



## **Small Hospital. Big Medicine.**

**DECEMBER 31, 2016**

**AUDIT RESULTS**

# **WITHAM HEALTH SERVICES**

## BOARD OF TRUSTEES MEETING TABLE OF CONTENTS

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FINANCIAL STATEMENTS

BENCHMARKING

BOARD LETTER



**Small Hospital. Big Medicine.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND  
REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2016**

**WITHAM HEALTH SERVICES**

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DECEMBER 31, 2016

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Witham Health Services  
Lebanon, Indiana

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Witham Health Services (the Hospital), a component unit of Boone County, and its affiliates, which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Board of Trustees  
Witham Health Services  
Lebanon, Indiana

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

### Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of December 31, 2016, and the results of its operations, changes in its net position, and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Summarized Comparative Information

We have previously audited the Hospital's 2015 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated May 25, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

### Change in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, in 2016, the Hospital adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Our opinion is not modified with respect to this matter.

### Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

**Blue & Co., LLC**

Indianapolis, Indiana  
May 31, 2017

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**REQUIRED SUPPLEMENTARY INFORMATION**

## WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)

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This section of Witham Health Services' (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during the year ended December 31, 2016 with comparative amounts for December 31, 2015 and 2014. This MD&A does include a discussion and analysis of the activities and results of the Blended Component Units, Medical Office Properties, LLC, Creekside OB/GYN, Inc., and Central Indiana Health Association, Inc. and the Discrete Component Unit, Witham Health Services Foundation, Inc. (the Foundation). Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

### FINANCIAL HIGHLIGHTS

- The Hospital's net position increased approximately \$21,036,000 in 2016 compared to approximately \$18,487,000 in 2015.
- The Hospital reported operating income of approximately \$20,592,000 for 2016, representing a decrease of approximately \$30,000 in comparison to 2015 results. Operating income for 2015 of approximately \$20,622,000 was \$2,926,000 less than 2014.
- Total revenues increased by approximately \$46,186,000 in 2016 compared to 2015. In 2015, total revenue increased approximately \$103,773,000 over 2014.
- Long-term care services generated approximately \$306,100,000 and \$324,325,000 in gross patient service revenue during 2016 and 2015, respectively. In 2014, long-term care services generated approximately \$209,943,000 in gross patient service revenue.

### USING THIS ANNUAL REPORT

The Hospital's consolidated financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These consolidated financial statements and related notes provide information about the consolidated activities and the financial position of the Hospital.

The consolidated balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities).

All of the current year's revenue earned and expenses incurred are accounted for in the consolidated statement of revenues, expenses and changes in net position.

Finally, the consolidated statement of cash flows' purpose is to provide information about the Hospital's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and what was the change in cash balance during the year.



## WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)

### THE CONSOLIDATED BALANCE SHEET AND CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The consolidated balance sheet and the consolidated statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. Think of the Hospital's net position, the difference between assets and liabilities, as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

#### Consolidated Balance Sheets

	2016	2015	2016-2015 Change	2014	2015-2014 Change
<b>Assets</b>					
Current assets	\$ 174,756,650	\$ 164,236,545	\$ 10,520,105	\$ 135,872,820	\$ 28,363,725
Assets whose use is limited	5,517,469	5,530,277	(12,808)	7,503,213	(1,972,936)
Capital assets, net	100,940,455	96,638,584	4,301,871	90,783,733	5,854,851
Other assets	3,435,606	1,133,309	2,302,297	1,137,464	(4,155)
Total assets	<u>284,650,180</u>	<u>267,538,715</u>	<u>17,111,465</u>	<u>235,297,230</u>	<u>32,241,485</u>
<b>Deferred outflows</b>	-0-	-0-	-0-	1,821,599	(1,821,599)
Total assets and deferred outflows	<u>\$ 284,650,180</u>	<u>\$ 267,538,715</u>	<u>\$ 17,111,465</u>	<u>\$ 237,118,829</u>	<u>\$ 30,419,886</u>
<b>Liabilities</b>					
Current liabilities	\$ 68,494,871	\$ 68,029,141	\$ 465,730	\$ 50,001,266	\$ 18,027,875
Long-term debt	52,223,696	56,614,446	(4,390,750)	62,709,787	(6,095,341)
Total liabilities	<u>120,718,567</u>	<u>124,643,587</u>	<u>(3,925,020)</u>	<u>112,711,053</u>	<u>11,932,534</u>
<b>Net position</b>					
Net investment in capital assets	44,349,874	36,185,533	8,164,341	24,812,003	11,373,530
Restricted					
Trustee held for debt service and capital	9,136,451	8,598,914	537,537	10,027,317	(1,428,403)
Expendable for donor restriction	639,059	663,456	(24,397)	634,041	29,415
Total restricted	<u>9,775,510</u>	<u>9,262,370</u>	<u>513,140</u>	<u>10,661,358</u>	<u>(1,398,988)</u>
Unrestricted					
Designated for capital improvements	51,959	51,907	52	51,855	52
Undesignated	109,754,270	97,395,318	12,358,952	88,882,560	8,512,758
Total unrestricted	<u>109,806,229</u>	<u>97,447,225</u>	<u>12,359,004</u>	<u>88,934,415</u>	<u>8,512,810</u>
Total net position	<u>163,931,613</u>	<u>142,895,128</u>	<u>21,036,485</u>	<u>124,407,776</u>	<u>18,487,352</u>
Total liabilities and net position	<u>\$ 284,650,180</u>	<u>\$ 267,538,715</u>	<u>\$ 17,111,465</u>	<u>\$ 237,118,829</u>	<u>\$ 30,419,886</u>

## WITHAM HEALTH SERVICES

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015 AND 2014)

Total assets increased approximately \$17,111,000 over 2015 primarily due to activity in long-term care services and capital assets. Investments, patient accounts receivable, and capital assets increased in total by \$9,956,000 over 2015, while cash and assets whose use is limited increased by \$586,000 over 2015.

Total liabilities decreased approximately \$3,925,000 over 2015 mainly due to principal payments on long-term debt.

Total assets and deferred outflows in 2015 increased approximately \$30,420,000 over 2014 primarily due to activity in long-term care services and capital assets. Investments, patient accounts receivable, and capital assets increased in total by approximately \$44,202,000 over 2014, while cash and assets whose use is limited decreased by approximately \$19,787,000 over 2014.

Total liabilities increased approximately \$11,933,000 over 2014 mainly as the result of accounts payable and accrued liabilities related to the addition of long-term care services in 2015.

