



**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2017 AND 2016**

*CPAs / ADVISORS*



# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of Cameron Memorial Community Hospital, Inc. (the Hospital), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2017 and 2016, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Correction of an Error

As discussed in Note 2 to the consolidated financial statements, management determined that changes were made during 2016 to Cameron Hospital Foundation, Inc.'s (the Foundation) organizational documents which required the Hospital to recognize an interest in the net assets of the Foundation. Accordingly, the 2016 consolidated financial statements have been restated to correct the error. Our opinion is not modified with respect to this matter.

### Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2017 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

**Blue & Co., LLC**

Indianapolis, Indiana  
December 18, 2017

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2017 AND 2016

	2017	Restated 2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 197,700	\$ 2,002,847
Patient accounts receivable, less allowances for uncollectible accounts of \$5,362,000 in 2017 and \$4,094,000 in 2016	10,794,738	9,552,230
Other receivables	133,437	291,226
Inventory	1,827,074	921,866
Prepaid expenses	981,327	978,840
Estimated third-party settlements	1,032,985	342,749
Receivable from Foundation	45,460	148,425
Notes receivable, current portion	202,744	234,718
Total current assets	15,215,465	14,472,901
<b>Assets whose use is limited</b>		
Donor restricted	-0-	90,185
Held by trustee	65,905	140,714
Board designated for capital improvements	-0-	796,016
Total assets whose use is limited	65,905	1,026,915
<b>Investments</b>	18,128,448	16,942,752
<b>Property and equipment, net</b>	56,071,034	59,457,240
<b>Other assets</b>		
Interest in net assets of Foundation	2,660,140	2,493,434
Notes receivable, less current portion	313,063	458,524
Goodwill and intangible assets	913,149	-0-
Total other assets	3,886,352	2,951,958
Total assets	\$ 93,367,204	\$ 94,851,766

See accompanying notes to consolidated financial statements.

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2017 AND 2016

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### LIABILITIES AND NET ASSETS

	2017	Restated 2016
<b>Current liabilities</b>		
Accounts payable	\$ 3,001,875	\$ 3,603,414
Accrued wages and related liabilities	2,011,218	1,699,121
Accrued expenses and other liabilities	776,828	1,208,919
Line of credit	1,133,788	-0-
Current portion of long-term debt	1,022,282	1,037,239
Total current liabilities	<u>7,945,991</u>	<u>7,548,693</u>
<b>Long-term liabilities</b>		
Long-term debt, less current portion	44,166,722	45,161,262
Total liabilities	<u>52,112,713</u>	<u>52,709,955</u>
<b>Net assets</b>		
Unrestricted	38,548,891	39,409,767
Temporarily restricted	2,705,600	2,732,044
Total net assets	<u>41,254,491</u>	<u>42,141,811</u>
Total liabilities and net assets	<u>\$ 93,367,204</u>	<u>\$ 94,851,766</u>

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See accompanying notes to consolidated financial statements.

## CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

### CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	Restated 2016
<b>Unrestricted revenue, gains and other support</b>		
Net patient service revenue	\$ 64,913,845	\$ 59,037,185
Less provision for bad debts	7,324,774	5,266,382
Net patient service revenue		
net of provision for bad debts	57,589,071	53,770,803
Other revenue	1,983,142	1,916,067
Net assets released from restrictions	90,201	106,001
Total unrestricted revenue, gains and other support	59,662,414	55,792,871
<b>Expenses</b>		
Salaries and wages	22,388,207	19,165,961
Employee benefits	6,697,537	5,666,523
Purchased services and professional fees	12,389,769	11,624,811
Supplies	4,208,741	4,592,187
Repair and maintenance	2,201,072	1,259,137
Utilities	817,771	712,142
Building and equipment rent	1,913,264	1,872,912
Insurance	530,578	422,155
Interest	1,697,836	1,540,941
Depreciation	6,229,916	5,666,298
Other	3,601,840	3,846,924
Total expenses	62,676,531	56,369,991
Operating loss	(3,014,117)	(577,120)
<b>Nonoperating income (loss)</b>		
Investment income	2,192,773	1,276,962
Loss on disposal of property and equipment	(105,547)	(237,586)
Other	-0-	(197,400)
Contribution to Foundation	(90,185)	(105,951)
Total nonoperating income	1,997,041	736,025
Revenues over (under) expenses	(1,017,076)	158,905
<b>Other changes in net assets</b>		
Net assets released from restrictions for property	156,200	106,729
Change in unrestricted net assets	(860,876)	265,634
<b>Temporarily restricted net assets</b>		
Contributions	53,235	47,003
Investment income	16	1,780
Change in net assets of Foundation	166,706	2,493,434
Net assets released from restrictions	(246,401)	(212,730)
Change in temporarily restricted net assets	(26,444)	2,329,487
Change in net assets	(887,320)	2,595,121
<b>Net assets</b>		
Beginning of year	42,141,811	39,546,690
End of year	\$ 41,254,491	\$ 42,141,811

See accompanying notes to consolidated financial statements.

