County, Indiana

Management's Discussion and Analysis

For the Period From January 1, 2016 Through September 30, 2016 and for the Year Ended December 31, 2015

Introduction

This management's discussion and analysis of the financial performance of Floyd Memorial Hospital and Health Services (Hospital) provides an overview of the Hospital's financial activities for the period from January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments, excluding restricted investments and amounts held by trustee for debt service, decreased by ($57,459,550), or 56.9%, in 2016 as compared to 2015 and increased by $10,274,954, or 11.3%, in 2015 as compared to 2014.
- The Hospital's net position decreased in the past year by ($19,853,721), or 14.9%, as compared to 2015 when the Hospital's net position increased by $3,751,326, or 2.8%, as compared to 2014.
- The Hospital reported operating income in 2016 of $1,090,402, or 0.4%, of total operating revenues versus $6,647,914, or 2%, of total operating revenues in 2015 and ($1,843,260), or (0.6%), of total operating revenues in 2014.
- Net nonoperating expenses increased by $9,958,091 in 2016 as compared to 2015 and increased by $393,810 in 2015 as compared to 2014.
- Days cash on hand decreased to 47 in 2016 from 121 in 2015 and 116 in 2014.
- Debt service coverage ratio increased to 4.7 in 2016 from 2.7 in 2015 and from 1.5 in 2014.
- The Hospital adopted Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, as amended for the 2015 fiscal year. In adopting this new standard, the Hospital recognized a net pension liability of $21,232,851 and deferred outflows of resources of $3,227,578 as of December 31, 2015. A restatement to record the effects of the new reporting guidance caused a cumulative effect of change in accounting principle (decrease in beginning net position) by ($3,748,255). Any impact of this restatement is not reflected in the 2014 amounts included in this management's discussion and analysis. During 2016, the defined benefit plan was terminated and liquidated and therefore the Hospital recognized a deferred outflow of resources of $0 and a net pension asset of $787,885, which is recorded in other current assets in the balance sheet as of September 30, 2016.

Floyd Memorial Hospital and Health Services
A Component Unit of Floyd County, Indiana

Management's Discussion and Analysis

For the Period From January 1, 2016 Through September 30, 2016 and for the Year Ended December 31, 2015

Using This Annual Report

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

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

The balance sheet and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and activities for purposes of illustrating the effects of the past year's activity on the financial health of the Hospital. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. As the Hospital uses the accrual basis of accounting, current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. The statement of cash flows illustrates the uses and sources of cash for the year.

The Hospital's Net Position

The Hospital's net position is the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources reported in the balance sheet. The Hospital's net position decreased by ($19,853,721), or 14.9%, in 2016 and increased by $3,751,326, or 2.8%, in 2015 and decreased by ($4,180,201), or (3%), in 2014 as shown in Table 1.

Floyd Memorial Hospital and Health Services
A Component Unit of Floyd County, Indiana
Management's Discussion and Analysis
For the Period From January 1, 2016 Through September 30, 2016 and for the Year Ended December 31, 2015

Table 1: Balance Sheets Summary

	2016	2015	2014
Assets			
Patient accounts receivable, net	$ 38,593,366	$ 39,869,072	$ 38,154,806
Other current assets	36,595,339	42,786,431	33,313,090
Capital assets, net	114,247,623	113,897,640	115,696,301
Other noncurrent assets	32,893,664	85,361,890	83,309,956
Total assets	222,329,992	281,915,033	270,474,153
Deferred Outflows of Resources	10,434,748	19,873,284	17,567,062
Total assets and deferred outflows of resources	$ 232,764,740	$ 301,788,317	$ 288,041,215
Liabilities			
Long-term debt	$ 42,265,000	$ 93,212,975	$ 91,845,146
Other current and noncurrent liabilities	77,013,613	65,635,030	52,817,558
Fair value of interest rate swap agreement	-	8,265,934	8,454,270
Total liabilities	119,278,613	167,113,939	153,116,974
Deferred Inflows of Resources	-	1,334,530	1,587,464
Net Position			
Net investment in capital assets	34,320,861	32,681,320	37,064,613
Restricted	-	6,551,530	6,462,200
Unrestricted	79,165,266	94,106,998	89,809,964
Total net position	113,486,127	133,339,848	133,336,777
Total liabilities, deferred inflows of resources and net position	$ 232,764,740	$ 301,788,317	$ 288,041,215

Total assets decreased ($59,585,041), or 21.1%, in 2016 compared to 2015. Patient accounts receivable decreased by $1,275,706, or 3.2%, from 2015 to 2016, and increased by $1,714,266, or 4.5%, from 2014 to 2015.

Floyd Memorial Hospital and Health Services
A Component Unit of Floyd County, Indiana
Management's Discussion and Analysis
For the Period From January 1, 2016 Through September 30, 2016 and for the Year Ended December 31, 2015

Operating Results and Changes in the Hospital's Net Position

The Hospital's net position decreased by ($19,853,721), or 14.9%, in 2016, compared to an increase of $3,751,326, or 2.8%, in 2015. These changes are made up of several components as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	Nine Months Ended 2016	2015	2014
Operating Revenues			
Net patient service revenue	$ 261,579,297	$ 322,733,722	$ 291,417,867
Other operating revenues	2,889,552	3,951,833	4,962,382
Total operating revenues	264,468,849	326,685,555	296,380,249
Operating Expenses			
Salaries and wages and employee benefits	142,401,100	165,865,507	153,977,341
Purchased services and professional fees	37,662,801	51,098,464	55,300,587
Depreciation and amortization	10,013,168	14,074,795	13,736,088
Other operating expenses	73,301,378	88,998,875	75,209,493
Total operating expenses	263,378,447	320,037,641	298,223,509
Operating Income (Loss)	1,090,402	6,647,914	(1,843,260)
Nonoperating Revenues (Expenses)			
Investment income (loss)	2,548,178	(444,972)	365,022
Noncapital grants and contributions	304,440	209,344	280,207
Interest expense	(3,632,125)	(4,935,690)	(5,146,909)
Other nonoperating revenues and expenses, net	(12,075,172)	2,274,730	1,998,902
Total nonoperating expenses	(12,854,679)	(2,896,588)	(2,502,778)
Capital Grants			
Capital grants	3,000	-	165,837
Total capital grants	3,000	-	165,837
Special Item			
Pension curtailment	(8,092,444)	-	-
Change in Net Position	$ (19,853,721)	$ 3,751,326	$ (4,180,201)

Operating Income (Loss)

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

The operating income for 2016 was $1,090,402 as compared to an operating income of $6,647,914 for 2015 and operating loss of ($1,843,260) for 2014. The primary components of change in operating results are:

- A decrease in net patient service revenue of ($61,154,425), or 19%, in 2016 due primarily to the 2016 reporting period having nine months. In 2015, the state of Indiana expanded the HIP 2.0, providing an avenue for a greater number of uninsured patient service revenue due to HIP 2.0 expansion. In 2016, the Hospital recorded $10,505,637 in HIP 2.0 revenues as compared to $8,703,614 in 2015. In 2008, the Hospital implemented revenue cycle initiatives to identify net patient service revenue enhancement opportunities. These initiatives yielded increases in net patient revenue of $197,540 in 2016 and $730,668 in 2015.
- A decrease in salaries and benefits of ($23,464,407), or 14.2%, in 2016 as compared to an increase of $11,888,166, or 7.7%, in 2015. The decrease resulted from the 2016 reporting period having nine months; however, there were also increases in salaries due to the addition of new physicians as part of Floyd Memorial Medical Group (FMMG), the growth in number of oncology physicians and a 2.5% salary increase for associates effective April 2016.
- A decrease in supply and drug costs of ($11,170,562), or 16.4%, in 2016 as compared to an increase of $11,214,623, or 19.6%, in 2015. The decrease resulted from the 2016 reporting period having nine months; however, there were also increases in both inpatient and outpatient volume and the return of a former oncology physician to the Cancer Care Center in May 2015.
- A decrease in depreciation and amortization of ($4,061,627), or 28.9%, in 2016 and an increase of $338,707, or 2.5%, in 2015. The decrease resulted from the 2016 reporting period having nine months.