#### Consolidated Statements of Revenues, Expenses and Changes in Net Position

	2016	2015	2016-2015 Change	2014	2015-2014 Change
<b>Revenues</b>					
Net patient service revenue	\$ 417,473,966	\$ 374,311,223	\$ 43,162,743	\$ 270,663,976	\$ 103,647,247
Other operating revenue	9,010,546	5,987,737	3,022,809	5,862,278	125,459
Total revenues	426,484,512	380,298,960	46,185,552	276,526,254	103,772,706
<b>Expenses</b>					
Salaries and benefits	68,821,245	58,843,159	9,978,086	53,418,265	5,424,894
Supplies	91,429,567	81,119,982	10,309,585	62,816,039	18,303,943
Depreciation	6,999,496	6,052,979	946,517	6,577,575	(524,596)
Other operating expenses	238,642,413	213,660,794	24,981,619	130,166,397	83,494,397
Total expenses	405,892,721	359,676,914	46,215,807	252,978,276	106,698,638
Operating income	20,591,791	20,622,046	(30,255)	23,547,978	(2,925,932)
<b>Nonoperating revenue (expense), net</b>	444,694	(2,134,694)	2,579,388	(2,279,203)	144,509
Change in net position	21,036,485	18,487,352	2,549,133	21,268,775	(2,781,423)
<b>Net position</b>					
Beginning of year	142,895,128	124,407,776	18,487,352	103,139,001	21,268,775
End of year	\$ 163,931,613	\$ 142,895,128	\$ 21,036,485	\$ 124,407,776	\$ 18,487,352

The main component of the overall change in the Hospital's net position is operating income. In 2015, the Hospital reported operating income of approximately \$20,622,000 compared to 2016 of approximately \$20,592,000, which is a slight decrease of approximately \$30,000 from 2015.

## WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)

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Nonoperating revenue (expense) consists primarily of investment income, interest expense and Foundation revenue and expenses. The nonoperating items changed from a net expense of approximately \$2,135,000 in 2015 to a net revenue of approximately \$445,000 in 2016. The change of approximately \$2,579,000 is primarily due to an increase in investment income in 2016 compared to 2015.

Operating income in 2015 was approximately \$2,926,000 less than 2014. The primary reason for the change in operating income was an increase in operating expenses of approximately \$106,706,000 compared to an increase in operating revenue of approximately \$103,780,000.

### CONSOLIDATED STATEMENT OF CASH FLOWS

The final required statement is the consolidated statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing and investing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

	2016	2015	2016-2015 Change	2014	2015-2014 Change
Cash flows from					
Operating	\$ 32,425,949	\$ 29,846,189	\$ 2,579,760	\$ 35,382,715	\$ (5,536,526)
Capital and related financing	(17,129,118)	(19,180,127)	2,051,009	(25,960,768)	6,780,641
Investing	(13,530,847)	(28,236,935)	14,706,088	(1,744,510)	(26,492,425)
Change in cash and equivalents	<u>\$ 1,765,984</u>	<u>\$ (17,570,873)</u>	<u>\$ 19,336,857</u>	<u>\$ 7,677,437</u>	<u>\$ (25,248,310)</u>

Operating activities generated cash of approximately \$32,426,000 in 2016. Capital and related financing activities used cash of approximately \$17,129,000 in 2016. Two significant components of capital and related financing activities include cash used to purchase of capital assets of approximately \$11,301,000 and cash paid for principal and interest of approximately \$5,828,000. Investing activities reduced cash by approximately \$13,531,000 in 2016 mainly due to classification changes between investments and cash equivalents.

2015 generated cash and cash equivalents of approximately \$29,846,000 compared to approximately \$35,383,000 in 2014. Two significant components of capital and related financing activities including cash used for the purchase of capital assets of approximately \$11,957,000 and cash paid for principal and interest of approximately \$7,223,000, net of proceeds from issuance of long-term debt of approximately \$27,083,000 in 2015. Investing activities reduced cash of approximately \$28,237,000 in 2015 mainly due to classification changes between investments and cash equivalents.

## WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)

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### SOURCES OF REVENUE

During 2016, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 59% of the Hospital's gross revenues in 2016, 57% in 2015 and 55% in 2014.

Following is a table of major sources of gross patient revenues for 2016, 2015 and 2014:

	2016	2015	2014
Medicare	41%	40%	40%
Medicaid	18%	17%	15%
Commercial	36%	37%	37%
Self Pay	5%	6%	8%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

### CAPITAL ASSETS

At the end of 2016, the Hospital had approximately \$100,940,000 invested in capital assets, net of accumulated depreciation, as detailed below.

	2016	2015	2016-2015 Change	2014	2015-2014 Change
Land and improvements	\$ 16,045,013	\$ 15,081,204	\$ 963,809	\$ 12,992,304	\$ 2,088,900
Buildings and improvements	95,338,432	89,533,998	5,804,434	86,731,164	2,802,834
Equipment	59,678,149	55,798,486	3,879,663	46,961,013	8,837,473
Construction in progress	405,853	142,942	262,911	2,017,431	(1,874,489)
Total property and equipment	171,467,447	160,556,630	10,910,817	148,701,912	11,854,718
Less accumulated depreciation	70,526,992	63,918,046	6,608,946	57,918,179	5,999,867
Capital assets, net	<u>\$ 100,940,455</u>	<u>\$ 96,638,584</u>	<u>\$ 4,301,871</u>	<u>\$ 90,783,733</u>	<u>\$ 5,854,851</u>

Net capital assets increased by approximately \$4,302,000 in 2016 compared to 2015 as current year additions outpaced depreciation expense. The change between 2015 and 2014 was approximately \$5,855,000 as 2015 additions outpaced depreciation expense. More detailed information about the Hospital's capital assets is presented in the notes to the consolidated financial statements.

## **WITHAM HEALTH SERVICES**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)

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### **DEBT**

The Hospital's debt consists of revenue bonds and loans payable. During 2015, the Hospital refunded their 2005 revenue bonds within 2015 revenue bonds. There were no new borrowings or significant changes in long-term debt during 2016. More detailed information about the Hospital's long-term debt is presented in the notes to the consolidated financial statements.

### **ECONOMIC OUTLOOK**

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The significant factor affecting the Hospital is finding the balance in maintaining and controlling labor costs in the face of declining volumes and pressures on pricing for its services in this increasingly competitive environment.

### **CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Hospital Controller's Office, at PO Box 1200, Lebanon, IN, 46052.

**WITHAM HEALTH SERVICES**

CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

	2016			2015	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 47,753,515	\$ 3,329,340	\$ -0-	\$ 51,082,855	\$ 51,009,822
Investments	64,158,487	1,347,977	-0-	65,506,464	51,814,347
Patient accounts receivable, less allowance for uncollectible accounts of \$7,390,000 in 2016 and \$7,130,000 in 2015	26,595,552	-0-	-0-	26,595,552	34,633,887
Other receivables	24,204,309	476	-0-	24,204,785	20,068,700
Inventory and other current assets	3,013,392	43,602	-0-	3,056,994	2,925,789
Current portion of assets whose use is limited	4,310,000	-0-	-0-	4,310,000	3,784,000
Total current assets	170,035,255	4,721,395	-0-	174,756,650	164,236,545
<b>Assets whose use is limited</b>					
Held by trustee for debt service and capital Designated for capital improvements	9,136,451	-0-	-0-	9,136,451	8,598,914
Donor restricted	51,959	-0-	-0-	51,959	51,907
	-0-	639,059	-0-	639,059	663,456
Total assets whose use is limited	9,188,410	639,059	-0-	9,827,469	9,314,277
Less current portion	4,310,000	-0-	-0-	4,310,000	3,784,000
Noncurrent assets whose use is limited	4,878,410	639,059	-0-	5,517,469	5,530,277
<b>Capital assets</b>					
Land and improvements	16,045,013	-0-	-0-	16,045,013	15,081,204
Depreciable capital assets	155,016,581	-0-	-0-	155,016,581	145,332,484
Construction in progress	405,853	-0-	-0-	405,853	142,942
	171,467,447	-0-	-0-	171,467,447	160,556,630
Less accumulated depreciation	70,526,992	-0-	-0-	70,526,992	63,918,046
Capital assets, net	100,940,455	-0-	-0-	100,940,455	96,638,584
<b>Other assets</b>					
Investment in affiliates and other	1,559,957	-0-	-0-	1,559,957	661,533
Other	1,880,649	-0-	(5,000)	1,875,649	471,776
Total other assets	3,440,606	-0-	(5,000)	3,435,606	1,133,309
Total assets	\$ 279,294,726	\$ 5,360,454	\$ (5,000)	\$ 284,650,180	\$ 267,538,715

See accompanying notes to consolidated financial statements.

