

**Floyd Memorial Hospital and Health Services**  
**A Component Unit of Floyd County, Indiana**  
Independent Auditor's Reports and Financial Statements  
December 31, 2015 and 2014



**Floyd Memorial Hospital and Health Services**  
**A Component Unit of Floyd County, Indiana**  
December 31, 2015 and 2014

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## Independent Auditor's Report

Board of Trustees  
Floyd Memorial Hospital and Health Services  
New Albany, Indiana

### Report on the Financial Statements

We have audited the accompanying balance sheets of Floyd Memorial Hospital and Health Services (Hospital), a component unit of Floyd County, Indiana, as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

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

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

### *Auditor's Responsibility*

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of a Matter**

As discussed in Note 1 to the financial statements, in 2015, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### **Required Supplementary Information**

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2016 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

**BKD, LLP**

# Floyd Memorial Hospital and Health Services

## A Component Unit of Floyd County, Indiana

### Management's Discussion and Analysis

### Years Ended December 31, 2015 and 2014

#### Introduction

This management's discussion and analysis of the financial performance of Floyd Memorial Hospital and Health Services (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2015, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Hospital.

#### Financial Highlights

- Cash and investments, excluding restricted investments and amounts held by trustee for debt service, increased by \$10,274,954, or 11.3%, in 2015 as compared to 2014 and increased by \$5,086,114, or 5.9%, in 2014 as compared to 2013.
- The Hospital's net position increased in the past year by \$3,751,326, or 2.8%, as compared to 2014 when the Hospital's net position decreased by \$4,180,201, or (3%), as compared to 2013.
- The Hospital reported operating income (loss) in 2015 of \$6,647,914, or 2%, of total operating revenues versus (\$1,843,260), or (0.6%), of total operating revenues in 2014 and \$368,886, or 0.1%, of total operating revenues in 2013.
- Net nonoperating expenses decreased by (\$393,810) in 2015 as compared to 2014 and increased \$755,317 in 2014 as compared to 2013.
- Days cash on hand increased to 121 in 2015 from 116 in 2014 and 119 in 2013.
- Debt service coverage ratio increased to 2.7 in 2015 from 1.5 in 2014 and from 1.9 in 2013.
- The Hospital adopted Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended for the 2015 fiscal year. In adopting this new standard, the Hospital recognized a net pension liability of \$21,232,851 and deferred outflows of resources of \$3,227,578 as of December 31, 2015. A restatement to record the effects of the new reporting guidance caused a cumulative effect of change in accounting principle (decrease in beginning net position) by (\$3,748,255). Any impact of this restatement is not reflected in the 2014 or 2013 amounts included in this management's discussion and analysis.

#### Using This Annual Report

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

**Floyd Memorial Hospital and Health Services**  
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**Years Ended December 31, 2015 and 2014**

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

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

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

**The Statement of Cash Flows**

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

**The Hospital's Net Position**

The Hospital's net position is the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources reported in the balance sheet. The Hospital's net position increased by \$3,751,326, or 2.8%, in 2015 and decreased by (\$4,180,201), or (3%), in 2014 and (\$846,330), or (0.6%), in 2013, as shown in Table 1.

**Floyd Memorial Hospital and Health Services**  
**A Component Unit of Floyd County, Indiana**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2015 and 2014**

**Table 1: Balance Sheets Summary**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 39,869,072	\$ 38,154,806	\$ 47,587,727
Other current assets	42,786,431	33,313,090	25,201,688
Capital assets, net	113,897,640	115,696,301	121,155,030
Other noncurrent assets	85,361,890	83,309,956	85,773,760
Total assets	<u>281,915,033</u>	<u>270,474,153</u>	<u>279,718,205</u>
<b>Deferred Outflows of Resources</b>	<u>19,873,284</u>	<u>17,567,062</u>	<u>18,488,807</u>
Total assets and deferred outflows of resources	<u><u>\$ 301,788,317</u></u>	<u><u>\$ 288,041,215</u></u>	<u><u>\$ 298,207,012</u></u>
<b>Liabilities</b>			
Long-term debt	\$ 93,212,975	\$ 91,845,146	\$ 95,170,568
Other current and noncurrent liabilities	65,635,030	52,817,558	55,043,618
Fair value of interest rate swap agreement	8,265,934	8,454,270	6,182,805
Total liabilities	<u>167,113,939</u>	<u>153,116,974</u>	<u>156,396,991</u>
<b>Deferred Inflows of Resources</b>	<u>1,334,530</u>	<u>1,587,464</u>	<u>4,293,043</u>
<b>Net Position</b>			
Net investment in capital assets	32,681,320	37,064,613	39,959,274
Restricted	6,551,530	6,462,200	6,424,439
Unrestricted	94,106,998	89,809,964	91,133,265
Total net position	<u>133,339,848</u>	<u>133,336,777</u>	<u>137,516,978</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 301,788,317</u></u>	<u><u>\$ 288,041,215</u></u>	<u><u>\$ 298,207,012</u></u>

