



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2018 AND 2017

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, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General 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 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.

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, 2018 and 2017, 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.

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 17, 2018 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 17, 2018

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2018 AND 2017

	2018	2017
ASSETS		
Current assets		
Cash	\$ 3,784,433	\$ 197,700
Patient accounts receivable, less allowances for uncollectible accounts of \$5,824,000 in 2018 and \$5,362,000 in 2017	9,809,507	10,794,738
Other receivables	342,308	133,437
Inventory	1,745,445	1,827,074
Prepaid expenses	911,631	981,327
Estimated third-party settlements	-0-	1,032,985
Receivable from Foundation	-0-	45,460
Notes receivable, current portion	-0-	202,744
Total current assets	16,593,324	15,215,465
Assets whose use is limited		
Donor restricted	444,584	-0-
Held by trustee	66,635	65,905
Total assets whose use is limited	511,219	65,905
Investments	20,176,608	18,128,448
Property and equipment, net	50,959,229	56,071,034
Other assets		
Interest in net assets of Foundation	-0-	2,660,140
Notes receivable, less current portion	-0-	313,063
Goodwill and intangible assets, net	885,713	913,149
Total other assets	885,713	3,886,352
Total assets	<u>\$ 89,126,093</u>	<u>\$ 93,367,204</u>

See accompanying notes to consolidated financial statements.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2018 AND 2017

LIABILITIES AND NET ASSETS

	2018	2017
Current liabilities		
Accounts payable	\$ 1,756,909	\$ 3,001,875
Accrued wages and related liabilities	2,322,594	2,011,218
Accrued expenses and other liabilities	698,863	776,828
Estimated third-party settlements	471,182	-0-
Line of credit	-0-	1,133,788
Current portion of long-term debt	1,059,520	1,022,282
Total current liabilities	<u>6,309,068</u>	<u>7,945,991</u>
Long-term liabilities		
Long-term debt, less current portion	43,134,945	44,166,722
Total liabilities	<u>49,444,013</u>	<u>52,112,713</u>
Net assets		
Unrestricted	39,237,496	38,548,891
Temporarily restricted	444,584	2,705,600
Total net assets	<u>39,682,080</u>	<u>41,254,491</u>
Total liabilities and net assets	<u>\$ 89,126,093</u>	<u>\$ 93,367,204</u>

See accompanying notes to consolidated financial statements.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Unrestricted revenue, gains and other support		
Net patient service revenue	\$ 69,654,261	\$ 64,913,845
Less provision for bad debts	6,784,213	7,324,774
Net patient service revenue net of provision for bad debts	62,870,048	57,589,071
Other revenue	2,175,935	1,983,142
Total unrestricted revenue, gains and other support	65,045,983	59,572,213
Expenses		
Salaries and wages	24,070,677	22,385,539
Employee benefits	7,650,030	6,700,205
Purchased services and professional fees	11,584,843	12,389,769
Supplies	6,838,346	4,208,741
Repair and maintenance	2,185,021	2,201,072
Utilities	825,757	817,771
Building and equipment rent	2,033,911	1,913,264
Insurance	527,189	530,578
Interest	1,633,341	1,697,836
Depreciation	6,315,636	6,229,916
Other	3,855,293	3,601,840
Total expenses	67,520,044	62,676,531
Operating loss	(2,474,061)	(3,104,318)
Nonoperating income (loss)		
Net assets released from restrictions	2,380,576	90,201
Investment income	784,129	2,192,773
Loss on disposal of property and equipment	(47,499)	(105,547)
Contribution to Foundation	-0-	(90,185)
Total nonoperating income	3,117,206	2,087,242
Revenues over (under) expenses	643,145	(1,017,076)
Other changes in net assets		
Net assets released from restrictions for property	45,460	156,200
Change in unrestricted net assets	688,605	(860,876)
Temporarily restricted net assets		
Contributions	40,914	53,235
Investment income	-0-	16
Change in net assets of Foundation	124,106	166,706
Net assets released from restrictions	(2,426,036)	(246,401)
Change in temporarily restricted net assets	(2,261,016)	(26,444)
Change in net assets	(1,572,411)	(887,320)
Net assets		
Beginning of year	41,254,491	42,141,811
End of year	\$ 39,682,080	\$ 41,254,491