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	Restated 2016
<b>Operating activities</b>		
Change in net assets	\$ (887,320)	\$ 2,595,121
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	6,229,916	5,666,298
Amortization of deferred financing costs	27,742	20,872
Amortization of intangible assets	27,435	-0-
Provision for bad debts	7,324,774	5,266,382
Loss on disposal of property and equipment	105,547	237,586
Realized and unrealized gain on investments	(1,559,168)	(659,549)
Contributions restricted for long-term purposes	(53,235)	(47,003)
Change in net assets of Foundation	(166,706)	(2,493,434)
Change in operating assets and liabilities		
Patient accounts receivable	(8,466,282)	(6,313,888)
Other receivables and receivable from Foundation	260,754	(13,381)
Inventory and prepaid expenses	(907,695)	(257,783)
Notes receivable	177,435	(48,536)
Accounts payable, accrued wages and related liabilities	(541,067)	(683,044)
Accrued expenses and other liabilities	(432,091)	(104,873)
Estimated third-party settlements	(690,236)	(133,373)
Net cash flows from operating activities	449,803	3,031,395
<b>Investing activities</b>		
Proceeds from sale of investments	2,975,298	2,859,956
Purchase of investments	(1,640,816)	(2,238,367)
Purchase of property and equipment	(2,699,216)	(5,198,081)
Proceeds from disposal of property and equipment	-0-	12,000
Cash paid for acquisition	(1,040,000)	-0-
Net cash flows from investing activities	(2,404,734)	(4,564,492)
<b>Financing activities</b>		
Contributions restricted for long-term purposes	53,235	47,003
Proceeds from issuance of long-term debt	-0-	37,000,000
Proceeds from line of credit	1,133,788	-0-
Payments for deferred financing costs	-0-	(27,880)
Payments on long-term debt	(1,037,239)	(37,848,793)
Net cash from financing activities	149,784	(829,670)
Net change in cash and cash equivalents	(1,805,147)	(2,362,767)
<b>Cash and cash equivalents</b>		
Beginning of year	2,002,847	4,365,614
End of year	\$ 197,700	\$ 2,002,847
<b>Supplemental disclosure of cash flows information</b>		
Cash paid for interest net of amounts capitalized of \$-0- in 2017 and \$80,000 in 2016	\$ 1,670,094	\$ 1,520,069
Property and equipment in accounts payable	\$ 223,625	\$ 1,880,472

See accompanying notes to consolidated financial statements.



# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

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

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

Cameron Hospital Foundation, Inc. (the Foundation) is a separate entity that was formed in November 1987 for the purpose of obtaining funds through charitable giving, administering those funds and allocate funds to the Hospital for the delivery of health care services and related activities. Due to the purpose for which the Foundation was formed, the Hospital and the Foundation are considered to be financially interrelated organizations even though they operate independently of each other and have separate Boards of Directors. Because the Hospital and the Foundation are financially interrelated, the Hospital has recognized its interest in the net assets of the Foundation in its consolidated financial statements.

#### Principles of Consolidation

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

#### Use of Estimates

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

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### Cash and Cash Equivalents

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

### Patient Accounts Receivable and Net Patient Service Revenue

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

### Allowance for Uncollectible Accounts

Patient accounts receivable are reduced by an allowance for uncollectible accounts based on the Hospital's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to its service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary. For receivables associated with self-pay payments, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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During 2017, the Hospital's allowance for uncollectible accounts for patient services increased approximately \$1,268,000 from \$4,094,000 to \$5,362,000. The uncollectible allowance for self-pay balances increased approximately \$330,000 during the year ended September 30, 2017. The uncollectible allowance for third-party payor accounts increased approximately \$938,000 during the year ended September 30, 2017. The changes are mainly the result of an increase in the aging of accounts, primarily related to the implementation of a new patient account billing system during 2017.

In addition, the Hospital's write-offs related primarily to self-pay increased by approximately \$790,000 to approximately \$6,056,000 in 2017 from approximately \$5,266,000 in 2016. The change was the result of trends experienced in the collection of amounts from self-pay and self-pay after third-party insurance patients during 2017. The Hospital updated its charity care policy during 2017 to increase the income threshold of patients who are eligible for a discount from 300% of the federal poverty limit to 350%.

As of September 30, 2017, the allowance for uncollectible accounts of approximately \$5,362,000 was comprised of \$4,075,000 reserved for self-pay balances and \$1,287,000 reserved for third-party payor balances. As of September 30, 2016, the allowance for uncollectible accounts of approximately \$4,094,000 was comprised of \$3,613,000 reserved for self-pay balances and \$481,000 reserved for third-party payor balances.

### Estimated Third-Party Settlements

Estimated third-party settlements for the Medicare and Medicaid programs reflect the differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year, and any differences owed to or by the Hospital after such reports have been audited. As of September 30, 2017, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through September 30, 2015.

Changes to any previous year's estimated settlement are reflected in the period the intermediary finalizes its audit of cost reports, or when additional information becomes available. During 2017 and 2016, the Hospital recognized an increase in net patient service revenue of approximately \$103,000 and \$225,000, respectively, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

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

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### Inventory

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

### Assets Limited as to Use

Assets limited as to use include: (1) assets restricted by donors, (2) assets held by trustees under bond indenture agreements and (3) assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

### Investments and Investment Income (Loss)

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

### Property, Equipment and Depreciation

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

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

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

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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

	2017	2016
Total interest incurred	\$ 1,697,836	\$ 1,620,860
Less net interest cost capitalized	-0-	79,919
Total interest expense	<u>\$ 1,697,836</u>	<u>\$ 1,540,941</u>

### Deferred Financing Costs and Original Issue Discounts

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

### Notes Receivable

During 2017 and 2016, the Hospital extended credit in the form of notes receivable for patient service accounts where the patient established a long-term payment plan with the Hospital through a third-party collection agency. Notes receivable are for a period of up to five years, are interest free, unsecured and require monthly payments. The credit quality indicator is performance determined by delinquency status. Delinquency status is updated monthly. All notes receivable are considered performing.