Total assets increased \$11,440,880, or 4.2%, in 2015 compared to 2014. Patient accounts receivable increased by \$1,714,266, or 4.5%, from 2014 to 2015, and decreased \$9,432,921, or (19.8%), from 2013 to 2014.

**Operating Results and Changes in the Hospital's Net Position**

The Hospital's net position increased by \$3,751,326, or 2.8%, in 2015, compared to a decrease of \$4,180,201, or (3%), in 2014. This increase is made up of several components as shown in Table 2.

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**Table 2: Operating Results and Changes in Net Position**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 322,733,722	\$ 291,417,867	\$ 273,191,901
Other operating revenues	3,951,833	4,962,382	5,373,947
Total operating revenues	<u>326,685,555</u>	<u>296,380,249</u>	<u>278,565,848</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	165,865,507	153,977,341	147,294,644
Purchased services and professional fees	51,098,464	55,300,587	42,776,712
Depreciation and amortization	14,074,795	13,736,088	13,424,077
Other operating expenses	88,998,875	75,209,493	74,701,529
Total operating expenses	<u>320,037,641</u>	<u>298,223,509</u>	<u>278,196,962</u>
<b>Operating Income (Loss)</b>	<u>6,647,914</u>	<u>(1,843,260)</u>	<u>368,886</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income (loss)	(444,972)	365,022	1,956,325
Noncapital grants and contributions	209,344	280,207	313,627
Interest expense	(4,935,690)	(5,146,909)	(5,200,248)
Other nonoperating revenues and expenses, net	2,274,730	1,998,902	1,182,835
Total nonoperating expenses	<u>(2,896,588)</u>	<u>(2,502,778)</u>	<u>(1,747,461)</u>
<b>Capital Grants</b>			
Capital grants	-	165,837	532,245
Total capital grants	<u>-</u>	<u>165,837</u>	<u>532,245</u>
<b>Change in Net Position</b>	<u>\$ 3,751,326</u>	<u>\$ (4,180,201)</u>	<u>\$ (846,330)</u>

**Operating Income (Loss)**

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

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The operating income for 2015 was \$6,647,914 as compared to an operating loss of (\$1,843,260) for 2014 and operating income of \$368,886 for 2013. The primary components of change in operating results are:

- An increase in net patient service revenue of \$31,315,855, or 10.7%, in 2015 due primarily to a 2% increase in inpatient discharges, a 15% increase in outpatient visits and the expansion of the Healthy Indiana Plan (HIP 2.0). In 2015, the state of Indiana expanded the HIP 2.0, providing an avenue for a greater number of uninsured patient service revenue due to HIP 2.0 expansion. In 2008, the Hospital implemented revenue cycle initiatives to identify net patient service revenue enhancement opportunities. These initiatives yielded increases in net patient revenue of \$730,668 in 2015 and \$5,857,520 in 2014.
- An increase in salaries and benefits of \$11,888,166, or 7.7%, in 2015 as compared to an increase of \$6,682,697, or 4.5%, in 2014. The increase resulted from a 2% increase in inpatient discharges, a 15% increase in outpatient visits, the addition of new physicians as part of Floyd Memorial Medical Group (FMMG), the full year impact of FMMG physicians added in 2014, the return of an Oncology physician and staff to the Cancer Care Center and a 2% salary increase for associates effective October 2015.
- An increase in supply and drug costs of \$11,214,623, or 19.6%, in 2015 and \$493,110, or 0.9%, in 2014. The increase resulted from the increase in both inpatient and outpatient volume over 2014 and the return of a former Oncology physician to the Cancer Care Center in May 2015.
- An increase in depreciation and amortization of \$338,707, or 2.5%, in 2015 and an increase of \$312,011, or 2.3%, in 2014.