See accompanying notes to consolidated financial statements.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Operating activities		
Change in net assets	\$ (1,572,411)	\$ (887,320)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	6,315,636	6,229,916
Amortization of deferred financing costs	27,742	27,742
Amortization of intangible assets	27,436	27,435
Provision for bad debts	6,784,213	7,324,774
Loss on disposal of property and equipment	47,499	105,547
Realized and unrealized loss (gain) on investments	(432,743)	(1,559,168)
Contributions restricted for long-term purposes	(40,914)	(53,235)
Change in net assets of Foundation	(124,106)	(166,706)
Change in operating assets and liabilities		
Patient accounts receivable	(5,798,982)	(8,466,282)
Other receivables and receivable from Foundation	(130,182)	260,754
Inventory and prepaid expenses	151,325	(907,695)
Notes receivable	515,807	177,435
Accounts payable, accrued wages and related liabilities	(969,871)	(541,067)
Accrued expenses and other liabilities	(163,944)	(432,091)
Estimated third-party settlements	1,504,167	(690,236)
Net cash flows from operating activities	6,140,672	449,803
Investing activities		
Proceeds from sale of investments and assets whose use is limited	5,344,644	2,975,298
Purchase of investments and assets whose use is limited	(4,687,005)	(1,640,816)
Purchase of property and equipment	(1,108,723)	(2,699,216)
Proceeds from disposal of property and equipment	12,300	-0-
Cash paid for acquisition	-0-	(1,040,000)
Net cash flows from investing activities	(438,784)	(2,404,734)
Financing activities		
Contributions restricted for long-term purposes	40,914	53,235
Payments on line of credit	(1,133,788)	1,133,788
Payments on long-term debt	(1,022,281)	(1,037,239)
Net cash from financing activities	(2,115,155)	149,784
Net change in cash	3,586,733	(1,805,147)
Cash		
Beginning of year	197,700	2,002,847
End of year	\$ 3,784,433	\$ 197,700
Supplemental disclosure of cash flows information		
Cash paid for interest	\$ 1,605,599	\$ 1,670,094
Property and equipment in accounts payable	\$ 9,907	\$ 223,625

See accompanying notes to consolidated financial statements.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2018 AND 2017

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) was 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 were considered to be financially interrelated organizations even though they operated independently of each other and had separate Boards of Directors. Because the Hospital and the Foundation were financially interrelated, the Hospital recognized its interest in the net assets of the Foundation in its consolidated financial statements. In September 2018, the Foundation was dissolved as a legal entity and all assets and liabilities were transferred to the Hospital. The Hospital continues to operate the Foundation as a department of the Hospital; however, the Foundation is no longer a legally separate entity.

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, 2018 AND 2017

Cash

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.

Patient Accounts Receivable and Net Patient Service Revenue

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

Allowance for Uncollectible Accounts

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

During 2018, the Hospital's allowance for uncollectible accounts for patient services increased approximately \$462,000 from \$5,362,000 to \$5,824,000. The uncollectible allowance for self-pay balances increased approximately \$376,000 during 2018. The uncollectible allowance for third-party payor accounts increased approximately \$86,000 during 2018. The changes are primarily related to an increase in self-pay accounts receivable during the year.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2018 AND 2017

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 2017. The uncollectible allowance for third-party payor accounts increased approximately \$938,000 during 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 \$266,000 to approximately \$6,322,000 in 2018 from approximately \$6,056,000 in 2017. 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 2018. The Hospital's charity care policy dictates the income threshold of patients who are eligible for a discount at 350% of the federal poverty limit. The write-offs in 2017 related mainly to self-pay increased by approximately \$790,000 to \$6,056,000.

As of September 30, 2018, the allowance for uncollectible accounts of approximately \$5,824,000 was comprised of \$4,451,000 reserved for self-pay balances and \$1,373,000 reserved for third-party payor balances. 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.

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, 2018, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through September 30, 2016.

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 2018 and 2017, the Hospital recognized an increase in net patient service revenue of approximately \$75,000 and \$103,000, 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, 2018 AND 2017

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 net realizable value.

Assets Limited as to Use

Assets limited as to use include: (1) assets restricted by donors, and (2) assets held by trustees under debt agreements. Amounts required to meet current liabilities of the Hospital are included in current assets.