**WITHAM HEALTH SERVICES**

CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

	2016			2015	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>LIABILITIES AND NET POSITION</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 47,786,245	\$ -0-	\$ -0-	\$ 47,786,245	\$ 50,238,698
Accrued salaries and related liabilities	12,502,966	-0-	-0-	12,502,966	11,310,391
Accrued expenses and other current liabilities	2,698,163	7,249	(5,000)	2,700,412	1,515,280
Estimated third-party settlements	1,138,363	-0-	-0-	1,138,363	1,126,167
Current portion of long-term debt					
Loans payable	56,885	-0-	-0-	56,885	54,605
Revenue bonds payable	4,310,000	-0-	-0-	4,310,000	3,784,000
Total current liabilities	68,492,622	7,249	(5,000)	68,494,871	68,029,141
<b>Long-term debt, net of current portion</b>					
Loans payable	338,953	-0-	-0-	338,953	395,570
Revenue bonds payable	51,884,743	-0-	-0-	51,884,743	56,218,876
Total long-term debt	52,223,696	-0-	-0-	52,223,696	56,614,446
Total liabilities	120,716,318	7,249	(5,000)	120,718,567	124,643,587
<b>Net position</b>					
Net investment in capital assets	44,349,874	-0-	-0-	44,349,874	36,185,533
Restricted					
Trustee held for debt service and capital	9,136,451	-0-	-0-	9,136,451	8,598,914
Expendable for donor restriction	-0-	639,059	-0-	639,059	663,456
Total restricted	9,136,451	639,059	-0-	9,775,510	9,262,370
Unrestricted					
Designated for capital improvements	51,959	-0-	-0-	51,959	51,907
Undesignated	105,040,124	4,714,146	-0-	109,754,270	97,395,318
Total unrestricted	105,092,083	4,714,146	-0-	109,806,229	97,447,225
Total net position	158,578,408	5,353,205	-0-	163,931,613	142,895,128
Total liabilities and net position	\$ 279,294,726	\$ 5,360,454	\$ (5,000)	\$ 284,650,180	\$ 267,538,715

See accompanying notes to consolidated financial statements.

## WITHAM HEALTH SERVICES

### CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

	2016			2015	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Operating revenues</b>					
Net patient service revenue	\$ 417,473,966	\$ -0-	\$ -0-	\$ 417,473,966	\$ 374,311,223
Other operating revenue	9,010,546	-0-	-0-	9,010,546	5,987,737
Total operating revenues	426,484,512	-0-	-0-	426,484,512	380,298,960
<b>Operating expenses</b>					
Salaries and wages	50,962,169	-0-	-0-	50,962,169	43,101,912
Employee benefits	17,859,076	-0-	-0-	17,859,076	15,741,247
Professional medical fees	6,968,888	-0-	-0-	6,968,888	5,542,641
Purchased services	174,385,490	-0-	-0-	174,385,490	161,951,085
Supplies	91,429,567	-0-	-0-	91,429,567	81,119,982
Repairs and maintenance	4,604,538	-0-	-0-	4,604,538	4,547,666
Equipment and facility rental	37,440,173	-0-	-0-	37,440,173	28,876,157
Utilities	8,670,299	-0-	-0-	8,670,299	6,952,476
Depreciation	6,999,496	-0-	-0-	6,999,496	6,052,979
Insurance	1,465,496	-0-	-0-	1,465,496	1,289,673
HAF Program	1,923,574	-0-	-0-	1,923,574	1,813,971
Other expenses	3,183,955	-0-	-0-	3,183,955	2,687,125
Total operating expenses	405,892,721	-0-	-0-	405,892,721	359,676,914
Operating income	20,591,791	-0-	-0-	20,591,791	20,622,046
<b>Nonoperating revenue (expense)</b>					
Investment income	1,772,461	119,632	-0-	1,892,093	118,231
Interest expense	(2,027,482)	-0-	-0-	(2,027,482)	(2,839,171)
Foundation revenue	-0-	383,962	-0-	383,962	482,605
Foundation expense	-0-	(295,929)	20,000	(275,929)	(172,629)
Gain on investment in affiliates	533,836	-0-	-0-	533,836	293,324
Other nonoperating expense	(41,786)	-0-	(20,000)	(61,786)	(17,054)
Total nonoperating revenue (expense), net	237,029	207,665	-0-	444,694	(2,134,694)
Change in net position	20,828,820	207,665	-0-	21,036,485	18,487,352
<b>Net position</b>					
Beginning of year	137,749,588	5,145,540	-0-	142,895,128	124,407,776
End of year	<u>\$ 158,578,408</u>	<u>\$ 5,353,205</u>	<u>\$ -0-</u>	<u>\$ 163,931,613</u>	<u>\$ 142,895,128</u>

See accompanying notes to consolidated financial statements.



**WITHAM HEALTH SERVICES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(WITH COMPARATIVE TOTALS FOR 2015)**

	2016			2015	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Operating activities</b>					
Cash received from patient services	\$ 424,727,090	\$ -0-	\$ -0-	\$ 424,727,090	\$ 366,428,383
Cash paid for salaries, wages and benefits	(67,628,670)	-0-	-0-	(67,628,670)	(56,011,595)
Cash paid to vendors and suppliers	(333,679,966)	-0-	-0-	(333,679,966)	(286,587,285)
Other receipts, net	9,010,546	(3,051)	-0-	9,007,495	6,016,686
Net cash flows from operating activities	32,429,000	(3,051)	-0-	32,425,949	29,846,189
<b>Capital and related financing activities</b>					
Acquisition and construction of capital assets	(11,301,367)	-0-	-0-	(11,301,367)	(11,957,500)
Proceeds from issuance of long-term debt	-0-	-0-	-0-	-0-	27,083,000
Cash paid for interest on long-term debt	(1,989,146)	-0-	-0-	(1,989,146)	(3,428,684)
Principal payments for long-term debt	(3,838,605)	-0-	-0-	(3,838,605)	(30,876,943)
Net cash flows from capital and related financing activities	(17,129,118)	-0-	-0-	(17,129,118)	(19,180,127)
<b>Investing activities</b>					
Investment income	1,772,461	119,632	-0-	1,892,093	118,231
Purchase of investments	(39,538,593)	(10,939)	-0-	(39,549,532)	(35,816,422)
Proceeds from sale of investments	23,555,292	37,464	-0-	23,592,756	7,167,932
Cash from (to) investments in affiliates, net	533,836	-0-	-0-	533,836	293,324
Net cash flows from investing activities	(13,677,004)	146,157	-0-	(13,530,847)	(28,236,935)
Net change in cash and cash equivalents	1,622,878	143,106	-0-	1,765,984	(17,570,873)
<b>Cash and cash equivalents</b>					
Beginning of year	57,541,599	3,825,293	-0-	61,366,892	78,937,765
End of year	\$ 59,164,477	\$ 3,968,399	\$ -0-	\$ 63,132,876	\$ 61,366,892
<b>Reconciliation of cash and cash equivalents to the consolidated balance sheets</b>					
Cash and cash equivalents					
Included in current assets	\$ 47,753,515	\$ 3,329,340	\$ -0-	\$ 51,082,855	\$ 51,009,822
In investments	2,222,552	-0-	-0-	2,222,552	1,042,793
In assets whose use is limited - held by trustee	9,136,451	-0-	-0-	9,136,451	8,598,914
In assets whose use is limited - designated	51,959	-0-	-0-	51,959	51,907
In assets whose use is limited - donor restricted	-0-	639,059	-0-	639,059	663,456
Total cash and cash equivalents	\$ 59,164,477	\$ 3,968,399	\$ -0-	\$ 63,132,876	\$ 61,366,892

See accompanying notes to consolidated financial statements.