Full-time equivalent employees increased to 2,228 in 2015, or 2.7%, from 2,170 in 2014 and 2,144 in 2013. While inpatient discharges and outpatient visits increased in 2015, Hospital full-time equivalent employees remained consistent with 2014. The increase in 2015 resulted from the addition of new physicians as part of FMMG, the full year impact of FMMG physicians added in 2014 and the return of an oncology physician and staff to the Cancer Care Center.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Expenditures for medical supplies and prescription drugs are a major component of the Hospital's costs. In 2015, the costs totaled \$68,321,951, or 21.3%, of total operating expenses, resulting in an increase of \$11,214,623, or 19.6%, over 2014. In 2014, the costs totaled \$57,107,328, or 19.1%, of total operating expenses, resulting in an increase of \$493,110, or 0.9%, over 2013. In 2013, the costs totaled \$56,614,218, or 20.4%, of total operating expenses. The costs increased due to the return of the oncology physician and resulting volume increases in the Cancer Care Center, as well as an increase in inpatient and outpatient Hospital volume. In 2008, the Hospital implemented a clinical quality value analysis (CQVA) program, focused on the quality and cost-effectiveness of supplies. The CQVA program yielded savings of approximately \$2,716,615 in 2015 compared to approximately \$2,246,790 in 2014 and \$1,549,902 in 2013.

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**Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of investment income (loss) and interest expense. The Hospital recorded investment loss of \$444,972 in 2015 versus investment income of \$365,022 in 2014. Interest expense decreased to \$4,935,690 in 2015, or a (4%), decrease over 2014 of \$5,146,909, due to interest payments on existing bonds.

**The Hospital's Cash Flows**

Increases in cash flow in 2015 are the result of increased operating income and timing of vendor payments. In 2014, cash flows increased due to a decrease in patient accounts receivable.

**Capital Asset and Debt Administration**

***Capital Assets***

At the end of 2015, the Hospital had \$113,897,640 net invested in capital assets compared to \$115,696,301 in 2014 for a decrease of (\$1,798,661), or (1.6%), from 2014 and a decrease of (\$5,458,729), or (4.5%), from 2013 to 2014. See Note 6 for additional information about significant capital assets.

***Debt***

At December 31, 2015, the Hospital had \$97,862,026 in revenue bonds, notes payable and capital lease obligations outstanding.

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

In August 2015, the Hospital issued a note payable in the amount of \$5,000,000 to fund capital projects with payments through 2022.

See Note 9 for additional information on debt activity.

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**Other Operating and Future Economic Factors**

***Indiana Hospital Assessment Fee Program***

During 2012, the state of Indiana enacted the Hospital Assessment Fee (HAF) program, which is designed to increase Medicaid payments to hospitals. The program was implemented retroactively to the beginning of the 2012 Indiana State Fiscal Year (July 1, 2011), and was in place through June 30, 2013. Therefore, the Hospital recorded a six-month impact of the HAF program during 2013. In 2014, the Indiana Legislature approved legislation re-instating the HAF program through June 30, 2017. The Hospital recorded \$12,743,000 within net patient service revenues during 2015 versus \$25,175,000 in 2014 and expensed assessment fees totaling \$12,240,000 in 2015 versus \$21,756,000 in 2014.

**Contacting the Hospital's Financial Management**

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

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

**Balance Sheets**

**December 31, 2015 and 2014**

**Assets and Deferred Outflows of Resources**

	<b>2015</b>	<b>2014</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 33,164,258	\$ 22,460,462
Restricted investments – current	1,287,487	2,059,977
Patient accounts receivable, net of allowance; 2015 – \$26,428,000; 2014 – \$22,348,000	39,869,072	38,154,806
Supplies	5,388,280	5,346,088
Prepaid expenses and other current assets	2,946,406	3,446,563
Total current assets	82,655,503	71,467,896
<b>Noncurrent Cash and Investments</b>		
Internally designated	67,901,804	68,330,646
Held by trustee for debt service	6,551,530	6,462,200
	74,453,334	74,792,846
Less amount required to meet current obligations	1,287,487	2,059,977
	73,165,847	72,732,869
Total noncurrent cash and investments	73,165,847	72,732,869
<b>Capital Assets, Net</b>	113,897,640	115,696,301
<b>Other Assets</b>		
Other	12,196,043	10,577,087
Total assets	281,915,033	270,474,153
<b>Deferred Outflows of Resources</b>		
	19,873,284	17,567,062
Total assets and deferred outflows of resources	\$ 301,788,317	\$ 288,041,215