Investments and Investment Income (Loss)

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

Property, Equipment and Depreciation

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

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

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

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. No interest was capitalized during 2018 or 2017.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2018 AND 2017

Deferred Financing Costs

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 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 2018 and 2017, 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 were for a period of up to five years, were interest free, unsecured and required monthly payments. The credit quality indicator was performance determined by delinquency status. Delinquency status was updated monthly. All notes receivable were considered performing.

Notes receivable were carried at their estimated collectible amounts and were periodically evaluated based on historical collections and current financial conditions. An estimated allowance for uncollectible amounts was 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 determined 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 were charged against the allowance and remitted to a third-party collection agency. The evaluation of the collectability of notes receivable involved the use of significant estimates and assumptions. It is at least reasonably possible that management's estimate of uncollectible notes receivable will change in the near term.

As of September 30, 2017, notes receivables approximated \$516,000 which included a current portion of approximately \$203,000. The notes receivable were net of provisions made by the Hospital for amounts estimated to be uncollectible of approximately \$224,000 as of September 30, 2017.

During 2018, the Hospital sold its performing notes receivable.

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, 2018 and 2017 using the income approach of calculating the

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2018 AND 2017

present value of the future cash flows. The Hospital determined no impairment of goodwill existed as of September 30, 2018 and 2017. Intangible assets relate primarily to medical records and are amortized straight-line over an estimated useful life of 2 years.

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 2018 and 2017, measured at established rates, was approximately \$758,000 and \$204,000, 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. The Hospital modified its patient assistance policy during 2017.

Of the Hospital's total expenses reported, an estimated \$356,000 and \$101,000 arose from providing services to charity patients during 2018 and 2017, 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

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2018 AND 2017

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, 2018 and 2017, 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, 2017. 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).

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 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation. These reclassifications had no impact on net assets and changes in net assets for 2017, as previously reported.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2018 AND 2017

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 17, 2018.

Recently Issued Accounting Standards

On May 28, 2014, the Financial Accounting Standards Board (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, 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.

On February 25, 2016, 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, 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.

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On November 17, 2016, 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.

On June 21, 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. Additionally, the amendments in this ASU require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. Finally, ASU 2018-08 amends the "simultaneous release accounting policy" to allow a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. 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. ASSETS WHOSE USE IS LIMITED AND INVESTMENTS

Assets Whose Use is Limited

Assets whose use is limited at September 30 include:

	2018	2017
Donor restricted		
Cash	\$ 185,121	\$ -0-
Money market mutual funds	17,877	-0-
Corporate bonds	86,360	-0-
Mutual funds	135,346	-0-
Other assets	19,880	-
	<u>444,584</u>	<u>-0-</u>
Held by trustee		
Cash	66,635	65,905
Total assets whose use is limited	<u>\$ 511,219</u>	<u>\$ 65,905</u>

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Investments

Investments at September 30 include:

	2018	2017
Cash	\$ 21,177	\$ 132,561
Money market mutual funds	218,004	-0-
Corporate bonds	666,373	-0-
Common stocks	934,714	-0-
Mutual funds	18,313,791	17,995,887
Government obligations	22,549	-0-
	<u>\$ 20,176,608</u>	<u>\$ 18,128,448</u>

Total investment income included in unrestricted and temporarily restricted net assets is comprised of the following:

	2018	2017
Interest and dividend income	\$ 351,386	\$ 633,621
Realized gain on investments	129,723	145,224
Unrealized gain on investments	303,020	1,413,944
Total investment income	<u>\$ 784,129</u>	<u>\$ 2,192,789</u>

3. 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.
-

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- 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, 2018 and 2017:

- *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.
- *Corporate bonds and government obligations*: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes based value on yields currently available on comparable securities of issuers with similar credit ratings.
- *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.
- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.