Full-time equivalent employees increased to 2,311 in 2016, or 3.7%, from 2,228 in 2015 and 2,170 in 2014. The increase in 2016 resulted from the addition of new physicians as part of FMMG and increase in inpatient and outpatient volume.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Expenditures for medical supplies and prescription drugs are a major component of the Hospital's costs. In 2016, the costs totaled $57,151,389, or 21.7%, of total operating expenses; a decrease of ($11,170,562), or 16.4%, over 2015. The decrease resulted from the 2016 reporting period having nine months. In 2015, the costs totaled $68,321,951, or 21.3%, of total operating expenses, resulting in an increase of $11,214,623, or 19.6%, over 2014. In 2014, the costs totaled $57,107,328, or 19.1%, of total operating expenses. The costs increased due to the return of the oncology physician and resulting volume

increases in the Cancer Care Center, as well as an increase in inpatient and outpatient Hospital volume. In 2008, the Hospital implemented a clinical quality value analysis (CQVA) program, focused on the quality and cost-effectiveness of supplies. The CQVA program yielded savings of approximately $1,429,617 in 2016 compared to approximately $2,716,615 in 2015 and $2,246,790 in 2014.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income (loss) and interest expense. The Hospital recorded investment income of $2,548,178 in 2016 versus investment loss of $444,972 in 2015. Interest expense decreased to $3,632,125 in 2016, or a 26.4% decrease over 2015 of $4,935,690, due to interest payments on existing bonds only being nine months in the 2016 reporting period. Other nonoperating expense decreased to $12,075,172 in 2016, from income of $2,274,730 in 2015, a decrease of $14,349,902 primarily due to the loss on bond defeasance of $11,922,230.

The Hospital's Cash Flows

Decreases in cash flow in 2016 are the result of the cash used in the termination of the defined benefit plan and defeasance of the 2010 bonds. In 2015, cash flows increased due to an increased operating income and timing of vendor payments.

Capital Asset and Debt Administration

Capital Assets

At the end of 2016, the Hospital had $114,247,673 net invested in capital assets compared to $113,897,640 in 2015 for an increase of $350,033, or 0.3%, from 2015 and a decrease of ($1,798,661), or (1.6%), from 2014 to 2015. See Note 6 for additional information about significant capital asset activity.

Debt

At September 30, 2016, the Hospital had $43,365,000 in revenue bonds outstanding.

In December 2013, the Hospital accessed its line of credit in the amount of $1,000,000 to fund capital expenditures for the construction of an outpatient observation unit. Full repayment was made in September 2016.

In August 2015, the Hospital issued a note payable in the amount of $5,000,000 to fund capital projects with payments through 2022. Full repayment was made in September 2016.

In September 2016, the Series 2010 revenue bonds were refunded and defeased, resulting in a loss of defeasance of $11,922,230.

See Note 9 for additional information on debt activity.

Other Operating and Future Economic Factors

Indiana Hospital Assessment Fee Program

During 2012, the state of Indiana enacted the Hospital Assessment Fee (HAF) program, which is designed to increase Medicaid payments to hospitals. The program was implemented retroactively to the beginning of the 2012 Indiana State Fiscal Year (July 1, 2011), and was in place through June 30, 2013. Therefore, the Hospital recorded a six-month impact of the HAF program during 2013. In 2014, the Indiana Legislature approved legislation re-instating the HAF program through June 30, 2017. The Hospital recorded $9,848,000 within net patient service revenues during 2016 versus $12,743,000 in 2015 and expensed assessment fees totaling $10,016,000 in 2016 versus $12,240,000 in 2015 related to this program.

In 2016, the Hospital experienced a decrease in traditional Medicaid due to a decrease in volume, resulting in the decrease of $2,895,000 in HAF revenues from 2015 to 2016. HAF assessment fees of $10,016,000 in 2016 exceeded revenue by $168,000. The Hospital has benefited from this decrease by receiving additional state Medicaid disproportionate share (DSH) payments. This is further discussed in Note 2.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the chief financial officer by telephoning 812.948.5596.

Floyd Memorial Hospital and Health Services
A Component Unit of Floyd County, Indiana
Balance Sheets
September 30, 2016 and December 31, 2015

Assets and Deferred Outflows of Resources

	2016	2015
Current Assets		
Cash and cash equivalents	$ 22,629,106	$ 33,164,258
Restricted investments – current	-	1,287,487
Patient accounts receivable, net of allowance; 2016 – $26,589,000;2015 – $26,428,000	38,593,366	39,869,072
Estimated amounts due from third-party payers	4,487,081	-
Supplies	4,848,952	5,388,280
Prepaid expenses and other current assets	4,630,200	2,946,406
Total current assets	75,188,705	82,655,503
Noncurrent Cash and Investments		
Internally designated	20,977,406	67,901,804
Held by trustee for debt service	-	6,551,530
	20,977,406	74,453,334
Less amount required to meet current obligations	-	1,287,487
	20,977,406	73,165,847
Capital Assets, Net	114,247,623	113,897,640
Other Assets		
Other	11,916,258	12,196,043
Total assets	222,329,992	281,915,033
Deferred Outflows of Resources	10,434,748	19,873,284
Total assets and deferred outflows of resources	$ 232,764,740	$ 301,788,317

See Notes to Financial Statements

Liabilities, Deferred Inflows of Resources and Net Position

	2016	2015
Current Liabilities		
Current maturities of long-term debt	$ 1,100,000	$ 4,649,051
Payable to suppliers and contractors	12,983,810	16,242,343
Payable to employees (including payroll taxes and benefits)	13,930,075	13,392,313
Estimated amounts due to third-party payers	-	5,501,584
Accrued expenses	1,848,317	4,305,496
Short-term 2010 defeasance loan	46,600,000	-
Payable to Northgate Surgery Center	51,411	311,392
Total current liabilities	76,513,613	44,402,179
Fair Value of Interest Rate Swap Agreement	-	8,265,934
Long-Term Debt	42,265,000	93,212,975
Net Pension Liability	-	21,232,851
Other Liabilities	500,000	-
Total liabilities	119,278,613	167,113,939
Deferred Inflows of Resources	-	1,334,530
Net Position		
Net investment in capital assets	34,320,861	32,681,320
Restricted-expendable for debt service	-	6,551,530
Unrestricted	79,165,266	94,106,998
Total net position	113,486,127	133,339,848
Total liabilities, deferred inflows of resources and net position	$ 232,764,740	$ 301,788,317

Floyd Memorial Hospital and Health Services
A Component Unit of Floyd County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
For the Period From January 1, 2016 Through September 30, 2016 and for the Year Ended December 31, 2015