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

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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As of September 30, 2017 and 2016, notes receivables approximated \$516,000 and \$693,000, respectively. As of September 30, 2017 and 2016, the current portion of notes receivables approximated \$203,000 and \$235,000, respectively, with the remaining portion reported as long-term. The notes receivable are net of provisions made by the Hospital for amounts estimated to be uncollectible of approximately \$224,000 and \$298,000 as of September 30, 2017 and 2016, respectively.

### Business Combinations and Goodwill and Other Intangibles

The Hospital accounts for business combinations using the acquisition method of accounting, and accordingly, the net assets of the acquired entity are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets, including amounts assigned to identifiable intangible assets, if any. Goodwill is tested for impairment on an annual basis, or whenever an event occurs or circumstances indicate the carrying value of the goodwill may be impaired. The Hospital performed the required annual impairment test for goodwill as of September 30, 2017 using the income approach of calculating the present value of the future cash flows. The Hospital determined no impairment of goodwill existed as of September 30, 2017.

### Temporarily Restricted Net Assets

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

Resources restricted by donors for property and equipment replacement or expansion are added to unrestricted net assets to the extent expended within the period.

### Charity Care

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

The Hospital's patient assistance policy reflects the current economic conditions and other factors unique to the Hospital's customer base. Patient assistance provided during 2017 and 2016, measured at established rates, was approximately \$204,000 and \$1,285,000, respectively. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The Hospital receives reimbursements from certain governmental payors to assist in the funding of patient assistance.

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# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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Of the Hospital's total expenses reported, an estimated \$101,000 and \$640,000 arose from providing services to charity patients during 2017 and 2016, respectively. The estimated costs of providing patient assistance services are based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses to gross patient service revenue.

### Contributions

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

### Income Taxes

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and CMO and recognize a tax liability if the Hospital or CMO have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and CMO, and has concluded that as of September 30, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Hospital and CMO are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Hospital and CMO have filed their federal and state income tax returns for periods through September 30, 2016. 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).

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### Revenues over (under) Expenses

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

### Reclassifications

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation. These reclassifications had no impact on net assets and changes in net assets for 2016, as previously reported.

### Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the Hospital's ability to continue as a going concern for a period of one year from the date the consolidated financial statements are available to be issued.

### Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is December 18, 2017.

### Recently Issued Accounting Standards

On May 28, 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services". On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date for all entities by one year. These new standards, which the Hospital is not required to adopt until its year ending September 30, 2020, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

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# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which the Hospital is not required to adopt until its year ending September 30, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

On August 18, 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which the Hospital is not required to adopt until its year ending September 30, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two-phase project to amend not-for-profit financial reporting requirements.

On November 17, 2016, the FASB issued ASU No. 2016-18, *Statement of Cash (Topic 230) – Restricted Cash*. This new standard intends to eliminate diversity in practice by requiring the statement of cash flows to present the change in the total cash and cash equivalents, which will include restricted cash and cash equivalents. The Hospital will be required to adopt this new standard in the year ending September 30, 2020.

The Hospital is presently evaluating the effects that these ASUs will have on its future consolidated financial statements, including related disclosures.

## **2. RESTATEMENT**

In April 2016, the Foundation changed its organizational documents to designate the Hospital as the sole beneficiary of the Foundation's net assets. The change in designation made the Hospital and the Foundation financially interrelated organizations and required the Hospital to recognize an interest in the Foundation's net assets on its 2016 consolidated financial statements.

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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The following table summarizes the restatement for the correction of this error.

	September 30, 2016		
	Originally Reported	Adjustment	Restated
Consolidated balance sheet			
Interest in net assets of Foundation	\$ -0-	\$ 2,493,434	\$ 2,493,434
Total assets	\$ 92,358,332	\$ 2,493,434	\$ 94,851,766
Temporarily restricted net assets	\$ 238,610	\$ 2,493,434	\$ 2,732,044
Total net assets	\$ 39,648,377	\$ 2,493,434	\$ 42,141,811
Consolidated statement of operations and changes in net assets			
Temporarily restricted net assets			
Change in net assets of Foundation	\$ -0-	\$ 2,493,434	\$ 2,493,434
Change in temporarily restricted net assets	\$ (163,947)	\$ 2,493,434	\$ 2,329,487
Change in net assets	\$ 101,687	\$ 2,493,434	\$ 2,595,121

There was no significant impact on the 2016 consolidated statement of cash flows for the restatement.

### 3. CHANGE IN ACCOUNTING PRINCIPLE

During 2017, the Hospital adopted ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Topic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*. ASU No. 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued. When conditions or events that raise substantial doubt exist, additional disclosures will be required to enable financial statement users to understand those conditions or events, management’s evaluation of them and management’s plans that either alleviated substantial doubt or are intended to mitigate the conditions or events that raise substantial doubt. The adoption of ASU No. 2014-15 did not have a material effect on the accompanying consolidated financial statements.

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### **4. NET PATIENT SERVICE REVENUE**

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

#### Medicare

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

#### Medicaid and Hospital Assessment Fee Program

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

The Hospital participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana hospitals. The Medicaid enhanced payments relate to both fee for service and managed care claims. During 2017 and 2016, the Hospital recognized HAF Program expense of approximately \$1,235,000 and \$704,000, respectively, which resulted in increased Medicaid reimbursement. The HAF Program expense is included in other expenses and the associated increase in Medicaid reimbursement is included in net patient service revenue on the consolidated statements of operations and changes in net assets.