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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, 2018 and 2017:

	September 30, 2018			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Money market mutual funds	\$ 17,877	\$ -0-	\$ 17,877	\$ -0-
Corporate bonds	86,360	-0-	86,360	-0-
Mutual funds	135,346	135,346	-0-	-0-
	<u>239,583</u>	<u>\$ 135,346</u>	<u>\$ 104,237</u>	<u>\$ -0-</u>
Cash and other assets	271,636			
	<u>\$ 511,219</u>			
Investments				
Money market mutual funds	\$ 218,004	\$ -0-	\$ 218,004	\$ -0-
Corporate bonds				
Financial	353,455	-0-	353,455	-0-
Services	150,305	-0-	150,305	-0-
Other	162,613	-0-	162,613	-0-
Total debt securities	<u>666,373</u>	<u>-0-</u>	<u>666,373</u>	<u>-0-</u>
Common stocks				
Financial	133,884	133,884	-0-	-0-
Technology	179,409	179,409	-0-	-0-
Healthcare	221,066	221,066	-0-	-0-
Industrial goods	182,321	182,321	-0-	-0-
Other	218,034	218,034	-0-	-0-
Total common stocks	<u>934,714</u>	<u>934,714</u>	<u>-0-</u>	<u>-0-</u>
Mutual funds				
Corporate fixed income	1,303,432	1,303,432	-0-	-0-
Diversified emerging markets	956,334	956,334	-0-	-0-
Foreign	3,018,152	3,018,152	-0-	-0-
Intermediate-term fixed income	2,012,352	2,012,352	-0-	-0-
Large growth	1,763,342	1,763,342	-0-	-0-
Large value	2,488,926	2,488,926	-0-	-0-
Mid-cap value	638,957	638,957	-0-	-0-
Small value	1,192,257	1,192,257	-0-	-0-
Non-traditional fixed income	2,698,215	2,698,215	-0-	-0-
Other	2,241,824	2,241,824	-0-	-0-
Total mutual funds	<u>18,313,791</u>	<u>18,313,791</u>	<u>-0-</u>	<u>-0-</u>
Government obligations	22,549	-0-	22,549	-0-
	<u>20,155,431</u>	<u>\$ 19,248,505</u>	<u>\$ 906,926</u>	<u>\$ -0-</u>
Cash	21,177			
	<u>\$ 20,176,608</u>			

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	September 30, 2017			
	Total	Level 1	Level 2	Level 3
Assets				
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 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-
Small value	1,207,245	1,207,245	-0-	-0-
World fixed income	620,503	620,503	-0-	-0-
World stock	2,101,321	2,101,321	-0-	-0-
Total mutual funds	17,995,887	\$ 17,995,887	\$ -0-	\$ -0-
Cash	132,561			
	\$ 18,128,448			

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2018 and 2017.

Realized gains and losses are reported in the consolidated statements of operations and changes in net assets as a component of investment income. Realized gains recorded during 2018 and 2017 approximated \$130,000 and \$145,000, respectively. Differences between market value and cost of investments are classified as unrealized gains or losses. Unrealized gains or losses are included in earnings for the period attributable to the change in unrealized gains/losses relating to assets held as of September 30, 2018 and 2017 and are reported in the consolidated statements of operations and changes in net assets in investment income. Unrealized gains were approximately \$303,000 and \$1,414,000 for 2018 and 2017, respectively.

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.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

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4. PROPERTY AND EQUIPMENT

Property and equipment at September 30 consist of:

	2018	2017
Land	\$ 1,462,868	\$ 1,317,868
Buildings and improvements	62,073,285	62,053,116
Fixed equipment	19,750,133	19,245,160
	<u>83,286,286</u>	<u>82,616,144</u>
Less accumulated depreciation	32,851,437	26,911,904
	<u>50,434,849</u>	<u>55,704,240</u>
Construction in progress	524,380	366,794
	<u>\$ 50,959,229</u>	<u>\$ 56,071,034</u>

Construction in progress as of September 30, 2018 primarily relates to the Hospital's human capital management and accounts receivable, medical records, and billing system. The estimated cost to complete these projects as of September 30, 2018 is approximately \$175,000, of which all has been contractually committed.

5. LINE OF CREDIT AND LONG-TERM DEBT

Line of Credit

The Hospital has a \$2,000,000 revolving bank line of credit expiring in April 2019. As of September 30, 2018 and 2017, the outstanding balance was \$-0- and approximately \$1,134,000, respectively. The line is unsecured. Variable interest is payable monthly and was 5.25% as of September 30, 2018 based on Wall Street Journal Prime rate plus .5% with a floor of 3.75%.