	Nine Months Ended 2016	2015
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2016 – $18,863,000; 2015 – $27,338,000	$ 261,579,297	$ 322,733,722
Other	2,889,552	3,951,833
Total operating revenues	264,468,849	326,685,555
Operating Expenses		
Salaries and benefits	142,401,100	165,865,507
Purchased services and professional fees	37,662,801	51,098,646
Supplies	57,151,389	68,321,951
Other expenses	16,149,989	20,676,742
Depreciation and amortization	10,013,168	14,074,795
Total operating expenses	263,378,447	320,037,641
Operating Income	1,090,402	6,647,914
Nonoperating Revenues (Expenses)		
Investment income (loss)	2,548,178	(444,972)
Interest expense	(3,632,125)	(4,935,690)
Noncapital grants and contributions	304,440	209,344
Gain (loss) on investment in equity investees	(152,942)	2,274,730
Loss on extinguishment of debt	(11,922,230)	-
Total nonoperating expenses	(12,854,679)	(2,896,588)
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Special Item	(11,764,277)	3,751,326
Capital Grants	3,000	-
Special Item		
Pension curtailment	(8,092,444)	-
Increase (Decrease) in Net Position	(19,853,721)	3,751,326
Net Position, Beginning of Year	133,339,848	129,588,522
Net Position, End of Year	$ 113,486,127	$ 133,339,848

Floyd Memorial Hospital and Health Services
A Component Unit of Floyd County, Indiana
Statements of Cash Flows
For the Period From January 1, 2016 Through September 30, 2016 and for the Year Ended December 31, 2015

	Nine Months Ended 2016	2015
Operating Activities		
Receipts from and on behalf of patients	$ 251,971,270	$ 324,376,566
Payments to suppliers and contractors	(113,830,739)	(134,965,091)
Payments to employees	(168,585,992)	(166,782,031)
Other receipts, net	2,889,552	3,951,833
Net cash provided by (used in) operating activities	(27,555,909)	26,581,277
Noncapital Financing Activities		
Noncapital grants and contributions	304,440	209,344
Net cash provided by noncapital financing activities	304,440	209,344
Capital and Related Financing Activities		
Capital grants	3,000	-
Interest payments on long-term obligations	(3,938,608)	(4,568,944)
Principal paid on long-term debt and capital leases	(33,276,551)	(3,364,496)
Defeasance of long-term debt	(56,643,593)	-
Payments on line of credit	(1,000,000)	-
Purchase of capital assets	(9,986,160)	(12,594,677)
Proceeds from issuance of long-term debt	-	5,000,000
Proceeds from short-term loan	76,600,000	-
Termination of interest rate swap	(9,582,000)	-
Net cash used in capital and related financing activities	(37,823,912)	(15,528,117)
Investing Activities		
Proceeds from disposition of investments	102,165,571	88,198,950
Purchase of investments	(47,684,055)	(88,268,510)
Interest and dividends on investments	1,542,590	(35,900)
Deconsolidation of affiliates	(1,483,877)	(453,248)
Net cash provided by (used in) investing activities	54,540,229	(558,708)
Increase (Decrease) in Cash and Cash Equivalents	(10,535,152)	10,703,796
Cash and Cash Equivalents, Beginning of Year	33,164,258	22,460,462
Cash and Cash Equivalents, End of Year	$ 22,629,106	$ 33,164,258

See Notes to Financial Statements

	Nine Months Ended 2016	2015
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 1,090,402	$ 6,647,914
Depreciation and amortization	10,013,168	14,074,795
Provision for uncollectible accounts	18,862,808	27,337,864
Gain on disposition of assets	11,646	-
Changes in operating assets and liabilities		
Patient accounts receivable	(18,876,365)	(29,704,252)
Estimated amounts due to/from third-party payers	(9,594,470)	4,009,232
Accounts payable and accrued expenses	(28,575,669)	3,281,680
Prepaid assets, supplies and other assets	(487,429)	934,044
Net cash provided by (used in) operating activities	$ (27,555,909)	$ 26,581,277
Supplemental Cash Flows Information		
Property, plant and equipment additions in accounts payable	$ 835,693	$ 127,677
Change in fair value of interest rate swap agreements	$ (1,316,066)	$ 188,336

Floyd Memorial Hospital and Health Services
A Component Unit of Floyd County, Indiana
Notes to Financial Statements
For the Period From January 1, 2016 Through September 30, 2016 and for the Year Ended December 31, 2015

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

Nature of Operations and Reporting Entity

Floyd Memorial Hospital and Health Services (Hospital) is an acute care hospital located in New Albany, Indiana. The Hospital is a component unit of Floyd County (County) and the Board of County Commissioners appoints members to the board of trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Floyd County and the surrounding six county areas. As discussed further in Note 20, the Hospital was purchased by Baptist Health effective October 1, 2016.

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2016, and December 31, 2015, cash equivalents consisted primarily of money market accounts.

Risk Management

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

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

Investments and Investment Income

The investments in equity investees are reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line half-year convention method 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 following estimated useful lives are being used by the Hospital:

Land improvements	2 – 25 years
Buildings and leasehold improvements	5 – 40 years
Equipment	2 – 20 years

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. There was no interest capitalized and incurred for the period from January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015.

Other Assets

Split-dollar life insurance policies: Other assets include the cumulative paid premiums under split-dollar life insurance policies for certain employees of the Hospital. The Hospital will receive the cumulative premiums upon the death of currently insured employees.

Investment in joint ventures: The investment in joint ventures is accounted for by the equity method of accounting and is further described in Note 5.

Deferred Amounts on Refunding

Deferred amounts on refunding, which are included in deferred outflows of resources on the balance sheets, represent losses incurred in connection with the refunding of long-term debt. Such losses are being amortized over the shorter of the term of the respective original debt or the term of the new debt using the straight-line method.

Other Long-Term Liabilities

Other long-term liabilities consist of deferred rent expense and are recognized over the term of each respective lease.

Interest Rate Swap Agreement

The Hospital used an interest rate swap agreement to manage financial risks related to interest rate movements and the effects on its cash flows. The Hospital accounted for the interest rate swap agreement as a hedging instrument. As a result, the agreement was recorded at its fair value in the balance sheets. The net cash payments or receipts under the interest rate swap agreement were recorded as an increase or decrease to interest expense. The interest rate swap was terminated on September 29, 2016.

Compensated Absences

Hospital policies permit most employees to accumulate paid time off (PTO) benefits to be utilized as vacation, sick or holiday time off. In limited circumstances, PTO can be realized as a cash payment. Expense and the related liability are recognized when earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Defined Benefit Pension Plan

The Hospital had a single-employer defined benefit pension plan, Floyd Memorial Hospital Retirement Plan (Plan). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position were determined on the same basis as they were reported by the Plan. For this purpose, benefit payments were recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The Plan was terminated effective September 1, 2016, and paid out prior to September 30, 2016.

Net Position

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

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. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Income Taxes

The Hospital has been recognized as exempt from income taxes under Section 501(c) and Section 115 as an essential government function of the County and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Electronic Health Records Incentive Program

The Electronic Health Records (EHR) Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2015, the Hospital completed the fourth and final year requirements under the Medicare program and has recorded revenue of approximately $959,000, which is included in other operating revenues in the statement of revenues, expenses and changes in net position.

Note 2: 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. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge for inpatient services and outpatient fee for services.

The Hospital received approximately $9,848,000 and $12,743,000 during 2016 and 2015, respectively, due to the enactment of a state-specific provider assessment program to increase Medicaid payments to hospitals. This revenue is recorded within net patient service revenue in the statements of revenues, expenses and changes in net position for 2016 and 2015. The Hospital paid approximately $10,016,000 and $12,240,000 into this Medicaid program for 2016 and 2015, respectively, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position.

The Hospital also qualifies as a Medicaid DSH provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the state of Indiana and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately $8,730,000 and $2,320,000 within patient service revenue related to this supplemental payment program for period of January 1, 2016, through September 30, 2016, and year ended December 31, 2015, respectively. At September 30, 2016, and December 31, 2015, respectively, $5,677,922 and ($2,652,140) is recorded as a receivable and liability within estimated amounts due to/from third parties.