**WITHAM HEALTH SERVICES**

CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

	2016			2015	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Reconciliation of operating income to net cash flows from operating activities</b>					
Operating income	\$ 20,591,791	\$ -0-	\$ -0-	\$ 20,591,791	\$ 20,622,046
Adjustment to reconcile operating income to net cash flows from operating activities					
Depreciation	6,999,496	-0-	-0-	6,999,496	6,052,979
Provision for bad debts	12,559,617	-0-	-0-	12,559,617	14,427,013
Changes in operating assets and liabilities					
Patient accounts receivable	(4,521,282)	-0-	-0-	(4,521,282)	(20,875,811)
Other receivables	(4,136,468)	383	-0-	(4,136,085)	(6,179,795)
Inventory and other current assets	(126,985)	(4,220)	-0-	(131,205)	(1,651,462)
Accounts payable	(2,452,453)	-0-	-0-	(2,452,453)	14,999,942
Accrued salaries and related liabilities	1,192,575	-0-	-0-	1,192,575	2,831,564
Accrued expenses and other current liabilities	1,184,346	786	-0-	1,185,132	(752,709)
Estimated third-party settlements	1,138,363	-0-	-0-	1,138,363	372,422
Net cash flows from operating activities	<u>\$ 32,429,000</u>	<u>\$ (3,051)</u>	<u>\$ -0-</u>	<u>\$ 32,425,949</u>	<u>\$ 29,846,189</u>

See accompanying notes to consolidated financial statements.

## WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

Witham Health Services (the Hospital) is a county owned facility operating under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient, outpatient health care and long-term care services. The Board of County Commissioners of Boone County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Boone County.

In 2000, the Board of County Commissioners of Boone County, upon written request of the Hospital Board of Trustees, created the Boone County Hospital Association (the Association). The Association was created pursuant to the provisions of IC 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

For financial reporting purposes, the Hospital's reporting entity consists of the primary government and component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government.

The consolidated financial statements include certain prior year summarized comparative information in total but not by discrete component unit. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Hospital's consolidated financial statements as of December 31, 2015 and for the year ended, from which the summarized information was derived.

#### Blended Component Units

Blended component units, although legally separate entities are in substance part of the government's operations and exist solely to provide services for the government; data from these units is consolidated with data of the primary government. The Hospital appoints a voting majority of the Medical Office Properties, LLC (MOP, LLC), Creekside OB/GYN, Inc. (Creekside), and Central Indiana Health Association, Inc. (CIHA) boards and is able to impose its will and a financial benefit/burden relationship exists between the Hospital and MOP, LLC, Creekside, and CIHA. Although they are legally separate from the Hospital, MOP, LLC, Creekside, and CIHA are reported as if they were part of the Hospital because the boards are substantively the same and they provide services entirely or almost entirely to the Hospital. The Hospital is 100% owner of MOP, LLC and Creekside and is the sole corporate member of CIHA. Thus, there is no non-controlling interest that is required to be disclosed. During 2016, Creekside was liquidated and became a department of the Hospital.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

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The Association is a blended component unit consolidated within the Hospital's activities for financial reporting purposes. All significant transactions between the Hospital, MOP, LLC, Creekside, CIHA and the Association have been eliminated for financial reporting purposes.

#### Discrete Component Units

Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the consolidated financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Witham Health Services Foundation, Inc. (the Foundation) is considered a discrete component unit for reporting purposes. All significant transactions between the Hospital and the Foundation have been eliminated for financial reporting purposes.

#### Long-Term Care Services

The Hospital owns the operations of various long-term care facilities through arrangements with multiple managers (the Managers) of the long-term care facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the Managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

The Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital pays the Managers a management fee to manage the facilities on behalf of the Hospital in accordance with the terms of the agreements. The agreements expire at various times through March 2027. All parties involved can terminate the agreements without cause with 90 days written notice.

#### Use of Estimates

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

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

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#### Measurement Focus and Basis of Accounting

The consolidated financial statements are reported using the economic resources measurement focus and on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing related to cash flows.

#### Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include all demand deposits and investments in highly liquid debt instruments with an original maturity date of three months when purchased.

#### Investments

Nonparticipating certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at contract value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or an United States Government Agency. Debt securities are reported at fair value. Mutual funds are reported at fair value based on the fund's market price. Other investments are generally reported at fair value. Investment income, including changes in the fair value of investments, is reported as non-operating income in the consolidated statements of revenues, expenses and changes in net position.

#### Patient Accounts Receivable and Net Patient Service Revenue

The Hospital provides services to patients who reside primarily in the local geographic region. Patient accounts receivable and patient service revenues are recorded when patient services are performed and are reported based on gross charges, net of certain deductions from those charges. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue.

At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2014.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

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Amounts for unresolved cost reports for 2015 and 2016 are reflected in estimated third-party settlements on the consolidated balance sheets. The Hospital recognized a decrease of approximately \$12,000 and \$372,000 during 2016 and 2015, respectively, in net patient service revenue and net position in the consolidated statements of revenues, expenses and changes in net position, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

#### Charity Care and Assistance to the Uninsured

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net practice revenue. The charity care charges foregone during 2016 and 2015 were approximately \$2,508,000 and \$3,208,000, respectively. The Hospital did not change its charity care policy during 2016.

Of the Hospital's total expenses reported, an estimated \$852,000 and \$1,056,000 arose from providing services to charity patients during 2016 and 2015, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses, which includes interest expense and excludes Hospital Assessment Fee Program expense, to gross patient service revenue.

The Hospital has a policy with discounted rates similar to contractual payors for uninsured patients. Uninsured self pay discounts provided to patients were approximately \$3,958,000 and \$2,661,000 for 2016 and 2015, respectively. The Hospital did change its policy during 2015 related to uninsured self pay discounts.

#### Other Receivables

Other receivables consist mainly of amounts due for reimbursement for long-term care services and are classified as current as they are expected to be received during 2017.

#### Inventory and Other Current Assets

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory at year-end consists mainly of pharmaceuticals and medical supplies.

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## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

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Other current assets consist of prepaid expenses and various other current items. These assets are classified as current as they are expected to be utilized during 2017.

#### Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes, investments held by trustees for debt service and capital improvements and assets that are donor restricted. These investments consist primarily of cash and cash equivalents, money market mutual funds, certificates of deposit, United States government securities and mutual funds. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenue (expense) in the consolidated statements of revenues, expenses and changes in net position.

#### Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed \$500 and which meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred.

The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The range of useful lives in computing depreciation is as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	5 to 20 years
Buildings and improvements	10 to 40 years
Fixed equipment	10 to 40 years
Major moveable equipment	3 to 15 years
Minor equipment	3 to 15 years

#### Deferred Outflows - Deferred Loss on Bond Refunding

In 2005, the Hospital recorded a deferred loss on bond refunding of approximately \$3,400,000 when a portion of the 2005 Revenue Bonds were used to refund the 2001 Revenue Bonds. The deferred loss was to be amortized through the 2026 as a component of interest expense. During 2015, the 2005 Revenue Bonds were refunded by the 2015 Revenue Bonds. As a result, the remaining unamortized deferred loss on bond refunding of approximately \$1,800,000 was recognized during 2015 as a component of the 2015 loss on bond refunding.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

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#### 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 current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted includes net position held by trustee for debt service requirements and capital or donor restrictions. Unrestricted net position includes designated for capital improvements and undesignated net position that does not meet the definition of invested in capital assets net of related debt or restricted.

#### Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Hospital's consolidated statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenue and expense. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions such as investment activities are reported as nonoperating revenue and expense.

#### Restricted Resources

The Hospital first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

#### Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports. The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as revenue when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2016 and 2015, the Hospital recognized approximately \$130,000 and \$194,000, respectively, in EHR incentive payments as revenue using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.



## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

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

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

#### Grants and Contributions

From time to time, the reporting entity receives contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all requirements are met. Grants may be restricted for either specific operation purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue.

#### Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

#### Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

The Association is a governmental instrumentality organized under IC 16-22-6 and is exempt from Federal income tax under Section 115 of the Internal Revenue. As such, the Association is generally exempt from income taxes and is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax.

The Foundation and CIHA are tax-exempt organizations under section 501(c)(3). As such, they are generally exempt from income taxes. However, they are required to file Federal Form 990 – Return of Organization from Income Tax.

MOP, LLC is organized as a limited liability company, whereby net taxable income is taxed directly to the members and not the entity. Thus, the consolidated financial statements do not include any provision for Federal or state income taxes.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

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Creekside was organized as a Subchapter S corporation, whereby net taxable income is taxed directly to the shareholders and not the entity. Thus, the consolidated financial statements do not include any provision for Federal or state income taxes. Creekside liquidated during 2016 and became a department of the Hospital.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital (and its affiliates) and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various Federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and has concluded that as of December 31, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

These entities have filed their Federal and state income tax returns for periods through December 31, 2015. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

#### Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. The estimated amount of unused time off is reported as a liability in the consolidated financial statements.

#### 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; employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

#### Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. The Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Indiana Patient Compensation Fund. On July 1, 2006, the Hospital became a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund the Hospital's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage.

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## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

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This provides protection from liability in an amount not to exceed \$250,000 per incident and aggregate liability protection not to exceed \$7,500,000 per year. In addition, the Hospital maintains a commercial umbrella/excess liability policy with a limit of \$1,000,000 each occurrence, \$1,000,000 fire legal liability, \$1,000,000 personal and advertising injury, and a \$3,000,000 total policy aggregate. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Hospital's cost for such claims for the year, and it has been charged to operations as a current expense.

#### Litigation

The Hospital is exposed to litigation arising in the normal course of business. After consultation with legal counsel, management estimates that any matters will be resolved without material adverse effect on the Hospital's future financial position, results from operations or cash flows.

#### Advertising

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expense was approximately \$79,000 and \$341,000 for 2016 and 2015, respectively.

#### Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the current year presentation. The reclassifications had no effect on the previously reported consolidated net position and consolidated change in net position.

#### Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is May 31, 2017.

## **2. CHANGE IN ACCOUNTING PRINCIPLES**

During 2016, the Hospital implemented GASB Statement No. 72, *Fair Value Measurement and Applications*. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. There was no impact to these consolidated financial statement disclosures as a result of adoption of this standard as these disclosures have been provided historically.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

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Also during 2016, the Hospital implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no impact to these consolidated financial statement disclosures as a result of the adoption of this standard.

### 3. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

#### Medicare

Medicare inpatient services are reimbursed based on a predetermined amount for each case based on the diagnosis associated with the patient (Prospective Payment Hospital). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment. The Hospital's classification of patients under the Prospective Payment Hospital and the appropriateness of patient admissions are subject to validation reviews by the Medicare peer review organization, which is under contract with the Hospital to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

#### Medicaid and the Hospital Assessment Fee Program

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

During 2012, Hospital Assessment Fee (HAF) Program was approved by Centers for Medicare & Medicaid Services (CMS). The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates.

## WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

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During 2016 and 2015, the Hospital recognized HAF Program expense of approximately \$1,924,000 and \$1,814,000, respectively. The HAF Program expense is included in operating expenses in the consolidated statements of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the consolidated statements of revenues, expenses and changes in net position.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$1,862,000 and \$1,977,000 during 2016 and 2015, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

### Other Payors

The Hospital also has entered into payment agreements with certain commercial insurance carriers 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.

The following is a summary of net patient service revenue for 2016 and 2015:

	2016	2015
Inpatient routine services	\$ 20,915,032	\$ 18,738,885
Inpatient ancillary services	51,695,457	43,559,426
Outpatient ancillary services	273,943,379	255,994,134
Long-term care	306,059,657	324,324,523
Gross patient service revenue	652,613,525	642,616,968
Contractual allowances	216,113,728	248,010,151
Uninsured self pay discounts	3,958,445	2,660,609
Charity care	2,507,769	3,207,972
Provision for bad debts	12,559,617	14,427,013
Deductions from revenue	235,139,559	268,305,745
Net patient service revenue	<u>\$ 417,473,966</u>	<u>\$ 374,311,223</u>

## WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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### 4. INVESTMENTS

Investments are primarily recorded at fair value (money market deposits and certificates of deposit recorded at contract value) and consist of the following as of December 31:

	2016	2015
Cash and cash equivalents	\$ 2,222,552	\$ 1,042,793
Certificates of deposit	3,042,500	4,024,065
Mutual funds	52,103,829	36,060,734
US Government securities	8,137,583	10,686,755
	<u>\$ 65,506,464</u>	<u>\$ 51,814,347</u>

### 5. ASSETS WHOSE USE IS LIMITED

Held by trustee for debt service and capital – Amounts deposited with a trustee and limited to use in accordance with the requirements of a trust indenture and funds from long-term debt borrowings to be expended for debt service and capital.

Designated for capital improvements – Amounts designed internally for capital improvements.

Donor restricted – Amounts designated by donor restrictions.