## Liabilities, Deferred Inflows of Resources and Net Position

	<u>2015</u>	<u>2014</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 4,649,051	\$ 4,353,604
Payable to suppliers and contractors	16,242,343	12,387,478
Payable to employees (including payroll taxes and benefits)	13,392,313	14,693,871
Estimated amounts due to third-party payers	5,501,584	1,295,292
Accrued expenses	4,305,496	5,044,026
Payable to Northgate Surgery Center	311,392	318,084
	<hr/>	<hr/>
Total current liabilities	44,402,179	38,092,355
<b>Fair Value of Interest Rate Swap Agreement</b>	8,265,934	8,454,270
<b>Long-Term Debt</b>	93,212,975	91,845,146
<b>Net Pension Liability</b>	<hr/>	<hr/>
	21,232,851	14,725,203
	<hr/>	<hr/>
Total liabilities	167,113,939	153,116,974
<b>Deferred Inflows of Resources</b>	<hr/>	<hr/>
	1,334,530	1,587,464
<b>Net Position</b>		
Net investment in capital assets	32,681,320	37,064,613
Restricted-expendable for debt service	6,551,530	6,462,200
Unrestricted	<hr/>	<hr/>
	94,106,998	89,809,964
	<hr/>	<hr/>
Total net position	133,339,848	133,336,777
	<hr/>	<hr/>
Total liabilities, deferred inflows of resources and net position	<u>\$ 301,788,317</u>	<u>\$ 288,041,215</u>

**Floyd Memorial Hospital and Health Services**  
**A Component Unit of Floyd County, Indiana**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2015 – \$27,338,000; 2014 – \$29,461,000	\$ 322,733,722	\$ 291,417,867
Other	3,951,833	4,962,382
Total operating revenues	326,685,555	296,380,249
<b>Operating Expenses</b>		
Salaries and benefits	165,865,507	153,977,341
Purchased services and professional fees	51,098,646	55,300,587
Supplies	68,321,951	57,107,328
Other expenses	20,676,742	18,683,261
Depreciation and amortization	14,074,795	13,736,088
Gain on sale of property and equipment	-	(581,096)
Total operating expenses	320,037,641	298,223,509
<b>Operating Income (Loss)</b>	6,647,914	(1,843,260)
<b>Nonoperating Revenues (Expenses)</b>		
Investment income (loss)	(444,972)	365,022
Interest expense	(4,935,690)	(5,146,909)
Noncapital grants and contributions	209,344	280,207
Gain on investment in equity investees	2,274,730	1,998,902
Total nonoperating expenses	(2,896,588)	(2,502,778)
<b>Excess (Deficiency) of Revenues Over Expenses Before Capital Grants</b>	3,751,326	(4,346,038)
<b>Capital Grants</b>	-	165,837
<b>Increase (Decrease) in Net Position</b>	3,751,326	(4,180,201)
<b>Net Position, Beginning of Year, as Previously Reported</b>	133,336,777	137,516,978
<b>Cumulative Effect of Change in Accounting Principle</b>	(3,748,255)	
<b>Net Position, Beginning of Year, as Restated</b>	129,588,522	
<b>Net Position, End of Year</b>	\$ 133,339,848	\$ 133,336,777

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

**Statements of Cash Flows**

**Years Ended December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 324,376,566	\$ 302,776,977
Payments to suppliers and contractors	(134,965,091)	(133,338,996)
Payments to employees	(166,782,031)	(154,214,548)
Other receipts, net	3,951,833	4,962,382
Net cash provided by operating activities	26,581,277	20,185,815
<b>Noncapital Financing Activities</b>		
Noncapital grants and contributions	209,344	280,207
Net cash provided by noncapital financing activities	209,344	280,207
<b>Capital and Related Financing Activities</b>		
Capital grants	-	165,837
Interest payments on long-term obligations	(4,568,944)	(4,692,748)
Principal paid on long-term debt and capital leases	(3,364,496)	(3,513,585)
Purchase of capital assets	(12,594,677)	(8,316,373)
Proceeds from issuance of long-term debt	5,000,000	-
Net cash used in capital and related financing activities	(15,528,117)	(16,356,869)
<b>Investing Activities</b>		
Proceeds from disposition of investments	88,198,950	19,697,894
Purchase of investments	(88,268,510)	(18,298,700)
Interest and dividends on investments	(35,900)	2,062,815
Deconsolidation of affiliate	(453,248)	-
Proceeds from sale of capital assets	-	649,700
Net cash provided by (used in) investing activities	(558,708)	4,111,709
<b>Increase in Cash and Cash Equivalents</b>	10,703,796	8,220,862
<b>Cash and Cash Equivalents, Beginning of Year</b>	22,460,462	14,239,600
<b>Cash and Cash Equivalents, End of Year</b>	\$ 33,164,258	\$ 22,460,462