#### Other Payment Arrangements

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

**CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

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A summary of net patient service revenue, contractual adjustments, and patient service revenue forgone for patient assistance, at standard charges, for 2017 and 2016 follows:

	2017	2016
Gross patient service revenue		
Routine services	\$ 5,658,204	\$ 5,696,700
Inpatient services	13,347,110	10,898,969
Outpatient services	108,086,930	96,694,105
Total gross patient service revenue	<u>127,092,244</u>	<u>113,289,774</u>
Less deductions from revenue		
Charity care	203,884	1,285,265
Contractual allowances	61,974,515	52,967,324
Total deductions from revenue	<u>62,178,399</u>	<u>54,252,589</u>
Net patient service revenue	64,913,845	59,037,185
Less provision for bad debts	7,324,774	5,266,382
Net patient service revenue net of provision for bad debts	<u>\$ 57,589,071</u>	<u>\$ 53,770,803</u>

**5. CONCENTRATION OF CREDIT RISK**

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

	Receivables		Revenues	
	2017	2016	2017	2016
Medicare	35%	34%	45%	41%
Medicaid	11%	10%	15%	10%
Blue Cross	8%	7%	18%	16%
Other third-party payors	19%	17%	18%	25%
Self pay	27%	32%	4%	8%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### 6. INVESTMENTS AND INVESTMENT INCOME

#### Assets Whose Use is Limited

Assets limited as to use at September 30 include:

	<u>2017</u>	<u>2016</u>
Donor restricted		
Cash	\$ -0-	\$ 16,403
Certificates of deposit	-0-	73,782
	<u>-0-</u>	<u>90,185</u>
Held by trustee		
Cash	65,905	140,714
Board designated for capital improvements		
Cash	-0-	4,348
Mutual funds	-0-	791,668
	<u>-0-</u>	<u>796,016</u>
Total assets whose use is limited	<u>\$ 65,905</u>	<u>\$ 1,026,915</u>

#### Long-term Investments

Long-term investments at September 30 include:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 132,561	\$ 13,330
Mutual funds	17,995,887	16,929,422
	<u>\$ 18,128,448</u>	<u>\$ 16,942,752</u>

Total investment income is comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 633,621	\$ 619,193
Realized gain (loss) on investments	145,224	(333,190)
Unrealized gain on investments	1,413,944	992,739
Total investment income	<u>\$ 2,192,789</u>	<u>\$ 1,278,742</u>

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# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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

	2017	2016
Unrestricted net assets	\$ 2,192,773	\$ 1,276,962
Temporarily restricted net assets	16	1,780
	<u>\$ 2,192,789</u>	<u>\$ 1,278,742</u>

### 7. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of September 30, 2017 and 2016:

- *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.

## CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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

The following tables set forth by level, within the hierarchy, the Hospital's assets measured at fair value on a recurring basis as of September 30, 2017 and 2016:

	September 30, 2017			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Assets whose use is limited				
Money market mutual funds	\$ 65,905	\$ -0-	\$ 65,905	\$ -0-
Investments				
Mutual funds				
Corporate fixed income	\$ 1,234,151	\$ 1,234,151	\$ -0-	\$ -0-
Diversified emerging markets	1,002,072	1,002,072	-0-	-0-
Foreign large blend	532,773	532,773	-0-	-0-
Foreign large growth	625,765	625,765	-0-	-0-
Foreign large value	1,352,668	1,352,668	-0-	-0-
Foreign small/mid value	611,846	611,846	-0-	-0-
Intermediate-term fixed income	2,010,798	2,010,798	-0-	-0-
Large growth	1,173,556	1,173,556	-0-	-0-
Large value	2,338,392	2,338,392	-0-	-0-
Mid-cap value	1,211,422	1,211,422	-0-	-0-
Non-traditional fixed income	2,506,148	2,506,148	-0-	-0-
Pacific/Asia ex-Japan	398,633	398,633	-0-	-0-
Small blend	573,805	573,805	-0-	-0-
Small value	1,207,245	1,207,245	-0-	-0-
World fixed income	620,503	620,503	-0-	-0-
World stock	596,110	596,110	-0-	-0-
Total mutual funds	17,995,887	\$ 17,995,887	\$ -0-	\$ -0-
Cash	132,561			
	\$ 18,128,448			

## CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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

\*Certificates of deposit are valued at contract value.

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2017 and 2016.

The market value of investments exceeded the cost by approximately \$1,953,000 and 539,000 as of September 30, 2017 and 2016. The unrealized gains and losses are included in earnings for the period attributable to the change in unrealized gains and losses relating to assets held as of September 30, 2017 and 2016, and are reported in the consolidated statements of operations and changes in net assets as unrealized gain on trading securities.



# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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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.

### 8. PROPERTY AND EQUIPMENT

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

	2017	2016
Land	\$ 1,317,868	\$ 1,317,868
Buildings and building improvements	62,053,116	61,087,672
Fixed equipment	19,245,160	17,442,126
	<u>82,616,144</u>	<u>79,847,666</u>
Less accumulated depreciation	26,911,904	21,181,495
	<u>55,704,240</u>	<u>58,666,171</u>
Construction in progress	366,794	791,069
	<u>\$ 56,071,034</u>	<u>\$ 59,457,240</u>

Construction in progress as of September 30, 2017 primarily relates to the Hospital's human capital management and accounts receivable, medical records, and billing system. The estimated cost to complete this project as of September 30, 2017 is approximately \$111,000, of which all has been contractually committed.

### 9. LINE OF CREDIT

The Hospital has a \$2,000,000 revolving bank line of credit expiring in April 2018. As of September 30, 2017 and 2016, there were approximately \$1,134,000 and \$-0- of borrowings against the line of credit. The line is unsecured. Variable interest is payable monthly and is 4.75% as of September 30, 2017 based on Wall Street Journal Prime rate plus .5% with a floor of 3.75%.