Long-Term Debt

The Hospital has the following long-term debt obligations outstanding as of September 30, 2018 and 2017:

- United States Department of Agriculture (USDA) Direct Loan dated January 2016. The USDA Direct Loan has a term of 40 years at a fixed rate of 3.125% maturing in January 2056.
- Farmers & Merchants State Bank (Farmers & Merchants) loan dated December 2014 with a fixed interest rate of 4.95% maturing in December 2039.

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- Farmers & Merchants loan dated December 2014 with a variable interest rate of 5.50% as of September 30, 2018 that matures in December 2039. The variable interest rate is set at prime plus .5% changed quarterly with a floor of 3.25% and ceiling of 5.50%.
- Capital lease obligations with interest rates ranging from 3.28% to 4.83% expiring through 2020.

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

	2018	2017
USDA Direct Loan, dated January 2016, fixed interest of 3.125%, payable in monthly principal and interest installments of approximately \$135,000 until January 2056.	\$ 35,711,526	\$ 36,207,366
Fixed bank loan guaranteed by the USDA, dated December 2014 due December 2039, with monthly principal and interest payments of approximately \$53,000, fixed interest of 4.95%.	8,246,013	8,458,361
Variable bank loan not guaranteed by the USDA, dated December 2014 due December 2039, with monthly principal and interest payments of approximately \$5,200, variable interest of 5.50% as of September 30, 2018.	892,962	922,698
Capital lease obligations, imputed interest rates ranging from 3.28% to 4.83%, expiring through 2020, collateralized by equipment.	343,747	628,105
	45,194,248	46,216,530
Less unamortized deferred financing costs	(999,783)	(1,027,526)
Less current portion	(1,059,520)	(1,022,282)
	\$ 43,134,945	\$ 44,166,722

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, 2018 and 2017.

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The aggregate annual maturities of long-term debt are as follows:

Year Ending September 30,	
2019	\$ 1,059,520
2020	843,374
2021	824,456
2022	855,586
2023	887,958
Thereafter	40,723,354
	<u>\$ 45,194,248</u>

As of September 30, 2018, the remaining payments under capital lease obligations approximated \$301,000 in 2019 and \$50,000 in 2020. The \$351,000 of remaining payments include interest of approximately \$7,000. Property and equipment under capital leases as of September 30 include:

	2018	2017
Equipment	\$ 1,379,968	\$ 1,656,480
Less accumulated depreciation	1,242,490	966,496
	<u>\$ 137,478</u>	<u>\$ 689,984</u>

6. TEMPORARILY RESTRICTED NET ASSETS

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

	2018	2017
Interest in net assets of the Foundation	\$ -0-	2,660,140
Funds for expansion	-0-	45,460
Home health care services	243,304	\$ -0-
Defibrillator projects	87,825	-0-
Other	113,455	-0-
	<u>\$ 444,584</u>	<u>\$ 2,705,600</u>

During 2018 and 2017, net assets were released from donor restrictions by incurring expenses or satisfying the restricted purposes of approximately of \$86,000 and \$246,000, respectively. In 2018, net assets of approximately \$2,340,000 were released from temporarily restricted related to the dissolution of the Foundation.

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7. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. 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 (HAF) and Healthy Indiana Plan (HIP) Programs

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 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. 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. Beginning July 1, 2017, hospitals also started funding HIP, the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program but the funding includes physician, state administration, and certain non-hospital expenditures.

During 2018 and 2017, the Hospital recognized HAF and HIP Program expense of approximately \$1,790,000 and \$1,235,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP 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.

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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.

A summary of net patient service revenue, contractual adjustments, and patient service revenue forgone for patient assistance, at standard charges, for 2018 and 2017 follows:

	2018	2017
Gross patient service revenue		
Routine services	\$ 6,370,550	\$ 5,658,204
Inpatient services	17,822,943	13,347,110
Outpatient services	119,420,918	108,086,930
Total gross patient service revenue	143,614,411	127,092,244
Less deductions from revenue		
Charity care	757,534	203,884
Contractual allowances	73,202,616	61,974,515
Total deductions from revenue	73,960,150	62,178,399
Net patient service revenue	69,654,261	64,913,845
Less provision for bad debts	6,784,213	7,324,774
Net patient service revenue net of provision for bad debts	<u>\$ 62,870,048</u>	<u>\$ 57,589,071</u>