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited includes the following as of December 31:

	2016	2015
Held by trustee for debt service and capital		
Cash and cash equivalents	\$ 9,136,451	\$ 8,598,914
Designated for capital improvements		
Cash and cash equivalents	51,959	51,907
Donor restricted		
Cash and cash equivalents	639,059	663,456
Total assets whose use is limited	<u>\$ 9,827,469</u>	<u>\$ 9,314,277</u>

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## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

#### 6. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments are carried at fair value except for certificates of deposit and money market deposit funds which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

As of December 31, 2016 and 2015, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

		December 31, 2016				
		Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10	
US Government securities	\$ 8,137,583	\$ 3,002,070	\$ 4,716,515	\$ -0-	\$ 418,998	
Certificates of deposit	3,042,500	1,038,865	2,003,635	-0-	-0-	
Mutual funds	52,103,829	52,103,829	-0-	-0-	-0-	
	\$ 63,283,912	\$ 56,144,764	\$ 6,720,150	\$ -0-	\$ 418,998	
		December 31, 2015				
		Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10	
US Government securities	\$ 10,686,755	\$ -0-	\$ 7,717,730	\$ 2,969,025	\$ -0-	
Certificates of deposit	4,024,065	-0-	4,024,065	-0-	-0-	
Mutual funds	36,060,734	36,060,734	-0-	-0-	-0-	
	\$ 50,771,554	\$ 36,060,734	\$ 11,741,795	\$ 2,969,025	\$ -0-	

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

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

## WITHAM HEALTH SERVICES

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Concentration of credit risk – The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits and investments consist of the following as of December 31:

	2016	2015
Carrying amount		
Deposits	\$ 63,132,876	\$ 61,366,892
Investments	63,283,912	50,771,554
	<u>\$ 126,416,788</u>	<u>\$ 112,138,446</u>
Included in the balance sheets		
Cash and cash equivalents	\$ 51,082,855	\$ 51,009,822
Investments	65,506,464	51,814,347
Held by trustee	9,136,451	8,598,914
Designated	51,959	51,907
Donor restricted	639,059	663,456
	<u>\$ 126,416,788</u>	<u>\$ 112,138,446</u>

### 7. FAIR VALUE MEASUREMENTS

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

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

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2016 and 2015.

- *Money market mutual funds*: Valued based at the subscription and redemption activity at a \$1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of securities.
- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price.
- *US Government securities*: Valued at the closing price reported on the active market on which the individual securities are traded, when available. The fair value of the securities for which quoted market price is not available are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

The following table sets forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015.

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Growth & income	\$ 717,078	\$ 717,078	\$ -0-	\$ -0-
Income	452,034	452,034	-0-	-0-
Aggressive	56,380	56,380	-0-	-0-
Growth	1,025,616	1,025,616	-0-	-0-
Value	1,015,130	1,015,130	-0-	-0-
Blend	8,110,474	8,110,474	-0-	-0-
Intermediate-term bond	40,727,117	40,727,117	-0-	-0-
Total mutual funds	52,103,829	52,103,829	-0-	-0-
US Government securities				
Federal Home Loan Mortgage	4,716,515	-0-	4,716,515	-0-
FNMA	3,002,070	-0-	3,002,070	-0-
GMNA	418,998	-0-	418,998	-0-
Total US Government securities	8,137,583	-0-	8,137,583	-0-
	60,241,412	\$ 52,103,829	\$ 8,137,583	\$ -0-
Cash				
	2,222,552			
Certificates of deposit				
	3,042,500			
Total investments	\$ 65,506,464			
Assets whose use is limited				
Cash and cash equivalents				
Money market mutual funds	\$ 9,136,451	\$ -0-	\$ 9,136,451	\$ -0-
Cash	691,018			
Total assets whose use is limited	\$ 9,827,469			

**WITHAM HEALTH SERVICES**

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	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Growth & income	\$ 709,412	\$ 709,412	\$ -0-	\$ -0-
Income	435,217	435,217	-0-	-0-
Aggressive	49,566	49,566	-0-	-0-
Growth	762,096	762,096	-0-	-0-
Value	658,656	658,656	-0-	-0-
Blend	5,377,687	5,377,687	-0-	-0-
Intermediate-term bond	28,068,100	28,068,100	-0-	-0-
Total mutual funds	<u>36,060,734</u>	<u>36,060,734</u>	<u>-0-</u>	<u>-0-</u>
US Government securities				
Federal Home Loan Mortgage	7,696,985	-0-	7,696,985	-0-
FNMA	2,989,770	-0-	2,989,770	-0-
Total US Government securities	<u>10,686,755</u>	<u>-0-</u>	<u>10,686,755</u>	<u>-0-</u>
	<u>46,747,489</u>	<u>\$ 36,060,734</u>	<u>\$ 10,686,755</u>	<u>\$ -0-</u>
Cash	1,042,793			
Certificates of deposit	4,024,065			
Total investments	<u>\$ 51,814,347</u>			
Assets whose use is limited				
Cash and cash equivalents				
Money market mutual funds	\$ 8,598,914	\$ -0-	\$ 8,598,914	\$ -0-
Cash	715,363			
Total assets whose use is limited	<u>\$ 9,314,277</u>			

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

Realized gains and losses are included in the consolidated statements of revenues, expenses and changes in net position as a component of investment income. The cost value of investments and assets whose use is limited exceeded market value by approximately \$899,000 and \$1,085,000 as of December 31, 2016 and 2015, respectively. The changes in unrealized gains and losses relating to assets held at year end are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment income.

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

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

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

Cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements: The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements approximate fair value based on short term maturity.

Long-term debt: Fair value of the Hospital fixed rate 2010 Revenue Bonds is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2016, the carrying value of the fixed rate long-term 2010 Revenue Bond was \$30,930,000 with a fair value of approximately \$32,985,000. The carrying value of 2015 Revenue Bonds and the loans payable approximates fair value based on incremental borrowing rates of similarly rated entities.

### 8. CAPITAL ASSETS

A summary of property and equipment for 2016 and 2015 follow:

	December 31,				December 31,
	2015	Additions	Disposals	Transfers	2016
Land and improvements	\$ 15,081,204	\$ 963,809	\$ -0-	\$ -0-	\$ 16,045,013
Buildings and improvements	89,533,998	5,576,467	-0-	227,967	95,338,432
Equipment	55,798,486	4,240,436	(390,550)	29,777	59,678,149
Construction in progress	142,942	520,655	-0-	(257,744)	405,853
Total capital assets	160,556,630	11,301,367	(390,550)	-0-	171,467,447
Less accumulated depreciation					
Land improvements	1,997,398	238,857	-0-	-0-	2,236,255
Buildings and improvements	21,733,230	2,354,992	-0-	-0-	24,088,222
Equipment	40,187,418	4,405,647	(390,550)	-0-	44,202,515
Total accumulated depreciation	63,918,046	6,999,496	(390,550)	-0-	70,526,992
Capital assets, net	\$ 96,638,584	\$ 4,301,871	\$ -0-	\$ -0-	\$ 100,940,455

  

	December 31,				December 31,
	2014	Additions	Disposals	Transfers	2015
Land and improvements	\$ 12,992,304	\$ 2,088,900	\$ -0-	\$ -0-	\$ 15,081,204
Buildings and improvements	86,731,164	88,763	-0-	2,714,071	89,533,998
Equipment	46,961,013	5,179,333	(102,782)	3,760,922	55,798,486
Construction in progress	2,017,431	4,600,504	-0-	(6,474,993)	142,942
Total capital assets	148,701,912	11,957,500	(102,782)	-0-	160,556,630
Less accumulated depreciation					
Land improvements	1,783,734	213,664	-0-	-0-	1,997,398
Buildings and improvements	20,368,066	1,365,164	-0-	-0-	21,733,230
Equipment	35,766,379	4,474,151	(53,112)	-0-	40,187,418
Total accumulated depreciation	57,918,179	6,052,979	(53,112)	-0-	63,918,046
Capital assets, net	\$ 90,783,733	\$ 5,904,521	\$ (49,670)	\$ -0-	\$ 96,638,584

There were no significant outstanding commitments on capital assets as of December 31, 2016.