	<u>2015</u>	<u>2014</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income (loss)	\$ 6,647,914	\$ (1,843,260)
Depreciation and amortization	14,074,795	13,736,090
Provision for uncollectible accounts	27,337,864	29,461,443
Gain on disposition of assets	-	(581,096)
Changes in operating assets and liabilities		
Patient accounts receivable	(29,704,252)	(20,028,522)
Estimated amounts due to/from third-party payers	4,009,232	2,395,706
Accounts payable and accrued expenses	3,281,680	(3,147,116)
Prepaid assets, supplies and other assets	934,044	192,570
Net cash provided by operating activities	<u>\$ 26,581,277</u>	<u>\$ 20,185,815</u>
<b>Supplemental Cash Flows Information</b>		
Property, plant and equipment additions in accounts payable	\$ 127,677	\$ 344,105
Change in fair value of interest rate swap agreements	\$ 188,336	\$ (2,271,465)
<b>Noncash Transactions</b>		
Adoption of GASB 68		
Increase in deferred outflows or resources	\$ 3,150,000	\$ -
Increase (decrease) in net pension liability	\$ (6,898,255)	\$ -

# Floyd Memorial Hospital and Health Services

## A Component Unit of Floyd County, Indiana

### Notes to Financial Statements December 31, 2015 and 2014

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

##### *Nature of Operations and Reporting Entity*

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

##### *Basis of Accounting and Presentation*

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

##### *Use of Estimates*

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

##### *Cash Equivalents*

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, cash equivalents consisted primarily of money market accounts.

# **Floyd Memorial Hospital and Health Services**

## **A Component Unit of Floyd County, Indiana**

### **Notes to Financial Statements**

#### **December 31, 2015 and 2014**

#### ***Risk Management***

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

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

#### ***Investments and Investment Income***

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

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

#### ***Patient Accounts Receivable***

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

#### ***Supplies***

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

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

## Notes to Financial Statements December 31, 2015 and 2014

### **Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line half-year convention method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

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

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. There was no interest capitalized and incurred for the years ended December 31, 2015 and 2014.

### **Other Assets**

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

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

### **Deferred Amounts on Refunding**

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

### **Other Long-Term Liabilities**

Other long-term liabilities consist of deferred compensation agreements with key employees. The agreements are to be funded with proceeds from operations.

# Floyd Memorial Hospital and Health Services

## A Component Unit of Floyd County, Indiana

### Notes to Financial Statements

#### December 31, 2015 and 2014

#### ***Interest Rate Swap Agreement***

The Hospital uses an interest rate swap agreement to manage financial risks related to interest rate movements and the effects on its cash flows. The Hospital is accounting for the interest rate swap agreement as a hedging instrument. As a result, the agreement is recorded at its fair value in the balance sheets. The net cash payments or receipts under the interest rate swap agreement are recorded as an increase or decrease to interest expense.

#### ***Compensated Absences***

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments, such as social security and Medicare taxes computed using rates in effect at that date. The estimated compensated absences liability expected to be paid more than one year after the balance sheet date is included in other long-term liabilities.

#### ***Defined Benefit Pension Plan***

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

#### ***Net Position***

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

# Floyd Memorial Hospital and Health Services

## A Component Unit of Floyd County, Indiana

### Notes to Financial Statements

#### December 31, 2015 and 2014

#### ***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

#### ***Charity Care***

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

#### ***Income Taxes***

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

#### ***Electronic Health Records Incentive Program***

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

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

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

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

## Notes to Financial Statements December 31, 2015 and 2014

In 2014, the Hospital completed the third-year requirements under both the Medicare and Medicaid programs and has recorded revenue of approximately \$1,597,000, which is included in other operating revenues in the statement of revenues, expenses and changes in net position.