The Hospital has experienced a decrease in the traditional Medicaid program volume due to the shift to Medicaid Managed Care, resulting in increased losses on the traditional Medicaid program. Due to the increased losses, the Hospital qualified for additional Indiana Medicaid DSH reimbursement, as reflected in the increased revenue recognized in 2016 from 2015.

Approximately 51% and 50% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the period from January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The 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.

Note 3: Deposits, Investments and Investment Income

Deposits

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

Deposits with financial institutions in the state of Indiana at year-end were entirely insured by the Federal Deposit Insurance Corporation (FDIC) or by the Indiana Public Deposit Insurance Fund (IPDIF). This includes any deposit accounts issued or offered by a qualifying financial institution. Accordingly, all deposits in excess of FDIC levels are covered by the IPDIF and considered collateralized.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury, U.S. agencies and instrumentalities and in bank repurchase agreements.

At September 30, 2016, and December 31, 2015, the Hospital had the following investments and maturities:

	2016				
		Maturities in Years			
Type	Fair Value	Less Than One	One to Five	Six to 10	More Than 10
Money market mutual funds	$ 1,933,166	$ 1,933,166	$ -	$ -	$ -
U.S. agencies	12,706,046	1,288,608	9,148,211	1,022,538	1,246,689
Mutual funds	6,338,194	6,338,194	-	-	-
	$ 20,977,406	$ 9,559,968	$ 9,148,211	$ 1,022,538	$ 1,246,689

	2015				
		Maturities in Years			
Type	Fair Value	Less Than One	One to Five	Six to 10	More Than 10
Money market mutual funds	$ 11,294,865	$ 11,294,865	$ -	$ -	$ -
U.S. agencies	27,769,694	1,749,960	14,993,343	9,527,333	1,499,058
Mutual funds	35,388,775	35,388,775	-	-	-
	$ 74,453,334	$ 48,433,600	$ 14,993,343	$ 9,527,333	$ 1,499,058

Interest rate risk – Interest rate risk (IRR) is the risk of fair value losses arising from rising interest rates. The Hospital does not have a formal policy to limit its IRR. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital's policy to limit its investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. At September 30, 2016, and December 31, 2015, the Hospital's investments in U.S. agencies obligations not directly guaranteed by the U.S. Government were rated Aaa by Moody's Investor Services.

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At September 30, 2016, and December 31, 2015, the Hospital held no investments in repurchase agreements.

Concentration of credit risk – The Hospital places no limit on the amount that may be invested in any one qualified issuer. At September 30, 2016, and December 31, 2015, the Hospital had no investments in corporate bonds.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at September 30, 2016, and December 31, 2015, as follows:

	2016	2015
Carrying value		
Deposits	$ 22,629,106	$ 33,164,258
Investments	20,977,406	74,453,334
	$ 43,606,512	$107,617,592

Included in the following balance sheet captions:

	2016	2015
Cash and cash equivalents	$ 22,629,106	$ 33,164,258
Restricted investments – current	-	1,287,487
Noncurrent cash and investments	20,977,406	73,165,847
	$ 43,606,512	$107,617,592

Investment Income (Loss)

Investment income (loss) for the period from January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015, consisted of:

	2016	2015
Interest and dividend income, including realized gains/losses	$ 1,542,590	$ (35,900)
Net increase (decrease) in fair value of investments	1,005,588	(409,072)
	$ 2,548,178	$ (444,972)

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2016, and December 31, 2015, consisted of:

	2016	2015
Medicare	$ 13,118,930	$ 10,671,943
Medicaid	7,067,419	5,421,286
Other third-party payers	24,297,736	28,749,626
Patients	20,698,463	21,454,221
	65,182,548	66,297,076
Less allowance for uncollectible accounts	26,589,182	26,428,004
	$ 38,593,366	$ 39,869,072

Note 5: Investments in Uncombined Entities

The investments in uncombined entities are accounted for on the equity method and are included in other long-term assets in the balance sheets. The equity earnings of the uncombined entities are accounted for on the equity method and are included in nonoperating revenues. Investments in uncombined entities consist of a 33.33% interest in Southern Indiana Rehabilitation Hospital (an acute rehabilitation hospital), a 48% interest in Kleinert, Kutz Associates Surgery Center, LLC (KKA), d/b/a Northgate Surgery Center, LLC (Joint Venture) (an outpatient surgery center), a 11% interest in Indiana Healthcare Reciprocal Risk Retention Group (Risk Retention Group) (a medical malpractice insurance captive) and a 50% interest in Northgate Medical Imaging, LLC, d/b/a Priority Imaging (an outpatient diagnostic imaging center). Effective September 30, 2016, the Hospital withdrew its membership in the Risk Retention Group.

Note 6: Capital Assets

Capital assets activity for the period from January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015, were:

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 6,258,517	$ 179,434	$ -	$ -	$ 6,437,951
Land improvements	3,751,699	20,261	-	838,743	4,610,703
Buildings and leasehold improvements	138,151,731	448,999	(322,012)	466,708	138,745,426
Equipment	156,840,056	6,593,540	(641,183)	3,639,786	166,432,199
Construction in progress	4,070,695	3,674,544	-	(4,945,237)	2,800,002
	309,072,698	10,916,778	(963,195)	-	319,026,281
Less accumulated depreciation					
Land improvements	3,290,447	74,748	-	-	3,365,195
Buildings and leasehold improvements	65,605,059	2,780,396	(61,566)	-	68,323,889
Equipment	126,279,552	7,006,683	(196,661)	-	133,089,574
Total accumulated depreciation	195,175,058	9,861,827	(258,227)	-	204,778,658
Capital assets, net	$ 113,897,640	$ 1,054,951	$ (704,968)	$ -	$ 114,247,623

	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 6,258,517	$ -	$ -	$ -	$ 6,258,517
Land improvements	3,687,772	63,927	-	-	3,751,699
Buildings and leasehold improvements	135,210,790	1,466,793	(280,929)	1,755,077	138,151,731
Equipment	150,222,815	6,776,834	(159,593)	-	156,840,056
Construction in progress	1,755,077	4,070,695	-	(1,755,077)	4,070,695
	297,134,971	12,378,249	(440,522)	-	309,072,698
Less accumulated depreciation					
Land improvements	3,195,710	94,737	-	-	3,290,447
Buildings and leasehold improvements	61,938,055	3,693,594	(26,590)	-	65,605,059
Equipment	116,304,905	10,078,997	(104,350)	-	126,279,552
Total accumulated depreciation	181,438,670	13,867,328	(130,940)	-	195,175,058
Capital assets, net	$ 115,696,301	$ (1,489,079)	$ (309,582)	$ -	$ 113,897,640

Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance from the Risk Retention Group under a claims-made policy. The Hospital pays an annual premium to the Risk Retention Group for its torts insurance coverage. The Risk Retention Group's governing agreement specifies that the Risk Retention Group will be self-sustaining through member premiums and will re-insure through commercial carriers for claims in excess of stop-loss amounts. 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 claims experience, no liabilities were recorded at September 30, 2016, and December 31, 2015. It is possible this estimate could change materially in the near term.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. However, the *Indiana Malpractice Act* (Act) limits professional liability for claims prior to July 1, 1999, to a maximum recovery of $750,000 per occurrence ($3,000,000 annual aggregate), $100,000 of which would be paid through malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund (Fund). For claims on or after July 1, 1999, the maximum recovery is $1,250,000 per occurrence ($7,500,000 annual aggregate), $250,000 of which would be paid through insurance coverage and the remainder by the Fund.

Effective September 30, 2016, the Hospital withdrew its membership from the Risk Retention Group and terminated is policy, resulting in the forfeiture of the Hospital's original investment of $335,000. Subsequent to October 1, 2016, the Hospital will be covered under Baptist Health's policy under a claims made policy. There is no liability recorded for claims incurred but not reported at September 30, 2016.