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

### 10. LONG-TERM DEBT

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

	2017	2016
USDA Direct Loan, dated January 25, 2016, fixed interest of 3.125%, payable in monthly principal and interest installments of approximately \$135,000 until January 25, 2056.	\$ 36,207,366	\$ 36,687,906
Fixed bank loan guaranteed by the USDA, dated December 12, 2014 due December 1, 2039, with monthly principal and interest payments of approximately \$53,000, fixed interest of 4.95%.	8,458,361	8,660,337
Variable bank loan not guaranteed by the USDA, dated December 12, 2014 due December 1, 2039, with monthly principal and interest payments of \$5,166, variable interest of 4.5% as of September 30, 2017.	922,698	951,399
Capital lease obligations, imputed interest rates ranging from 3.28% to 4.83%, expiring through 2020, collateralized by equipment.	628,105	954,127
	46,216,530	47,253,769
Less unamortized discount	(241,339)	(247,862)
Less unamortized deferred financing costs	(786,187)	(807,406)
Less current portion	(1,022,282)	(1,037,239)
	\$ 44,166,722	\$ 45,161,262

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

In conjunction with the issuance of the Series 2013A BANs, the Hospital, through the Authority, issued the Series 2013B Bonds and the Series 2013C Bonds, which were purchased by The Farmers & Merchants State Bank (Farmers & Merchants). On December 10, 2014, the Hospital refinanced the Series 2013B and 2013C Bonds with a variable and fixed rate bank loans with Farmers & Merchants. The fixed rate bank loan refinanced the 2013C bonds and carries a fixed interest rate of 4.95% that matures in December 2039. The variable rate bank loan refinanced the 2013B bonds and carries a variable interest rate of 4.50% as of September 30, 2017 that matures in December 2039. The variable interest rate is prime plus .5% changed quarterly with a floor of 3.25% and ceiling of 5.50%.

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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The Hospital granted a security interest in its revenues and a mortgage on substantially all of its real property in order to secure obligations issued under the Master Trust Indenture and USDA Direct Loan among the Hospital and the Master Trustee. In addition to various financial covenants, the Hospital has covenanted in the Master Trust Indenture that it will not permit any lien or security interest on the Hospital's property and equipment other than certain permitted encumbrances. The Hospital believes it was in compliance with the financial covenants as of September 30, 2017.

The aggregate annual maturities of long-term debt as of September 30, 2017 are as follows:

Year Ending September 30,	
2018	\$ 1,022,282
2019	1,059,607
2020	843,436
2021	824,456
2022	855,586
Thereafter	41,611,163
	<u>\$ 46,216,530</u>

Property and equipment include the following property under capital leases:

	2017	2016
Equipment	\$ 1,656,480	\$ 1,656,480
Less accumulated depreciation	966,496	662,851
	<u>\$ 689,984</u>	<u>993,629</u>

### 11. TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Home health care services	\$ -0-	\$ 90,185
Interest in net assets of the Foundation	2,660,140	2,493,434
Funds for expansion	45,460	148,425
	<u>\$ 2,705,600</u>	<u>\$ 2,732,044</u>

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## CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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During 2017 and 2016, net assets were released from donor restrictions by incurring expenses or satisfying the restricted purposes of approximately of \$246,000 and \$213,000, respectively.

#### 12. OPERATING LEASES - LESSEE

Noncancelable operating leases for certain diagnostic equipment and computer software and hardware expire in various years through 2020. Rental payments include minimum rentals, plus contingent rentals based on the number of procedures performed using the equipment. Future minimum lease payments under non-cancelable operating leases as of September 30, 2017 that have initial or remaining lease terms in excess of one year are as follows:

Year Ending September 30,	
2018	\$ 1,389,650
2019	452,587
2020	15,882
	<u>\$ 1,858,119</u>

Rental expense for all operating leases for 2017 and 2016 was approximately \$276,000 and \$309,000, respectively.

#### 13. OPERATING LEASES - LESSOR

The Hospital and CMO own an oncology facility on the Hospital campus and an assisted living facility. A portion of the oncology facility is leased to physicians and tenants under various operating leases, with terms varying from one to two years with renewal options. The oncology facility is included in property with a cost of approximately \$1,313,000 as of September 30, 2017 and 2016 and accumulated depreciation of approximately \$551,000 and \$516,000 as of September 30, 2017 and 2016, respectively. The entities also operate an assisted living facility, which leases apartments under cancellable month-to-month lease terms. The assisted living facility is also included in property and equipment, with a cost of approximately \$5,303,000 and \$5,107,000 and accumulated depreciation of \$2,225,000 and \$2,036,000 as of September 30, 2017 and 2016, respectively. Rental income under the term of these leases is included in other revenue and was approximately \$1,204,000 and \$1,206,000 in 2017 and 2016, respectively.

Future minimum lease receipts at September 30, 2017 total approximately \$40,000 for 2018 to 2019 as the majority of leases are less than one year.

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### **14. PENSION PLAN**

The Hospital has a defined contribution pension plan covering substantially all employees. The Hospital contributes 4% of eligible employees' compensation as a profit sharing contribution. The Hospital can also make a discretionary matching contribution as determined by the Board of Directors. There was no discretionary matching contribution in 2017 and 2016. Pension expense was approximately \$707,000 and \$654,000 for 2017 and 2016, respectively.