### ***Change in Accounting Principle***

During the year ended December 31, 2015, the Hospital adopted Governmental Accounting Standards Board (GASB) No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended. The primary objective of GASB 68 is to improve accounting and financial reporting for pensions by state and local governments, including special-purpose governments such as hospitals. The statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses related to pensions, as well as requiring certain footnote disclosures and required supplementary information related thereto. Restatement of the Hospital’s 2014 financial statements is not practical because actuarial information necessary for restatement of those financial statements is not available. Accordingly, the cumulative effect of applying GASB 68 has been reported as a restatement of beginning net position at January 1, 2015. Components of the restatement are as follows:

Net position at January 1, 2015, as previously reported	\$ 133,336,777
Recorded net pension liability at January 1, 2015, determined in accordance with the provisions of GASB 68	(21,623,458)
Remove net pension liability at January 1, 2015, determined in accordance with the provisions of GASB 27	14,725,203
Record deferral of employer contributions for 2014 in accordance with the provisions of GASB 68	<u>3,150,000</u>
Net position at January 1, 2015, as adjusted	<u><u>\$ 129,588,522</u></u>

### ***Reclassifications***

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation. The reclassifications had no effect on the changes in financial position.

# Floyd Memorial Hospital and Health Services

## A Component Unit of Floyd County, Indiana

### Notes to Financial Statements December 31, 2015 and 2014

#### Note 2: Net Patient Service Revenue

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

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

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

The Hospital received approximately \$12,743,000 and \$25,175,000 during 2015 and 2014, respectively, due to the enactment of a state-specific provider assessment program to increase Medicaid payments to hospitals. This revenue is recorded within net patient service revenue in the statements of revenues, expenses and changes in net position for 2015 and 2014. The Hospital paid approximately \$12,240,000 and \$21,756,000 into this Medicaid program for 2015 and 2014, respectively, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position.

The provider assessment program expired on June 30, 2013. In March 2014, the CMS approved the provider assessment fee program retroactively to July 1, 2013. During 2014, the Hospital recognized an estimated \$9,938,000 of Medicaid reimbursement and \$7,913,000 of provider assessment fees pertaining to the period July 1, 2013, to December 31, 2013.

The Hospital also qualifies as a Medicaid DSH provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the state of Indiana and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately \$2,320,000 and \$1,248,000 within patient service revenue related to this supplemental payment program for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, respectively, (\$2,652,140) and \$1,248,366 is recorded as a liability and receivable within estimated amounts due to/from third parties.

# Floyd Memorial Hospital and Health Services

## A Component Unit of Floyd County, Indiana

### Notes to Financial Statements

#### December 31, 2015 and 2014

Approximately 50% and 59% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2015 and 2014, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

### **Note 3: Deposits, Investments and Investment Income**

#### ***Deposits***

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

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

#### ***Investments***

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

**Floyd Memorial Hospital and Health Services**  
**A Component Unit of Floyd County, Indiana**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

At December 31, 2015 and 2014, the Hospital had the following investments and maturities:

<b>2015</b>					
<b>Type</b>	<b>Fair Value</b>	<b>Maturities in Years</b>			
		<b>Less Than One</b>	<b>One to Five</b>	<b>Six to 10</b>	<b>More Than 10</b>
Money market mutual funds	\$ 11,294,865	\$ 11,294,865	\$ -	\$ -	\$ -
U.S. agencies	27,769,694	1,749,960	14,993,343	9,527,333	1,499,058
Mutual funds	<u>35,388,775</u>	<u>35,388,775</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 74,453,334</u>	<u>\$ 48,433,600</u>	<u>\$ 14,993,343</u>	<u>\$ 9,527,333</u>	<u>\$ 1,499,058</u>
<b>2014</b>					
<b>Type</b>	<b>Fair Value</b>	<b>Maturities in Years</b>			
		<b>Less Than One</b>	<b>One to Five</b>	<b>Six to 10</b>	<b>More Than 10</b>
Money market mutual funds	\$ 7,880,552	\$ 7,880,552	\$ -	\$ -	\$ -
U.S. agencies	16,075,917	2,124,982	12,005,675	-	1,945,260
Mutual funds	<u>50,836,377</u>	<u>50,836,377</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 74,792,846</u>	<u>\$ 60,841,911</u>	<u>\$ 12,005,675</u>	<u>\$ -</u>	<u>\$ 1,945,260</u>

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

*Credit Risk* – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital’s policy to limit its investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). At December 31, 2015 and 2014, the Hospital’s investments in U.S. agencies obligations not directly guaranteed by the U.S. Government were rated Aaa by Moody’s Investor Services.

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At December 31, 2015 and 2014, the Hospital held no investments in repurchase agreements.