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8. 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 payor agreements. The mix of receivables and revenue from patients and third-party payors as of September 30 and for the years then ended was:

	Receivables		Revenues	
	2018	2017	2018	2017
Medicare	33%	35%	47%	45%
Medicaid	9%	11%	14%	15%
Blue Cross	10%	8%	17%	18%
Other third-party payors	20%	19%	18%	18%
Self pay	28%	27%	4%	4%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

9. 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, 2018 that have initial or remaining lease terms in excess of one year are as follows:

Year Ending September 30,	
2019	\$ 798,211
2020	15,882
	<u>\$ 814,093</u>

Rental expense for all operating leases for 2018 and 2017 was approximately \$2,034,000 and \$1,913,000, respectively.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

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10. 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 \$1,357,000 and \$1,313,000 and accumulated depreciation of approximately \$594,000 and \$551,000 as of September 30, 2018 and 2017, 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 \$5,363,000 and \$5,303,000 and accumulated depreciation of \$2,416,000 and \$2,225,000 as of September 30, 2018 and 2017, respectively. Rental income under the term of these leases is included in other revenue and was approximately \$1,207,000 and \$1,204,000 in 2018 and 2017, respectively.

Future minimum lease receipts at September 30, 2018 total approximately \$90,000 for 2019 as the majority of leases, mainly related to the assisted living facility, are less than one year.

11. 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 2018 and 2017. Pension expense was approximately \$780,000 and \$707,000 for 2018 and 2017, respectively.

12. MEDICAL MALPRACTICE

The Hospital and CMO purchases professional and general liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence (\$8,000,000 in the annual aggregate) until June 30, 2019. Starting July 1, 2019, the Act will require the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 in the annual aggregate). The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if

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any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

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.

13. 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, 2018 was \$1,000,000 per year. Total expense was approximately \$4,931,000 and \$4,157,000 during 2018 and 2017, 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 \$400,000 and \$350,000 as of September 30, 2018 and 2017, 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.

14. 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:

	<u>2018</u>	<u>2017</u>
Health care services	\$ 57,392,037	\$ 53,275,051
General and administrative	10,128,007	9,401,480
	<u>\$ 67,520,044</u>	<u>\$ 62,676,531</u>

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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.

15. SALE OF PATIENT ACCOUNTS AND NOTES RECEIVABLE

During 2018, the Hospital entered into an arrangement to sell its performing notes receivable and installment plan patient accounts receivable to HELP Financial (HELP). For the patient accounts included in the sale, payment plans are established through HELP. The payment plans offer 0% interest for terms of up to 12 months and 8% interest for terms ranging from 13 to 60 months. Any interest earned under the payment plans is retained by HELP.

Once the patient remits the initial payment to HELP, HELP purchases the associated account from the Hospital for either 86% or 80% of the balance (86% for 12-36 month loans and 80% for 37-60 month loans). The Hospital deposits 10% of the purchase into escrow to account for any defaults as the loans are full recourse. The escrow account is in the Hospital's name with a balance of approximately \$157,000 as of September 30, 2018 and is included in cash on the consolidated balance sheets. Total loans outstanding with recourse held by HELP approximated \$1,008,000 as of September 30, 2018. Based on default history, term length and other factors unique to the healthcare industry, the Hospital estimated and recorded a recourse liability of approximately \$94,000 as of September 30, 2018, which is included within patient accounts receivable in the consolidated balance sheets.

The following information relates to the notes and patient account receivables sold during 2018.