Note 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $150,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is possible the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during the period from January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015, is summarized as follows:

	2016	2015
Balance, beginning of year	$ 1,448,258	$ 1,154,220
Current year claims incurred and changes in estimates for claims incurred in prior years	10,830,579	13,622,458
Claims and expenses paid	(10,821,910)	(13,328,420)
Balance, end of year	$ 1,456,927	$ 1,448,258

Note 9: Long-Term Obligations

The following is a summary of long-term debt transactions for the Hospital for the period from January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015:

	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds					
Series 2010	$ 47,920,000	$ -	$ 47,920,000	$ -	$ -
Series 2012	44,120,000	-	755,000	43,365,000	1,100,000
Note payable	5,000,000	-	5,000,000	-	-
Pension loan	-	30,000,000	30,000,000	-	-
Line of credit	1,000,000	-	1,000,000	-	-
Capital lease obligations	326,551	-	326,551	-	-
	98,366,551	30,000,000	85,001,551	43,365,000	1,100,000
Less					
Unamortized bond discount	504,525	-	504,525	-	-
Total long-term debt obligations	$ 97,862,026	$ 30,000,000	$ 84,497,026	$ 43,365,000	$ 1,100,000

	2015				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds					
Series 2010	$ 49,815,000	$ -	$ 1,895,000	$ 47,920,000	$ 1,990,000
Series 2012	45,110,000	-	990,000	44,120,000	1,025,000
Note payable	-	5,000,000	-	5,000,000	307,500
Line of credit	1,000,000	-	-	1,000,000	1,000,000
Capital lease obligations	806,047	-	479,496	326,551	326,551
	96,731,047	5,000,000	3,364,496	98,366,551	4,649,051
Less					
Unamortized bond discount	532,297	-	27,772	504,525	-
Total long-term debt obligations	$ 96,198,750	$ 5,000,000	$ 3,336,724	$ 97,862,026	$ 4,649,051

The following is a summary of the net pension liability (asset) and other long-term liabilities for the Hospital for the period from January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015:

	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Net pension liability (asset)	$ 21,232,851	$ 17,544,963	$ 39,565,699	$ (787,885)	$ -
Other long-term liabilities	$ -	$ 500,000	$ -	$ 500,000	$ -

	2015				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Net pension liability (asset)	$ 21,623,458	$ 4,187,004	$ 4,577,611	$ 21,232,851	$ -

At September 30, 2016, the net pension plan asset is included in other current assets in the balance sheet.

Revenue Bonds Payable

The Hospital has revenue bonds payable with the Indiana Healthcare Facility Financing Authority (Authority). The Master Trust Indenture requires certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the balance sheets. The Master Trust Indenture also places limits on the incurrence of additional borrowings and requires that certain measures of financial performance be maintained so long as the bonds are outstanding.

Series 2010

In April 2010, the Hospital participated in the issuance of $56,570,000 Indiana Healthcare Facility Financing Authority Hospital Refunding Revenue Bonds, Series 2010 Bonds (2010 Bonds), which bear interest at rates ranging from 3.000% to 5.375%. The proceeds were primarily used for the advanced refunding of the 1998 and 2003B Bonds. The 2010 Bonds were subject to retirement in varying principal amounts through 2034. Effective September 30, 2016, the Hospital received $46,600,000 from Baptist Health to use for an advanced refunding and defeasance of the 2010 bonds. At September 30, 2016, the Hospital funded an escrow account with this advance and other escrow monies to defease the 2010 bonds. The short-term note from Baptist Health, who acquired the Hospital effective October 1, 2016, is included as an advanced refunding loan in the balance sheets.

Series 2012

In July 2012, the Hospital participated in the issuance of $47,245,000 Indiana Healthcare Facility Financing Authority Hospital Refunding Revenue Bonds, Series 2012 Bonds (2012 Bonds), which bear interest at 68% of one-month London Interbank Offered Rate (LIBOR), plus 1.39% (1.75% at September 30, 2016). Under the trust indenture, the 2012 Bonds were issued between the Indiana Finance Authority and The Bank of New York Mellon Trust Company and in conjunction with the trust indenture, a loan agreement was entered into for the proceeds of the sale of the 2012 Bonds to be loaned to the Hospital. The proceeds were primarily used for the advanced refunding of the 2008 Bonds. The 2012 Bonds are subject to retirement in varying principal amounts through 2036 as noted in the Master Note Series 2012. The bonds are secured by the gross revenues of the Hospital and the assets restricted under the bond indenture agreement. The sole bondholder of the Series 2012 Bonds, Branch Banking & Trust Bank, entered into a contract of purchase and promissory note for a 10-year term.

Note Payable

In 2015, the Hospital issued a note payable totaling $5,000,000 for capital projects. The note was payable in interest-only payments at one-month LIBOR, plus 1.75% through March 2016, then principal payments ranging from $34,167 to $41,667, plus interest, as noted previously through July 2022, with the remaining balance due in August 2022. The note was secured consistent with the Master Trust Indenture. On September 29, 2016, the remaining balance of the note was paid off in full with internally designated investments.

Pension Loan Payable

On August 31, 2016, the Hospital entered into a note payable related to the termination of the defined benefit pension plan. The note totaled $30,000,000 with interest at one-month LIBOR, plus 1.25%. On September 30, 2016, the remaining balance of the note was paid off in full with internally designated investments.

Capital Lease Obligations

The Hospital was obligated under leases for certain medical equipment that are accounted for as capital leases. The lease agreements bore interest at various amounts up to 4.40%. The net book value of assets under capital leases at September 30, 2016, and December 31, 2015, totaled $0 and $212,966, respectively.

The debt service requirements for long-term obligations as of September 30, 2016, were as follows:

	Total to be Paid	Principal	Interest
2017	$ 1,849,494	$ 1,100,000	$ 749,494
2018	1,855,062	1,125,000	730,062
2019	1,889,873	1,180,000	709,873
2020	1,914,007	1,225,000	689,007
2021	1,991,821	1,325,000	666,821
2022 – 2026	12,671,858	9,785,000	2,886,858
2027 – 2031	15,051,585	13,180,000	1,871,585
2032 – 2036	15,030,745	14,445,000	585,745
	$ 52,254,445	$ 43,365,000	$ 8,889,445

Note 10: Line of Credit

The Hospital has an unsecured open-ended demand line of credit in the amount of $5,000,000 with a bank. Amounts outstanding under the line of credit bear interest at the 30-day LIBOR, plus 1.25%, adjusted monthly. There were $0 and $1,000,000 of borrowings on the line of credit at September 30, 2016, and December 31, 2015, respectively.

Note 11: Interest Rate Swap Agreement

Objective of the Interest Rate Swap Agreement

The Hospital's asset/liability strategy is to have a mixture of fixed- and variable-rate debt to take advantage of market fluctuations. As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations and to lower its borrowing costs when compared against fixed-rate debt at the time of issuance, the Hospital entered into interest rate swap agreements in connection with its 2003A Bonds and 2003B Bonds. The original intention of the swap agreements was to effectively change the Hospital's variable interest rate on the 2003A Bonds and 2003B Bonds to a synthetic fixed rate of 4.05%.

The 2003A Bonds were defeased in December 2008 and related swap agreement was redesignated to a portion of the 2008 Bonds. The 2003B Bonds were defeased in April 2010 and the related swap agreement was terminated at the time of the issuance of the 2010 Bonds.

The 2008 Bonds were defeased in July 2012; however, the swap agreement remained. In accordance with Government Accounting Standards Board (GASB) No. 53, in connection with the debt refunding, the deferred outflows related to the accumulation of changes in fair value of the swap agreement were included in deferred amounts on refunding. Changes in fair value of the swap agreement subsequent to the refunding are recorded in deferred inflows, in accordance with hedge accounting prescribed by GASB No. 53.