### **15. MEDICAL MALPRACTICE**

The Hospital and CMO participate in the State of Indiana Patient Compensation Fund (the Fund) and are covered under the Indiana Medical Malpractice Act (the Act). The Act provides for a maximum recovery of \$1,250,000 per occurrence (\$5,000,000 or \$7,500,000 annual aggregate based on hospital bed size), \$250,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the Fund. Effective July 1, 2017, the maximum recovery under the Act was increased to \$1,650,000 per occurrence (\$8,000,000 or \$12,000,000 annual aggregate based on hospital bed size) with the healthcare provider responsible for the first \$400,000. The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

### **16. SELF-INSURED EMPLOYEE HEALTH CLAIMS**

The Hospital's employee health care insurance is provided through a combination of self-insurance and purchased re-insurance coverage from a commercial carrier. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. The specific annual attachment point for an individual is \$125,000 with an unlimited lifetime policy. The aggregate benefit maximum under the policy as of September 30, 2017 was \$1,000,000 per year. Total expense was approximately \$4,157,000 and \$3,336,000 during 2017 and 2016, respectively.

The liability for employee health claims represents management's estimate of all incurred and reported claims plus estimated incurred but not reported claims based on the Hospital's reporting system. The carrying amount of the liability was approximately \$350,000 during 2017 and 2016, respectively. The liability is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. It is reasonably possible that the Hospital's estimate of losses will change by a material amount in the near term.

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### 17. FUNCTIONAL EXPENSES

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

	2017	2016
Health care services	\$ 53,275,051	\$ 47,914,492
General and administrative	9,401,480	8,455,499
	<u>\$ 62,676,531</u>	<u>\$ 56,369,991</u>

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

### 18. RELATED PARTY TRANSACTIONS

The Hospital provides accounting and financial management services to the Foundation and billed the Foundation \$20,000 during 2017 and 2016, respectively.

The Foundation conducted a capital campaign for the construction of the new Hospital facility where all funds collected were raised specifically for the Hospital's capital campaign. As a result, the Hospital recorded a receivable from the Foundation for approximately \$45,000 and \$148,000 as of September 30, 2017 and 2016, respectively. The Foundation made contributions to the Hospital of approximately \$53,000 and \$47,000 during 2017 and 2016, respectively. There were no significant payables as of September 30, 2017 and 2016.

### 19. COMMITMENTS AND CONTINGENCIES

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

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

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### 20. BUSINESS COMBINATIONS

On March 2, 2017, the Hospital purchased the assets and assumed the liabilities of Tri-State Medical Center, a rural healthcare clinic, for \$1,040,000. The purpose of the acquisition is to provide quality healthcare in an efficient manner to the residents of Angola and the surrounding communities. The Hospital recorded goodwill and other intangibles of approximately \$941,000 related to the purchase. As of September 30, 2017, goodwill and other intangibles were approximately \$913,000. The intangible assets relate mainly to medical records and are amortized over a useful life of two years. The Hospital expects to recognize amortization of the intangible assets of approximately \$20,000 during 2018 and \$7,000 during 2019.

The following is a summary of the assets purchased and liabilities assumed related to the acquisition:

Assets	
Accounts receivable	\$ 101,000
Property and equipment	26,000
Intangible assets	55,000
Total assets	<u>182,000</u>
Liabilities	
Accounts payable	<u>28,000</u>
Net assets acquired	<u>\$ 154,000</u>
Cash paid for acquisition	\$ 1,040,000
Less net assets acquired	<u>154,000</u>
Indicated value of goodwill	<u>\$ 886,000</u>

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### 21. FEDERAL, STATE, AND LOCAL AWARDS

The *Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Government Sources*, issued by the Indiana State Board of Accounts, requires Indiana not-for-profit entities to disclose Federal, state and local awards expended during the entities' annual reporting period. During 2017, the Hospital expended the following Federal awards:

Federal	
Dept of Health & Human Services through Indiana State Dept of Health Small Rural Hospital Improvement Grant Program - CFDA 93.301	\$ 11,472
Dept of Health & Human Services Hospital Preparedness Program - CFDA 93.074	<u>8,319</u>
	<u>\$ 19,791</u>

The Hospital did not expend any State or local awards during 2017.



**SUPPLEMENTARY INFORMATION**

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2017

ASSETS	Hospital	CMO	Eliminations	Total
<b>Current assets</b>				
Cash and cash equivalents	\$ 23,341	\$ 174,359	\$ -0-	\$ 197,700
Patient accounts receivable, net	10,794,738	-0-	-0-	10,794,738
Other receivables	130,666	950,701	(947,930)	133,437
Inventory	1,827,074	-0-	-0-	1,827,074
Prepaid expenses	981,327	-0-	-0-	981,327
Estimated third-party settlements	1,032,985	-0-	-0-	1,032,985
Receivable from Foundation	45,460	-0-	-0-	45,460
Notes receivable, current portion	202,744	-0-	-0-	202,744
Total current assets	15,038,335	1,125,060	(947,930)	15,215,465
<b>Assets whose use is limited</b>				
Held by trustee	65,905	-0-	-0-	65,905
<b>Investments</b>	21,457,469	-0-	(3,329,021)	18,128,448
<b>Property and equipment, net</b>	52,297,155	3,773,879	-0-	56,071,034
<b>Other assets</b>				
Interest in net assets of Foundation	2,660,140	-0-	-0-	2,660,140
Notes receivable, less current portion	313,063	-0-	-0-	313,063
Goodwill and intangible assets	913,149	-0-	-0-	913,149
Total other assets	3,886,352	-0-	-0-	3,886,352
Total assets	<u>\$ 92,745,216</u>	<u>\$ 4,898,939</u>	<u>\$ (4,276,951)</u>	<u>\$ 93,367,204</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 3,920,268	\$ 29,537	\$ (947,930)	\$ 3,001,875
Accrued wages and related liabilities	2,011,218	-0-	-0-	2,011,218
Accrued expenses and other liabilities	776,828	-0-	-0-	776,828
Line of credit	1,133,788	-0-	-0-	1,133,788
Current portion of long-term debt	1,022,282	-0-	-0-	1,022,282
Total current liabilities	8,864,384	29,537	(947,930)	7,945,991
<b>Long-term liabilities</b>				
Long-term debt, less current portion	44,166,722	-0-	-0-	44,166,722
Total liabilities	53,031,106	29,537	(947,930)	52,112,713
<b>Net assets</b>				
Unrestricted	37,008,510	4,869,402	(3,329,021)	38,548,891
Temporarily restricted	2,705,600	-0-	-0-	2,705,600
Total net assets	39,714,110	4,869,402	(3,329,021)	41,254,491
Total liabilities and net assets	<u>\$ 92,745,216</u>	<u>\$ 4,898,939</u>	<u>\$ (4,276,951)</u>	<u>\$ 93,367,204</u>