**WITHAM HEALTH SERVICES**

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**9. LONG TERM DEBT**

A summary of long-term debt for 2016 and 2015 is as follows:

	December 31, 2015	Additional Borrowings	Payments	December 31, 2016	Current Portion
2010 Revenue bonds	\$ 32,580,000	\$ -0-	\$ 1,650,000	\$ 30,930,000	\$ 1,715,000
2015 Revenue bonds	27,083,000	-0-	2,134,000	24,949,000	2,595,000
Loans payable	450,177	-0-	54,605	395,572	56,885
	<u>60,113,177</u>	<u>\$ -0-</u>	<u>\$ 3,838,605</u>	56,274,572	<u>\$ 4,366,885</u>
Unamortized bond premium	339,874			316,009	
	<u>\$ 60,453,051</u>			<u>\$ 56,590,581</u>	
	December 31, 2014	Additional Borrowings	Payments	December 31, 2015	Current Portion
2005 Revenue bonds	\$ 29,235,000	\$ -0-	\$ 29,235,000	\$ -0-	\$ -0-
2010 Revenue bonds	34,170,000	-0-	1,590,000	32,580,000	1,650,000
2015 Revenue bonds	-0-	27,083,000	-0-	27,083,000	2,134,000
Loans payable	502,120	-0-	51,943	450,177	54,605
	<u>63,907,120</u>	<u>\$ 27,083,000</u>	<u>\$ 30,876,943</u>	60,113,177	<u>\$ 3,838,605</u>
Unamortized bond premium	2,064,610			339,874	
	<u>\$ 65,971,730</u>			<u>\$ 60,453,051</u>	

In September 2015, the Hospital issued 2015 Revenue Bonds in the amount of \$27,083,000 through the Association. The Hospital, the Association and Commerce Bank (Commerce) entered into a Bond Purchase Agreement whereby Commerce purchased from the Association all of the 2015 Revenue Bonds in a private placement. The 2015 Revenue Bonds are due in semiannual installments through 2025 ranging from \$855,000 to \$1,526,000, with a fixed interest rate of 2.0667%. The 2015 Revenue Bonds are secured by the Hospital's net revenues. Commerce agreed to hold the 2015 Revenue Bonds through the maturity date in 2025.

The proceeds from the 2015 Revenue Bonds were used to refund the 2005 Revenue Bonds. The refunding of the 2005 Revenue Bonds resulted in a loss of approximately \$100,000 which was recorded in 2015 in nonoperating revenue (expense) on the consolidated statements of revenues, expenses and changes in net position. The 2015 loss included the deferred outflows on the remaining unamortized deferred loss on 2005 bond refunding of approximately \$1,800,000 offset by the portion of unamortized bond premium related to the 2005 Revenue Bonds.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

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In 2010, the Hospital issued 2010 Revenue Bonds in the amount of \$40,000,000 through the Association. The proceeds from the 2010 Revenue Bonds were used for the acquisition, construction, renovation and equipping of certain improvements to the Hospital facilities. The 2010 Revenue Bonds are due in semiannual installments through January 2030 ranging from \$650,000 to \$1,485,000, with interest rates between 2% and 5.25%. The Series 2010 Bonds are secured by the Hospital's net revenues and certain assets held by the trustee.

Loans payable with local financial institution, due in monthly installments at a fixed interest rate of 4.50%, due through 2023, secured by property with net book value of approximately \$2,100,000 and \$2,300,000 as of December 31, 2016 and 2015, respectively. Certain long-term debt agreements require the Hospital to maintain certain financial ratios. As of December 31, 2016 and 2015, the Hospital believed it was in compliance with the ratios. Scheduled principal and interest repayments on long-term debt and payments on loans payable for the years succeeding December 31, 2016 are as follows:

Year Ending December 31,	Principal	Interest	Total
2017	\$ 4,366,885	\$ 1,966,666	\$ 6,333,551
2018	4,481,543	1,852,857	6,334,400
2019	4,609,318	1,724,490	6,333,808
2020	4,763,194	1,572,286	6,335,480
2021	4,911,258	1,428,714	6,339,972
2022-2026	23,117,374	4,704,952	27,822,326
2027-2030	10,025,000	1,027,250	11,052,250
	<u>\$ 56,274,572</u>	<u>\$ 14,277,215</u>	<u>\$ 70,551,787</u>

#### 10. OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating expenses as incurred. Equipment and facility rental expense for leases for 2016 and 2015 approximated \$1,692,000 and \$2,311,000, respectively. The following is a schedule of future minimum non-cancelable lease payments expiring through 2019 for the years succeeding December 31, 2016:

Year Ending December 31,	
2017	\$ 24,241
2018	13,239
2019	7,175
	<u>\$ 44,655</u>

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## WITHAM HEALTH SERVICES

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Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$35,748,000 and \$26,531,000 for 2016 and 2015, respectively. Annual rent expense for the next five years will approximate \$35,000,000 under these leases.

### 11. PENSION PLAN

#### Plan Description

The Hospital has a defined contribution pension plan named Witham Health Services Contribution Plan (Plan) as authorized by IC 16-22-3-11. The Plan provides retirement, disability and death benefits to plan members and beneficiaries who meet the eligibility requirements for age and hours worked. The Plan was established by written agreement between the Hospital Board of Trustees and Transamerica Retirement Solutions (Plan Administrator). The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the Plan. The report is available by contacting the Hospital's accounting department.

#### Funding Policy

The contribution requirements of Plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. There are two parts to the Plan, the Money Purchase Base Contribution and the Matching Contribution. Plan members are not required to contribute to the Money Purchase Base Contribution portion of the Plan. The Hospital contributes either 2% or 3% based on the number of years of service for this portion of the Plan. Plan members may contribute to the Matching Contribution portion of the Plan up to the maximum allowed by the Internal Revenue Service. The Hospital matches up to either 3% or 4% of the employee's annual salary based on years of service and employee contributions. Pension expense was approximately \$1,996,000 and \$1,767,000 for 2016 and 2015, respectively.

### 12. INVESTMENTS IN AFFILIATED COMPANIES

#### Witham St. Vincent Cancer Institute, LLC

The Hospital has an equity interest in Witham St. Vincent Cancer Institute, LLC. The investment is recorded on the equity method at approximately \$169,000 and \$193,000 as of December 31, 2016 and 2015, respectively.

#### Suburban Health Organization Captive

The Hospital has an equity interest in its captive insurance company, Suburban Health Organization Captive recorded on the equity method at approximately \$808,000 and \$320,000 as of December 31, 2016 and 2015, respectively.

## WITHAM HEALTH SERVICES

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### Liberty Dialysis Lebanon, LLC

The Hospital has an equity interest in Liberty Dialysis Lebanon, LLC. The investment is recorded on the equity method at approximately \$333,000 and \$148,000 as of December 31, 2016 and 2015, respectively.

### Suburban Home Health, LLC

During 2016 the Hospital acquired an equity interest in Suburban Home Health, LLC. The investment is recorded on the equity method at approximately \$250,000 as of December 31, 2016.