Effective September 29, 2016, the interest rate swap was terminated for $9,582,000, which resulted in a loss from termination of $317,252, which is the result of the accumulated changes in fair value of swap since its defeasance in July 2012.

Terms

The 2003A swap agreement was entered into on November 10, 2003, and was scheduled to expire on March 1, 2034, and required no initial net cash receipt or payment by the Hospital. The agreement provides for the Hospital to receive interest from the counterparty at 70.00% of the one-month LIBOR and to pay interest to the counterparty at a fixed rate of 4.17% on notional amounts of $30,450,000 at December 31, 2015, respectively. Beginning in 2009, the notional amount of the swap agreement declines by a corresponding amount each time a principal payment

is scheduled to become due on the associated debt until the notional amount reaches $2,650,000 at the termination of the swap agreement. Under the swap agreement, the Hospital pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

Fair Value

As of December 31, 2015, the swap agreement had a fair value of ($8,265,934) calculated using the par-value method, *i.e.*, the fixed rate on the swap agreement was compared with the current fixed rates that could be achieved in the marketplace should the swap agreement be unwound. The fixed-rate components were valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate components were assumed to be at par value because the interest rates reset to the market rate at every reset date. The fair value was then calculated by subtracting the estimated market value of the fixed components from the established market value of the variable components. The fair value of the swap agreement was recognized in long-term liabilities. Through the date of the defeasance of the 2008 Bonds, the swap agreement was an effective hedging instrument and, therefore, the offsetting balance was reflected as a deferred outflow of resources on the Hospital's balance sheets. The cumulative amount of changes in fair value through the date of the 2008 Bond defeasance ($10,902,924) was included in the loss on defeasance, which is reported in deferred outflows of resources and amortized through the life of the 2012 bonds, March 2036.

Subsequent to the defeasance, hedge accounting was resumed and changes in fair value of the interest rate swap agreement was $188,336 and is reflected in deferred inflows of resources as of December 31, 2015.

Credit Risk

The swap agreement's fair value represented the Hospital's credit exposure to the counterparty as of December 31, 2015. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Hospital has a maximum possible loss equivalent to the swap agreement's fair value at that date. As of December 31, 2015, the Hospital was not exposed to credit risk because the swap agreement had a negative fair value. The swap agreement counterparty was rated A by Fitch Ratings, A- by Standard & Poor's and Baa by Moody's Investors Service as of December 31, 2015. To mitigate the potential for credit risk, if the counterparty's credit quality rating falls below the current rating for at least two of the three rating agencies, the fair value of the swap agreement is to be fully collateralized by the counterparty with U.S. Treasury obligations to be held by a third-party custodian on behalf of the Hospital. The Hospital does not currently have a policy of requiring the counterparty to post collateral in the event the Hospital becomes exposed to credit risk. The Hospital does not currently have a policy requiring a master netting agreement with the counterparty and does not currently have such an agreement in place.

Basis Risk

The interest rate swap agreement exposes the Hospital to basis risk should the relationship between LIBOR and the auction rate set by the Hospital's remarketing agent change in a manner adverse to the Hospital. If an adverse change occurs in the relationship between these rates, the expected cost savings may not be realized.

Termination Risk

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

Note 12: Billing Under Arrangement

As disclosed in Note 5, since 2006, the Hospital has a 48% interest in Northgate Surgery Center, LLC, formerly known as KKA Surgery Center, LLC, which has been accounted for on the equity method. This Joint Venture with KKA (holder of the other 52% interest) was created for the purpose of offering greater surgical capacity to Hospital patients. As part of the Joint Venture, the Hospital has entered into a billing under arrangement agreement in which nongovernmental program patient revenues are billed under the Hospital's employer identification number and 95% of net patient revenue is remitted to the Joint Venture as a management fee, inclusive of all operating expenses and costs associated with the services being rendered. For the period from January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015, net patient service revenue related to the Joint Venture was $2,769,482 and $4,245,209, respectively, and associated management fee expense was $2,805,824 and $4,236,276, respectively. At September 30, 2016, and December 31, 2015, net patient accounts receivable related to the Joint Venture was $341,075 and $600,593 and accounts payable to the counterparty of the Joint Venture, KKA, was $51,411 and $311,392, respectively.

Note 13: Operating Leases

The Hospital has entered into various operating leases for office space and medical equipment expiring at various years through 2023. Rent expense was $6,665,152 and $8,300,397 for the period from January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015, respectively.

Future minimum lease payments at September 30, 2016, were:

2017	4,994,053
2018	4,613,560
2019	4,105,005
2020	3,976,913
2021	3,259,448
2022 – 2026	7,953,420
2027 – 2031	1,885,090
Future minimum lease payments	$ 30,787,489

Note 14: Defined Benefit Pension Plan

Plan Description

The Hospital contributed to the Plan, a single-employer defined benefit pension plan covering substantially all employees. The Plan was administered by the Plan's board of trustees who are appointed by the County Commissioners of Floyd County, Indiana. Benefit provisions are contained in the Plan document and were established and can be amended by action of the Hospital's governing body. The authority to establish and amend benefit provisions is set forth in Indiana Code 16-22-3-11. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report may be obtained by writing to the Plan actuary at Transamerica Retirement Solutions, 24 Prime Park Way, Suite 400, Natick, MA 01760, or by calling 508.903.6015. Effective September 1, 2016, the Plan was terminated, fully funded and liquidated.

Benefits Provided

Normal Retirement Benefit

The annual benefit was equal to the greater of the traditional monthly accrued benefit or the monthly minimum benefit, plus the cash balance benefit.

Traditional monthly accrued benefit was for participants terminating after May 1, 1989, and was the sum of 36% of average monthly earnings and 18% of average monthly earnings in excess of covered compensation multiplied by credited service projected to normal retirement date, not to exceed 30 years, divided by 30 and credited service at termination date divided by credited service projected to normal retirement date. The monthly minimum benefit was the greatest of $6.00 per

year of credited service up to May 1, 2010, or for employees who became participants prior to April 30, 1985, .9% of 1985 average monthly earnings multiplied by years of credited service up to May 1, 2010, plus .6% of 1985 average monthly earnings that are in excess of $400, multiplied by years of credited service up to May 1, 2010, (not greater than 35).

Effective May 1, 2010, the Plan was amended to freeze the traditional benefit formula and modify the benefit formula for employees employed or re-employed on or after May 1, 2010. These benefits then accrued under the cash balance benefit formula.

The annual benefit of participants who were active employees received 2% of the participant's annual compensation for each Plan year in which participant earned a year of credited service as well as interest credits set forth in the Plan document. The interest credit rate was based on five-year U.S. Treasury Securities for the March preceding the first day of the Plan year, plus 25 basis points, and effective October 1, 2014, shall in no event be less than 3.75%. For all members classified as physicians, no hours of service after September 30, 2014, were counted for purposes of compensation credits to the cash balance account.

For participants with at least 10 years of vesting service as of May 1, 2010, the cash balance account was credited with additional pay credit for each year of credited service beginning on May 1, 2010, through the termination date of September 1, 2016:

Age as of May 1, 2010	Transition Pay Credit
Between 45 and 49	2%
Between 50 and 54	4%
55 and older	6%

Early Retirement Benefit

Early retirement benefits were the greater of the traditional monthly accrued benefit or the monthly minimum benefit, reduced 1/180th for each of the first 60 months and 1/360th for each of the next 60 months by which the early retirement date precedes the normal retirement date, plus the participant's cash balance benefit as of the early retirement date.