Fair values	
Cash	\$ 1,162,363
Recourse obligation	\$ 94,418
Net proceeds	
Cash received	\$ 1,162,363
Less recourse obligation	(94,418)
Net proceeds	<u>\$ 1,067,945</u>
Loss on sale	
Net proceeds	\$ 1,067,945
Less carrying amount of accounts receivable sold	(600,851)
Less carrying amount of notes receivable sold	(494,131)
	<u>\$ (27,038)</u>

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2018 AND 2017

16. THE FOUNDATION AND RELATED PARTY TRANSACTIONS

In September 2018, the Foundation was dissolved as a separate entity and became a department of the Hospital. All assets and liabilities were transferred to the Hospital. Previously, the Hospital recognized an interest in the net assets of the Foundation. The following is a summary of the assets and liabilities transferred related to the dissolution:

Assets	
Cash	\$ 189,000
Other receivables	33,000
Investments	2,529,000
Property and equipment, net	145,000
Total assets	<u>2,896,000</u>
Liabilities	
Accounts payable	26,000
Accrued expenses and other liabilities	86,000
Total liabilities	<u>112,000</u>
Net assets	<u>\$ 2,784,000</u>

Prior to the transfer, the Hospital provided accounting and financial management services to the Foundation and billed the Foundation \$20,000 during both 2018 and 2017.

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 as of September 30, 2017. The Foundation made contributions to the Hospital of approximately \$41,000 and \$53,000 during 2018 and 2017, respectively. There were no significant payables as of September 30, 2017. The Hospital contributed \$-0- and approximately \$90,000 to the Foundation during 2018 and 2017, respectively.

17. 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.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2018 AND 2017

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.

18. BUSINESS COMBINATIONS

In March 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, 2018 and 2017, goodwill and other intangibles were approximately \$886,000 and \$913,000. The intangible assets relate mainly to medical records and are expected to be fully amortized 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	28,000
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>

19. 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.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

During 2018 and 2017, the Hospital expended the following Federal awards as identified under the Catalog of Federal Domestic Assistance (CFDA) number:

Federal	<u>2018</u>	<u>2017</u>
Dept. of Health & Human Services through Indiana State Dept. of Health Small Rural Hospital Improvement Grant Program - CFDA 93.301	\$ 9,000	\$ 11,472
Dept. of Health & Human Services Hospital Preparedness Program - CFDA 93.074	<u>3,905</u>	<u>8,319</u>
	<u>\$ 12,905</u>	<u>\$ 19,791</u>

The Hospital did not expend any State or local awards during 2018 and 2017.

SUPPLEMENTARY INFORMATION

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2018

ASSETS	Hospital	CMO	Eliminations	Total
Current assets				
Cash	\$ 2,673,409	\$ 1,111,024	\$ -0-	\$ 3,784,433
Patient accounts receivable, net	9,809,507	-0-	-0-	9,809,507
Other receivables	586,817	904	(245,413)	342,308
Inventory	1,745,445	-0-	-0-	1,745,445
Prepaid expenses	911,631	-0-	-0-	911,631
Total current assets	15,726,809	1,111,928	(245,413)	16,593,324
Assets whose use is limited				
Donor restricted	444,584	-0-	-0-	444,584
Held by trustee	66,635	-0-	-0-	66,635
Total assets whose use is limited	511,219	-0-	-0-	511,219
Investments	23,505,629	-0-	(3,329,021)	20,176,608
Property and equipment, net	47,341,085	3,618,144	-0-	50,959,229
Goodwill and intangible assets, net	885,713	-0-	-0-	885,713
Total assets	<u>\$ 87,970,455</u>	<u>\$ 4,730,072</u>	<u>\$ (3,574,434)</u>	<u>\$ 89,126,093</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 1,733,527	\$ 268,795	\$ (245,413)	\$ 1,756,909
Accrued wages and related liabilities	2,322,594	-0-	-0-	2,322,594
Accrued expenses and other liabilities	698,863	-0-	-0-	698,863
Estimated third-party settlements	471,182	-0-	-0-	471,182
Current portion of long-term debt	1,059,520	-0-	-0-	1,059,520
Total current liabilities	6,285,686	268,795	(245,413)	6,309,068
Long-term liabilities				
Long-term debt, less current portion	43,134,945	-0-	-0-	43,134,945
Total liabilities	49,420,631	268,795	(245,413)	49,444,013
Net assets				
Unrestricted	38,105,240	4,461,277	(3,329,021)	39,237,496
Temporarily restricted	444,584	-0-	-0-	444,584
Total net assets	38,549,824	4,461,277	(3,329,021)	39,682,080
Total liabilities and net assets	<u>\$ 87,970,455</u>	<u>\$ 4,730,072</u>	<u>\$ (3,574,434)</u>	<u>\$ 89,126,093</u>