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

**Notes to Financial Statements**  
**December 31, 2015 and 2014**

*Concentration of Credit Risk* – The Hospital places no limit on the amount that may be invested in any one qualified issuer. At December 31, 2015 and 2014, the Hospital had no investments in corporate bonds.

**Summary of Carrying Values**

The carrying values of deposits and investments shown above are included in the balance sheets at December 31, 2015 and 2014, as follows:

	<b>2015</b>	<b>2014</b>
Carrying value		
Deposits	\$ 33,164,258	\$ 22,460,462
Investments	74,453,334	74,792,846
	\$107,617,592	\$ 97,253,308

Included in the following balance sheet captions:

	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	\$ 33,164,258	\$ 22,460,462
Restricted investments – current	1,287,487	2,059,977
Noncurrent cash and investments	73,165,847	72,732,869
	\$107,617,592	\$ 97,253,308

**Investment Income (Loss)**

Investment income (loss) for the years ended December 31, 2015 and 2014, consisted of:

	<b>2015</b>	<b>2014</b>
Interest and dividend income, including realized gains/losses	\$ (35,900)	\$ 2,062,815
Net decrease in fair value of investments	(409,072)	(1,697,793)
	\$ (444,972)	\$ 365,022

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

**Notes to Financial Statements  
December 31, 2015 and 2014**

**Note 4: Patient Accounts Receivable**

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2015 and 2014, consisted of:

	<b>2015</b>	<b>2014</b>
Medicare	\$ 10,671,943	\$ 12,655,179
Medicaid	5,421,286	7,353,224
Other third-party payers	28,749,626	19,312,791
Patients	21,454,221	21,181,288
	66,297,076	60,502,482
Less allowance for uncollectible accounts	26,428,004	22,347,676
	<b>\$ 39,869,072</b>	<b>\$ 38,154,806</b>

**Note 5: Investments in Uncombined Entities**

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

**Guarantees**

The Hospital guarantees certain third-party debt and capital leases of unconsolidated affiliated organizations.

At December 31, 2014, the Hospital guaranteed 33% of the \$750,000 outstanding debt of Southern Indiana Rehabilitation Hospital. The debt was paid off in March 2015.

At December 31, 2014, the Hospital guaranteed 50% of the \$69,227 for a line of credit, note and capital leases of Northgate Medical Imaging, LLC. These amounts were paid off during 2015.



# Floyd Memorial Hospital and Health Services

## A Component Unit of Floyd County, Indiana

### Notes to Financial Statements December 31, 2015 and 2014

#### Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance from the Risk Retention Group under a claims-made policy. The Hospital pays an annual premium to the Risk Retention Group for its torts insurance coverage. The Risk Retention Group's governing agreement specifies that the Risk Retention Group will be self-sustaining through member premiums and will re-insure through commercial carriers for claims in excess of stop-loss amounts. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no liabilities were recorded at December 31, 2015 and 2014. It is possible this estimate could change materially in the near term.

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

#### Note 8: Employee Health Claims

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

# Floyd Memorial Hospital and Health Services

## A Component Unit of Floyd County, Indiana

### Notes to Financial Statements December 31, 2015 and 2014

Activity in the Hospital's accrued employee health claims liability during the years ended December 31, 2015 and 2014, is summarized as follows:

	<b>2015</b>	<b>2014</b>
Balance, beginning of year	\$ 1,154,220	\$ 1,052,612
Current year claims incurred and changes in estimates for claims incurred in prior years	13,622,458	14,677,797
Claims and expenses paid	(13,328,420)	(14,576,189)
Balance, end of year	\$ 1,448,258	\$ 1,154,220

#### **Note 9: Long-Term Obligations**

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2015 and 2014:

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

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

**Notes to Financial Statements**  
**December 31, 2015 and 2014**

	<b>2014</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Revenue bonds					
Series 2010	\$ 51,625,000	\$ -	\$ 1,810,000	\$ 49,815,000	\$ 1,895,000
Series 2012	46,050,000	-	940,000	45,110,000	990,000
Note payable	308,714	-	308,714	-	-
Line of credit	1,000,000	-	-	1,000,000	1,000,000
Capital lease obligations	1,260,918	-	454,871	806,047	468,604
	<u>100,244,632</u>	<u>-</u>	<u>3,513,585</u>	<u>96,731,047</u>	<u>4,353,604</u>
Less					
Unamortized bond discount	560,069	-	27,772	532,297	-
Total long-term debt obligations	<u>\$ 99,684,563</u>	<u>\$ -</u>	<u>\$ 3,485,813</u>	<u>\$ 96,198,750</u>	<u>\$ 4,353,604</u>