Late Retirement Benefit

A participant whose employment continues after his normal retirement date was entitled to receive the greater of:

(a) The greater of the traditional monthly accrued benefit or the monthly minimum benefit at normal retirement date, with actuarial increases through late retirement date, plus the participant's cash balance benefit at normal retirement date with interest credits only through late retirement date.

(b) The greater of the monthly benefit based on the traditional monthly accrued benefit formula or monthly minimum benefit formula using the participant's credited service and average monthly earnings through the earlier of the late retirement date or May 1, 2010, plus the participant's cash balance benefit as of the late retirement date.

Disability Retirement Benefit

Disability retirement benefits were the greater of the participant's traditional monthly accrued benefit or monthly minimum benefit determined as of the disability retirement date, reduced for early commencement and actuarial equivalence if earlier than age 55, plus the cash balance benefit as of the disability retirement date.

For purposes of the traditional monthly accrued benefit or the monthly minimum benefit, credited service continued to accrue for any periods of time while receiving other employer-provided disability insurance benefits up to the earlier of the date the benefits cease or May 1, 2010. Monthly earnings during this period were assumed equal to earnings immediately preceding the earlier of date of disability or May 1, 2010. Average monthly earnings and covered compensation were calculated as of the Plan year immediately preceding the earlier of the date when all other employer-provided disability insurance benefits cease of May 1, 2010.

For purposes of the cash balance benefit, credited service continued to accrue for any periods of time while receiving other employer-provided disability insurance benefits up to the date the benefits cease. Annual compensation during this period was assumed equal to earnings immediately preceding the date of disability.

Pre-Retirement Death Benefit

If an active, at least age 55 with 10 years of vesting services or age 65, terminated or disabled participant dies before retirement, the death benefit payable to a spouse or beneficiary was monthly benefit payments for five years in the amount that would have been payable to the beneficiary had the participant retired on the date of death, elected the five-year certain and life annuity option and died the next day.

As there were no remaining employees covered by the Plan at September 30, 2016, the employees covered by the Plan as included in the actuarial valuation used for the 2015 financial statements are as follows:

	2015
Inactive employees or beneficiaries currently receiving benefits	57
Inactive employees entitled to but not yet receiving benefits	603
Active employees	1,737
	2,397

Contributions

The Hospital's governing body had the authority to establish and amend the contribution requirements of the Hospital and active employees. The governing body established rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the period from January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015, employees were required to contribute 0% of their annual covered salary, and the Hospital contributed $39,337,500 and $3,150,000 to the Plan, respectively.

Net Pension Liability

The Hospital's December 31, 2015, net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Due to the termination, funding and liquidation of the Plan during 2016, the Hospital's December 31, 2016, net pension asset was measured as of September 1, 2016, termination date and includes distributions through September 30, 2016. As the Plan is terminated and fully funded at September 30, 2016, the net pension asset recorded as other current assets in the balance sheet does not include any assumptions of discount rate, salary increase or future investment rate of return.

The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increase – 3.50%

Investment rate of return – 7.00%

Mortality rates were based on the IRS Regulation 1.430(h)(3)-1 for 2014.

The actuarial assumptions used in the December 31, 2014, valuation were based on reasonable expectations for Plan participants and the benefits provided under the Plan.

The long-term expected rate of return on pension plan investments was based primarily on historical returns on Plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class		
Equities	55%	9.53%
Fixed income	38%	3.66%
Real assets and alternatives	5%	7.00%
Cash and cash equivalents	2%	0.00%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.00% at December 31, 2015. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will be made at a rate equal to an actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the total pension liability, Plan fiduciary net position and the net pension liability (asset) are:

	2016 Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance, beginning of year	$ 42,342,628	$ 21,109,777	$ 21,232,851
Changes for the year			
Service cost	1,726,593	-	1,726,593
Interest	5,149,698	-	5,149,698
Differences between expected and actual experience	2,202,416	-	2,202,416
Changes in assumptions	8,092,444	-	8,092,444
Contributions – employer	-	39,337,500	(39,337,500)
Net investment income	-	228,199	(228,199)
Benefit payments	(59,513,779)	(59,513,779)	-
Administrative expense	-	(373,812)	373,812
Change in assumptions	-	-	-
Net changes	(42,342,628)	(20,321,892)	(22,020,736)
Balance, end of year	$ -	$ 787,885	$ (787,885)

Floyd Memorial Hospital and Health Services
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Notes to Financial Statements
For the Period From January 1, 2016 Through September 30, 2016 and for the Year Ended December 31, 2015

	2015 Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance, beginning of year	$ 52,175,383	$ 30,551,925	$ 21,623,458
Changes for the year			
Service cost	1,051,230	-	1,051,230
Interest	2,872,306	-	2,872,306
Differences between expected and actual experience	-	-	-
Contributions – employer	-	3,150,000	(3,150,000)
Net investment income	-	1,427,611	(1,427,611)
Benefit payments	(13,756,291)	(13,756,291)	-
Administrative expense	-	(263,468)	263,468
Change in assumptions	-	-	-
Net changes	(9,832,755)	(9,442,148)	(390,607)
Balance, end of year	$ 42,342,628	$ 21,109,777	$ 21,232,851

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the period from January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015, the Hospital recognized pension expense of $9,301,898 and $2,681,815, respectively. In addition to the pension expense, during the period from January 1, 2016, through September 30, 2016, the Hospital recorded $8,092,444 in additional expense related to the termination of the Plan. This is reported as a special item on the statement of revenues, expenses and changes in net position. At September 30, 2016, the Hospital reported no deferred outflows of resources related to pensions; however, at December 31, 2015, the Hospital reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 77,578
Hospital's contributions made subsequent to the measurement date of the net pension liability	3,150,000
Total	$ 3,227,578

Disclosures About Fair Value of Pension Plan Assets

The plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. As of September 30, 2016, total Plan assets were invested in cash.

At December 31, 2015, the Plan had the following recurring fair value measurements:

		2015 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value				
Money market mutual funds	$ 1,155,118	$ 1,155,118	$ -	$ -
Common and preferred stock	7,200,086	7,200,086	-	-
Mutual funds	8,583,635	8,583,635	-	-
Government, agency and corporate obligations	4,170,938	-	4,170,938	-
Total investments by fair value level	$ 21,109,777	$ 16,938,839	$ 4,170,938	$ -

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

At December 31, 2015, the Plan had the following investments and maturities:

	2015				
		Maturities in Years			
Type	Fair Value	Less Than One	One to Five	Six to 10	More Than 10
Money market mutual funds	$ 1,155,118	$ 1,155,118	$ -	$ -	$ -
Common and preferred	7,200,086	7,200,086	-	-	-
Mutual funds	8,583,638	8,583,638	-	-	-
Government agency and corporate obligations	4,170,935	1,460,648	797,760	948,599	963,928
	$ 21,109,777	$ 18,399,490	$ 797,760	$ 948,599	$ 963,928

Interest rate risk – IRR is the risk of fair value losses arising from rising interest rates. The Hospital does not have a formal policy to limit its IRR. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital's policy to invest its plan assets aligned with the approved target allocation.

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At December 31, 2015, the Hospital held no investments in repurchase agreements.

Concentration of credit risk – The Hospital places no limit on the amount that may be invested in any one qualified issuer.

Note 15: Defined Contribution Pension Plan – New Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the County Commissioners of Floyd County, Indiana. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the

plan document and were established and can be amended by action of the Hospital's governing body. Contributions made by plan members for the period from January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015, were $4,996,616 and $6,141,597, or 4% and 5%, respectively, of total payroll. Contributions made by the Hospital for the period from January 1, 2016, through September 30, 2016, and for the year ended December 31, 2015, were $1,341,730 and $1,619,153, or 1%, respectively, of total payroll.