See Report of Independent Auditors on pages 1 and 2.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2017

ASSETS	Hospital	CMO	Eliminations	Total
Current assets				
Cash	\$ 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
Assets whose use is limited				
Held by trustee	65,905	-0-	-0-	65,905
Investments	21,457,469	-0-	(3,329,021)	18,128,448
Property and equipment, net	52,297,155	3,773,879	-0-	56,071,034
Other assets				
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, net	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>
LIABILITIES AND NET ASSETS				
Current liabilities				
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
Long-term liabilities				
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
Net assets				
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 STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED SEPTEMBER 30, 2018

	Hospital	CMO	Eliminations	Total
Unrestricted revenue, gains and other support				
Net patient service revenue	\$ 68,451,786	\$ 1,202,475	\$ -0-	\$ 69,654,261
Less provision for bad debts	6,784,213	-0-	-0-	6,784,213
Net patient service revenue net of provision for bad debts	61,667,573	1,202,475	-0-	62,870,048
Other revenue	1,292,308	1,567,122	(683,495)	2,175,935
Total revenue, gains and other support	62,959,881	2,769,597	(683,495)	65,045,983
Expenses				
Salaries and wages	22,544,738	1,525,939	-0-	24,070,677
Employee benefits	7,650,030	-0-	-0-	7,650,030
Purchased services and professional fees	11,531,718	53,125	-0-	11,584,843
Supplies	6,561,608	276,738	-0-	6,838,346
Repair and maintenance	2,140,333	44,688	-0-	2,185,021
Utilities	722,572	103,185	-0-	825,757
Building and equipment rent	1,866,085	344,680	(176,854)	2,033,911
Insurance	516,144	11,045	-0-	527,189
Interest	1,633,341	-0-	-0-	1,633,341
Depreciation	6,113,848	201,788	-0-	6,315,636
Other	3,745,400	616,534	(506,641)	3,855,293
Total expenses	65,025,817	3,177,722	(683,495)	67,520,044
Operating loss	(2,065,936)	(408,125)	-0-	(2,474,061)
Nonoperating income (loss)				
Net assets released from restrictions	2,380,576	-0-	-0-	2,380,576
Investment income	784,129	-0-	-0-	784,129
Loss on disposal of property and equipment	(47,499)	-0-	-0-	(47,499)
Total nonoperating income	3,117,206	-0-	-0-	3,117,206
Revenues over (under) expenses	1,051,270	(408,125)	-0-	643,145
Other changes in net assets				
Net assets released from restrictions for property	45,460	-0-	-0-	45,460
Change in unrestricted net assets	1,096,730	(408,125)	-0-	688,605
Temporarily restricted net assets				
Contributions	40,914	-0-	-0-	40,914
Change in net assets of Foundation	124,106	-0-	-0-	124,106
Net assets released from restrictions	(2,426,036)	-0-	-0-	(2,426,036)
Change in temporarily restricted net assets	(2,261,016)	-0-	-0-	(2,261,016)
Change in net assets	(1,164,286)	(408,125)	-0-	(1,572,411)
Net assets				
Beginning of year	39,714,110	4,869,402	(3,329,021)	41,254,491
End of year	\$ 38,549,824	\$ 4,461,277	\$ (3,329,021)	\$ 39,682,080

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
Unrestricted revenue, gains and other support				
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
Total revenue, gains and other support	57,546,943	2,626,182	(600,912)	59,572,213
Expenses				
Salaries and wages	21,068,042	1,317,497	-0-	22,385,539
Employee benefits	6,700,205	-0-	-0-	6,700,205
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	(2,744,172)	(360,146)	-0-	(3,104,318)
Nonoperating income (loss)				
Net assets released from restrictions	90,201	-0-	-0-	90,201
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 (loss)	2,087,242	-0-	-0-	2,087,242
Expenses over revenues	(656,930)	(360,146)	-0-	(1,017,076)
Other changes in net assets				
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)
Temporarily restricted net assets				
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)
Net assets				
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.



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**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND 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 and 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, 2018, 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 17, 2018.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's 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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

Blue & Co., LLC

Indianapolis, Indiana
December 17, 2018

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2018

Summary Schedule of Prior Audit Findings:

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

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

Current status – No similar items were noted during 2018.