See Report of Independent Auditors on pages 1 and 2.

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2016

ASSETS	Hospital	CMO	Eliminations	Total
<b>Current assets</b>				
Cash and cash equivalents	\$ 40,124	\$ 1,962,723	\$ -0-	\$ 2,002,847
Patient accounts receivable, net	9,552,230	-0-	-0-	9,552,230
Other receivables	599,269	279,625	(587,668)	291,226
Inventory	921,866	-0-	-0-	921,866
Prepaid expenses	978,840	-0-	-0-	978,840
Estimated third-party settlements	342,749	-0-	-0-	342,749
Receivable from Foundation	148,425	-0-	-0-	148,425
Notes receivable, current portion	234,718	-0-	-0-	234,718
Total current assets	12,818,221	2,242,348	(587,668)	14,472,901
<b>Assets whose use is limited</b>				
Donor restricted	90,185	-0-	-0-	90,185
Held by trustee	140,714	-0-	-0-	140,714
Board designated for capital improvements	796,016	-0-	-0-	796,016
Total assets whose use is limited	1,026,915	-0-	-0-	1,026,915
<b>Investments</b>	20,271,773	-0-	(3,329,021)	16,942,752
<b>Property and equipment, net</b>	56,019,101	3,438,139	-0-	59,457,240
<b>Other assets</b>				
Interest in net assets of Foundation	2,493,434	-0-	-0-	2,493,434
Notes receivable, less current portion	458,524	-0-	-0-	458,524
Total other assets	2,951,958	-0-	-0-	2,951,958
Total assets	<u>\$ 93,087,968</u>	<u>\$ 5,680,487</u>	<u>\$ (3,916,689)</u>	<u>\$ 94,851,766</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 3,740,143	\$ 450,939	\$ (587,668)	\$ 3,603,414
Accrued wages and related liabilities	1,699,121	-0-	-0-	1,699,121
Accrued expenses and other liabilities	1,208,919	-0-	-0-	1,208,919
Current portion of long-term debt	1,037,239	-0-	-0-	1,037,239
Total current liabilities	7,685,422	450,939	(587,668)	7,548,693
<b>Long-term liabilities</b>				
Long-term debt, less current portion	45,161,262	-0-	-0-	45,161,262
Total liabilities	52,846,684	450,939	(587,668)	52,709,955
<b>Net assets</b>				
Unrestricted	37,509,240	5,229,548	(3,329,021)	39,409,767
Temporarily restricted	2,732,044	-0-	-0-	2,732,044
Total net assets	40,241,284	5,229,548	(3,329,021)	42,141,811
Total liabilities and net assets	<u>\$ 93,087,968</u>	<u>\$ 5,680,487</u>	<u>\$ (3,916,689)</u>	<u>\$ 94,851,766</u>

See Report of Independent Auditors on pages 1 and 2.

## CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

### CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED SEPTEMBER 30, 2017

	Hospital	CMO	Eliminations	Total
<b>Unrestricted revenue, gains and other support</b>				
Net patient service revenue	\$ 63,854,022	\$ 1,059,823	\$ -0-	\$ 64,913,845
Less provision for bad debts	7,324,774	-0-	-0-	7,324,774
Net patient service revenue net of provision for bad debts	56,529,248	1,059,823	-0-	57,589,071
Other revenue	1,017,695	1,566,359	(600,912)	1,983,142
Net assets released from restrictions	90,201	-0-	-0-	90,201
Total revenue, gains and other support	57,637,144	2,626,182	(600,912)	59,662,414
<b>Expenses</b>				
Salaries and wages	21,070,710	1,317,497	-0-	22,388,207
Employee benefits	6,697,537	-0-	-0-	6,697,537
Purchased services and professional fees	12,236,293	153,476	-0-	12,389,769
Supplies	3,924,063	284,678	-0-	4,208,741
Repair and maintenance	2,178,447	22,625	-0-	2,201,072
Utilities	702,481	115,290	-0-	817,771
Building and equipment rent	1,761,317	325,328	(173,381)	1,913,264
Insurance	507,443	23,135	-0-	530,578
Interest	1,697,836	-0-	-0-	1,697,836
Depreciation	6,040,550	189,366	-0-	6,229,916
Other	3,474,438	554,933	(427,531)	3,601,840
Total expenses	60,291,115	2,986,328	(600,912)	62,676,531
Operating loss	(2,653,971)	(360,146)	-0-	(3,014,117)
<b>Nonoperating income (loss)</b>				
Investment income	2,192,773	-0-	-0-	2,192,773
Loss on disposal of property and equipment	(105,547)	-0-	-0-	(105,547)
Contribution to Foundation	(90,185)	-0-	-0-	(90,185)
Total nonoperating income	1,997,041	-0-	-0-	1,997,041
Revenues under expenses	(656,930)	(360,146)	-0-	(1,017,076)
<b>Other changes in net assets</b>				
Net assets released from restrictions for property	156,200	-0-	-0-	156,200
Change in unrestricted net assets	(500,730)	(360,146)	-0-	(860,876)
<b>Temporarily restricted net assets</b>				
Contributions	53,235	-0-	-0-	53,235
Investment income	16	-0-	-0-	16
Change in net assets of Foundation	166,706	-0-	-0-	166,706
Net assets released from restrictions	(246,401)	-0-	-0-	(246,401)
Change in temporarily restricted net assets	(26,444)	-0-	-0-	(26,444)
Change in net assets	(527,174)	(360,146)	-0-	(887,320)
<b>Net assets</b>				
Beginning of year	40,241,284	5,229,548	(3,329,021)	42,141,811
End of year	\$ 39,714,110	\$ 4,869,402	\$ (3,329,021)	\$ 41,254,491