### **13. CONCENTRATION OF CREDIT RISK**

The Hospital is located in Lebanon, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

The mix of receivables and revenues from patients and third-party payors as of and for the years ended December 31, 2016 and 2015 was as follows:

	Receivables		Revenues	
	2016	2015	2016	2015
Medicare	25%	26%	41%	40%
Medicaid	17%	18%	18%	17%
Commercial	37%	36%	36%	37%
Self-Pay and other	21%	20%	5%	6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Under the long-term care leases, the Hospital recorded expenses related to purchased services from the Managers of the facilities of approximately \$167,257,000 and \$155,152,000 during 2016 and 2015, respectively. Amounts due to the Managers, included in current liabilities, as of December 31, 2016 and 2015 approximated \$48,910,000 and \$52,492,000 respectively.

**WITHAM HEALTH SERVICES**

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**14. BLENDED COMPONENT UNITS**

The Hospital's consolidated financial statements include the accounts of its Blended Component Units, MOP, LLC, Creekside and CIHA as of and for the years ended December 31, 2016 and 2015:

	2016			
	MOP, LLC	Creekside	CIHA	Total
<b>Balance sheet</b>				
Assets				
Current assets	\$ 1,142,431	\$ -0-	\$ 51,520,037	\$ 52,662,468
Capital assets	3,324,512	-0-	775,839	4,100,351
Other assets	-0-	-0-	1,199,352	1,199,352
Total assets	<u>\$ 4,466,943</u>	<u>\$ -0-</u>	<u>\$ 53,495,228</u>	<u>\$ 57,962,171</u>
Liabilities				
Current liabilities	\$ 498,897	\$ -0-	\$ 835,841	\$ 1,334,738
Net position	3,968,046	-0-	52,659,387	56,627,433
Total liabilities and net position	<u>\$ 4,466,943</u>	<u>\$ -0-</u>	<u>\$ 53,495,228</u>	<u>\$ 57,962,171</u>
<b>Statement of revenue, expenses and changes in net position</b>				
Revenues				
Net patient service revenue	\$ -0-	\$ 440,934	\$ -0-	\$ 440,934
Other revenue	857,758	35	1,744,451	2,602,244
Total revenues	857,758	440,969	1,744,451	3,043,178
Expenses				
Depreciation	146,330	7,574	-0-	153,904
Other expenses	380,130	671,310	1,292,185	2,343,625
Total expenses	526,460	678,884	1,292,185	2,497,529
Operating income (loss)	331,298	(237,915)	452,266	545,649
Nonoperating	-0-	-0-	1,566,254	1,566,254
Excess revenue over (under) expenses	331,298	(237,915)	2,018,520	2,111,903
Transfers	-0-	6,142,487	15,000,000	21,142,487
Change in net position	331,298	5,904,572	17,018,520	23,254,390
Net position				
Beginning of year	3,636,748	(5,904,572)	35,640,867	33,373,043
End of year	<u>\$ 3,968,046</u>	<u>\$ -0-</u>	<u>\$ 52,659,387</u>	<u>\$ 56,627,433</u>
<b>Statement of cash flows</b>				
Cash provided by (used in)				
Operating activities	\$ 373,334	\$ (164,908)	\$ 10,017,990	\$ 10,226,416
Capital and related financing activities	(331,571)	589,947	-0-	258,376
Investing activities	-0-	-0-	(34,992,261)	(34,992,261)
Change	41,763	425,039	(24,974,271)	(24,507,469)
Cash equivalents				
Beginning of year	573,324	84,757	823,617	1,481,698
End of year	<u>\$ 615,087</u>	<u>\$ 509,796</u>	<u>\$ (24,150,654)</u>	<u>\$ (23,025,771)</u>



## WITHAM HEALTH SERVICES

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	2015			
	MOP, LLC	Creekside	CIHA	Total
<b>Balance sheet</b>				
Assets				
Current assets	\$ 597,460	\$ 380,697	\$35,597,882	\$36,576,039
Capital assets	3,045,976	355,931	-0-	3,401,907
Other assets	-0-	-0-	78,889	78,889
Total assets	<u>\$ 3,643,436</u>	<u>\$ 736,628</u>	<u>\$35,676,771</u>	<u>\$40,056,835</u>
Liabilities				
Current liabilities	\$ 6,688	\$ 6,641,200	\$ 35,904	\$ 6,683,792
Net position	3,636,748	(5,904,572)	35,640,867	33,373,043
Total liabilities and net position	<u>\$ 3,643,436</u>	<u>\$ 736,628</u>	<u>\$35,676,771</u>	<u>\$40,056,835</u>
<b>Statement of revenue, expenses and changes in net position</b>				
Revenues				
Net patient service revenue	\$ -0-	\$ 1,814,622	\$ -0-	\$ 1,814,622
Other revenue	788,377	26,096	344,990	1,159,463
Total revenues	788,377	1,840,718	344,990	2,974,085
Expenses				
Depreciation	141,069	30,736	-0-	171,805
Other expenses	396,240	2,572,213	299,990	3,268,443
Total expenses	537,309	2,602,949	299,990	3,440,248
Operating income (loss)	251,068	(762,231)	45,000	(466,163)
Nonoperating	-0-	-0-	(217,996)	(217,996)
Excess revenue over (under) expenses	251,068	(762,231)	(172,996)	(684,159)
Transfers	-0-	-0-	10,000,000	10,000,000
Change in net position	251,068	(762,231)	9,827,004	9,315,841
Net position				
Beginning of year	3,385,680	(5,142,341)	25,813,863	24,057,202
End of year	<u>\$ 3,636,748</u>	<u>\$ (5,904,572)</u>	<u>\$35,640,867</u>	<u>\$33,373,043</u>
<b>Statement of cash flows</b>				
Cash provided by (used in)				
Operating activities	\$ 373,334	\$ (164,908)	\$10,017,990	\$10,226,416
Capital and related financing activities	(5,610)	(2,343)	-0-	(7,953)
Investing activities	-0-	-0-	(34,992,261)	(34,992,261)
Change	367,724	(167,251)	(24,974,271)	(24,773,798)
Cash equivalents				
Beginning of year	205,600	252,008	25,797,888	26,255,496
End of year	<u>\$ 573,324</u>	<u>\$ 84,757</u>	<u>\$ 823,617</u>	<u>\$ 1,481,698</u>

For separate financial information related to the blended component units, contact the Hospital Controller's Office, at PO Box 1200, Lebanon, IN, 46052.

**WITHAM HEALTH SERVICES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

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**15. RISK MANAGEMENT**

Medical Benefits to Employees and Dependents

The Hospital is self-funded for medical and related health benefits provided to employees and their families. A third-party administrator has been retained to process and present all benefit claims to the Hospital for payment. Under a stop/loss agreement, the Hospital is responsible for the funding of all claims and related administrative costs up to \$270,000 per individual per policy year. There is no aggregate limit for the Plan under the stop loss agreement.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Self-funded health insurance and related expenses were approximately \$9,870,000 and \$10,168,000 in 2016 and 2015, respectively. Changes in health claim liabilities for 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Unpaid claims, beginning of year	\$ 1,221,009	\$ 1,239,791
Incurred claims and changes in estimates	9,870,241	10,167,716
Claim payments	<u>(9,746,799)</u>	<u>(10,186,498)</u>
Unpaid claims, end of year	<u>\$ 1,344,451</u>	<u>\$ 1,221,009</u>