Note 16: Disclosures About Fair Value of Assets and Liabilities

The Hospital categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Hospital has the following recurring fair value measurements as of September 30, 2016, and December 30, 2015, were as follows:

- Mutual funds of $6,338,194 and $35,388,775 are valued using quoted market prices (Level 1 inputs).
- U.S. agency securities of $12,706,046 and $27,769,694 are valued using a matrix pricing model (Level 2 inputs).
- Investment in interest rate swap of $0 and $8,265,934 are estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data (Level 2 inputs).

Note 17: Deferred Outflows and Inflows of Resources

The Hospital's deferred outflows and inflows at September 30, 2016, and December 31, 2015, were as follows:

	2016	2015
Deferred Outflows of Resources		
Loss on bond defeasance	$ 10,434,748	$ 16,645,706
Pension	-	3,227,578
	$ 10,434,748	$ 19,873,284
Deferred Inflows of Resources		
Cumulative changes in fair value of resumed swap	$ 1,320,924	$ 2,636,990
Accumulated amortization of prior terminated swap liability	(1,638,176)	(1,302,460)
Gain on termination of swap	317,252	-
	$ -	$ 1,334,530

Note 18: Long-Term Care Facility

During 2016 and 2015, the Hospital had ventures with long-term care facilities, Lincoln Hills of New Albany (Lincoln Hills), Newburgh Health Care and Residential Center (Newburgh) and Diversicare of Providence (Providence), respectively. In connection with these ventures, the Hospital acquired the operations of the long-term care facilities, leased the real estate and simultaneously entered into a management agreement with the former operators. Terms of these agreements are perpetual with clauses providing for separation with or without cause.

During 2015, the Hospital terminated its agreement with Newburgh, effective April 30, 2015. Additionally, the Hospital entered into a venture with Providence effective February 1, 2015.

During 2016, the Hospital terminated its agreement with Lincoln Hills effective June 30, 2016, and terminated its agreement with Providence effective July 31, 2016.

The revenues and expenses associated with all of the operations of Lincoln Hills through June 30, 2016, and all of 2015, Newburgh through April 30, 2015, and Providence from February 1, 2015, through July 31, 2016, are reflected within the financial statements of the Hospital.

Note 19: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 7.

Incurred, But Not Reported, Employee Health Insurance Claims

Estimates of incurred, but not reported, health insurance claims are described in Note 8.

Litigation

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

At September 30, 2016, the Hospital has a claim outstanding related to the loss of business from a former business partner. The Hospital has not accrued a liability related to this matter and events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 20: Subsequent Events

On October 1, 2016, the Hospital entered into an asset purchase agreement with Baptist Health to sell certain assets and liabilities for approximately $136,000,000 net of acquisition costs.

Required Supplementary Information

Floyd Memorial Hospital and Health Services
A Component Unit of Floyd County, Indiana

Schedule of Required Supplementary Information

Schedule of Changes in the Hospital's Net Pension Liability (Asset) and Related Ratios

For the Period From January 1, 2016 Through September 30, 2016 and for the Year Ended December 31, 2015

	2016	2015
Total Pension Liability (Asset)		
Service cost	$ 1,726,593	$ 1,051,230
Interest	5,149,698	2,872,306
Differences between expected and actual experience	2,202,416	-
Changes of assumptions	8,092,444	-
Benefit payments, including refunds of employee contributions	(59,513,779)	(13,756,291)
Net Change in Total Pension Liability (Asset)	(42,342,628)	(9,832,755)
Total Pension Liability – Beginning	42,342,628	52,175,383
Total Pension Liability – Ending (a)	-	42,342,628
Plan Fiduciary Net Position		
Contributions – employer	39,337,500	3,150,000
Contributions – member	-	-
Net investment income	228,199	1,427,611
Benefit payments, including refunds of employee contributions	(59,513,779)	(13,756,291)
Administrative expense	(373,812)	(263,468)
Net Change in Plan Fiduciary Net Position	(20,321,892)	(9,442,148)
Plan Fiduciary Net Position – Beginning	21,109,777	30,551,925
Plan Fiduciary Net Position – Ending (b)	787,885	21,109,777
Hospital's Net Pension Liability (Asset) – Ending (a)-(b)	$ (787,885)	$ 21,232,851
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	N/A	49.85%
Covered-Employee Payroll	N/A	$ 85,981,516
Hospital's Net Pension Liability as a Percentage of Covered-Employee Payroll	N/A	24.69%

Floyd Memorial Hospital and Health Services
A Component Unit of Floyd County, Indiana

Schedule of Required Supplementary Information

Schedule of Changes in the Hospital's Net Pension Liability (Asset) and Related Ratios

For the Period From January 1, 2016 Through September 30, 2016 and for the Year Ended December 31, 2015

Notes to Schedule

The 2015 schedule is prepared using the measurement date of December 31, 2014.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Hospital will present information only for those years for which information determined in accordance with GASB 68 is available.

Floyd Memorial Hospital and Health Services
A Component Unit of Floyd County, Indiana
Schedule of Required Supplementary Information
Schedule of Hospital Contributions
For the Year Ended December 31, 2015

	2015
Actuarially determined contribution	$ 3,150,000
Contributions in relation to the actuarially determined contribution	3,150,000
Contribution deficiency (excess)	$ -
Covered-employee payroll	$ 74,714,208
Contributions as a percentage of covered-employee payroll	4.2%

Notes to Schedule

This schedule does not include 2016 information as the Plan has been terminated and liquidated prior to September 30, 2016, and no further contributions are required.

Valuation date: December 31, 2014

Methods and assumptions used to determine contribution rates:

- Actuarial cost method: entry age normal cost method
- Amortization method: over the average future working lifetime of all participants
- Remaining amortization period: 10 – 30 years
- Asset valuation method: this method determines the valuation assets to be equal to the market as of the valuation date
- Inflation: N/A
- Salary increases: 3.5%
- Investment rate of return: 7.0%
- Retirement age: terminated vested participants are assumed to retire at age 65
- Mortality: static mortality table in accordance with IRS Regulation 1.430(h)(3)-1 for 2014

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Hospital will present information for only those years for which information determined in accordance with GASB 68 is available.

BKD LLP
CPAs & Advisors
600 N. Hurstbourne Parkway, Suite 350 // P.O. Box 22127 // Louisville, KY 40252-0127
502.581.0435 // fax 502.581.0723 // bkd.com

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

Dr. James Y. McCullough
Transferor Representative
Floyd Memorial Hospital and Health Services
New Albany, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Floyd Memorial Hospital and Health Services, a component unit of Floyd County, Indiana (Hospital), which comprise the balance sheet as of September 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the period from January 1, 2016, through September 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2017, which included an emphasis of matter paragraph for a change in control.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

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 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. 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-001 to be a material weakness.

Compliance and Other Matters

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

Management's Response to Findings.

The Hospital's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we reported to the Hospital's management in a separate letter dated January 24, 2017.

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.

BKD, LLP

Louisville, Kentucky
January 24, 2017

Floyd Memorial Hospital and Health Services
A Component Unit of Floyd County, Indiana
Schedule of Findings and Responses
For the Period From January 1, 2016 Through September 30, 2016

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2016-001	Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition: The 2016 audit procedures identified significant adjusting entries to management fees, joint ventures, salary and benefits, other accrued expenses and property and equipment and depreciation expense. Context: Management is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. Effect: Potential material misstatement in the financial statements and disclosures. Cause: The lack of monthly reconciliations of account balances. Recommendation: We recommend management maintain reconciliations for all significant accounts during the Hospital's monthly close process. Views of responsible officials and planned corrective actions: Management agrees with the recommendation and will maintain and review monthly reconciliations for all significant accounts during the Hospital's monthly close process.