See Report of Independent Auditors on pages 1 and 2.

## CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

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

	Hospital	CMO	Eliminations	Total
<b>Unrestricted revenue, gains and other support</b>				
Net patient service revenue	\$ 58,167,231	\$ 869,954	\$ -0-	\$ 59,037,185
Less provision for bad debts	5,266,382	-0-	-0-	5,266,382
Net patient service revenue net of provision for bad debts	52,900,849	869,954	-0-	53,770,803
Other revenue	789,752	1,528,732	(402,417)	1,916,067
Net assets released from restrictions	106,001	-0-	-0-	106,001
Total revenue, gains and other support	53,796,602	2,398,686	(402,417)	55,792,871
<b>Expenses</b>				
Salaries and wages	18,500,971	664,990	-0-	19,165,961
Employee benefits	5,666,523	-0-	-0-	5,666,523
Purchased services and professional fees	11,401,672	223,139	-0-	11,624,811
Supplies	4,292,005	300,182	-0-	4,592,187
Repair and maintenance	1,232,386	26,751	-0-	1,259,137
Utilities	601,605	110,537	-0-	712,142
Building and equipment rent	1,664,699	370,091	(161,878)	1,872,912
Insurance	422,155	-0-	-0-	422,155
Interest	1,540,941	-0-	-0-	1,540,941
Depreciation	5,513,317	152,981	-0-	5,666,298
Other	3,672,006	415,457	(240,539)	3,846,924
Total expenses	54,508,280	2,264,128	(402,417)	56,369,991
Operating income (loss)	(711,678)	134,558	-0-	(577,120)
<b>Nonoperating income (loss)</b>				
Investment income	1,276,962	-0-	-0-	1,276,962
Loss on disposal of property and equipment	(237,586)	-0-	-0-	(237,586)
Other	-0-	(197,400)	-0-	(197,400)
Contribution to Foundation	(105,951)	-0-	-0-	(105,951)
Total nonoperating income (loss)	933,425	(197,400)	-0-	736,025
Revenues over (under) expenses	221,747	(62,842)	-0-	158,905
<b>Other changes in net assets</b>				
Net assets released from restrictions for property	106,729	-0-	-0-	106,729
Change in unrestricted net assets	328,476	(62,842)	-0-	265,634
<b>Temporarily restricted net assets</b>				
Contributions	47,003	-0-	-0-	47,003
Investment income	1,780	-0-	-0-	1,780
Change in net assets of Foundation	2,493,434	-0-	-0-	2,493,434
Net assets released from restrictions	(212,730)	-0-	-0-	(212,730)
Change in temporarily restricted net assets	2,329,487	-0-	-0-	2,329,487
Change in net assets	2,657,963	(62,842)	-0-	2,595,121
<b>Net assets</b>				
Beginning of year	37,583,321	5,292,390	(3,329,021)	39,546,690
End of year	\$ 40,241,284	\$ 5,229,548	\$ (3,329,021)	\$ 42,141,811

See Report of Independent Auditors on pages 1 and 2.



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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

Report on the Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Cameron Memorial Community Hospital, Inc. (the Hospital) which comprise the consolidated balance sheet as of September 30, 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 18, 2017.

Our report included an emphasis-of-matter paragraph stating the Hospital corrected an error related to the reporting of its interest in the net assets of a financially interrelated organization. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our opinion is not modified with respect to this matter.

Internal Control over Financial Reporting

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

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

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

material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness as finding 2017-001.

#### Compliance and Other Matters

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

#### Hospital's Response to Finding

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

#### Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Blue & Co., LLC**

Indianapolis, Indiana  
December 18, 2017

# CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

## SCHEDULE OF FINDINGS AND RESPONSES YEAR ENDED SEPTEMBER 30, 2017

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### 2017-001 – Material weakness related to reporting of interest in net assets of a financially interrelated organization.

*Condition:* The Hospital did not report its interest in the net assets of a financially interrelated organization on its consolidated financial statements when changes were made to the organization's corporate documents in 2016.

*Criteria:* The interest in the net assets of a financially interrelated organization should be included in the Hospital's consolidated financial statements.

*Cause:* The Hospital did not properly account for the effect of the change in the organization's corporate documents.

*Effect:* The interest in the net assets of the financially interrelated organization was not reported in the Hospital's consolidated financial statements, effectively understating the Hospital's assets and net assets.

*Recommendation:* We recommend the Hospital review related party relationships on a routine basis to identify any organizational changes that may ultimately impact the Hospital's financial reporting.

*Management's response:* The Hospital will review related party relationships on a routine basis to assess the potential impact on our financial reporting.