The following is a summary of the net pension liability and other long-term liabilities for the Hospital for the years ended December 31, 2015 and 2014:

	<b>2015</b>				
	<b>Beginning Balance (As Restated)</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Net pension liability	<u>\$ 21,623,458</u>	<u>\$ 4,187,004</u>	<u>\$ 4,577,611</u>	<u>\$ 21,232,851</u>	<u>\$ -</u>
	<b>2014</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Net pension liability	\$ 15,064,402	\$ 2,912,813	\$ 3,150,000	\$ 14,827,215	\$ -
Other long-term liabilities	613,852	-	613,852	-	-
Total net pension liability and other long-term liabilities	<u>\$ 15,678,254</u>	<u>\$ 2,912,813</u>	<u>\$ 3,763,852</u>	<u>\$ 14,827,215</u>	<u>\$ -</u>

# Floyd Memorial Hospital and Health Services

## A Component Unit of Floyd County, Indiana

### Notes to Financial Statements

#### December 31, 2015 and 2014

#### ***Revenue Bonds Payable***

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

#### ***Series 2010***

In April 2010, the Hospital participated in the issuance of \$56,570,000 Indiana Healthcare Facility Financing Authority Hospital Refunding Revenue Bonds, Series 2010 Bonds (2010 Bonds), which bear interest at rates ranging from 3.000% to 5.375%. The proceeds were primarily used for the advanced refunding of the 1998 and 2003B Bonds. The 2010 Bonds are subject to retirement in varying principal amounts through 2034. The bonds are secured by the gross revenues of the Hospital and the assets restricted under the bond indenture agreement.

#### ***Series 2012***

In July 2012, the Hospital participated in the issuance of \$47,245,000 Indiana Healthcare Facility Financing Authority Hospital Refunding Revenue Bonds, Series 2012 Bonds (2012 Bonds), which bear interest at 68% of one-month London Interbank Offered Rate (LIBOR), plus 1.39% (1.52% at December 31, 2015). Under the trust indenture, the 2012 Bonds were issued between the Indiana Finance Authority and The Bank of New York Mellon Trust Company and in conjunction with the trust indenture, a loan agreement was entered into for the proceeds of the sale of the 2012 Bonds to be loaned to the Hospital. The proceeds were primarily used for the advanced refunding of the 2008 Bonds. The 2012 Bonds are subject to retirement in varying principal amounts through 2036 as noted in the Master Note Series 2012. The bonds are secured by the gross revenues of the Hospital and the assets restricted under the bond indenture agreement. The sole bondholder of the Series 2012 Bonds, Branch Banking & Trust Bank, entered into a contract of purchase and promissory note for a 10-year term.

#### ***Note Payable***

In 2011, the Hospital entered into an unsecured note payable related to a primary care practice acquisition. The note totaled \$2,231,000, payable quarterly over three years with 4% annual interest. The note was paid in full in 2014.

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

## Notes to Financial Statements December 31, 2015 and 2014

In 2015, the Hospital issued a note payable totaling \$5,000,000 for capital projects. The note is payable in interest-only payments at one-month LIBOR, plus 1.75% (2.1% at December 31, 2015) through March 2016, then principal payments ranging from \$34,167 to \$41,667, plus interest, as noted previously through July 2022, with the remaining balance due in August 2022. The note is secured consistent with the Master Trust Indenture. The note requires that certain measures of financial performance be maintained so long as the note is outstanding.

### **Capital Lease Obligations**

The Hospital is obligated under leases for certain medical equipment that are accounted for as capital leases. The lease agreements bear interest at various amounts up to 4.40%. The net book value of assets under capital leases at December 31, 2015 and 2014, totaled \$212,966 and \$638,898, respectively.

The debt service requirements for long-term obligations as of December 31, 2015, were as follows:

	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2016	\$ 7,698,388	\$ 4,649,051	\$ 3,049,337
2017	6,513,460	3,602,500	2,910,960
2018	6,538,528	3,767,500	2,771,028
2019	6,532,714	3,907,500	2,625,214
2020	6,558,788	4,087,500	2,471,288
2021 – 2025	33,454,985	23,417,500	10,037,485
2026 – 2030	31,456,373	25,430,000	6,026,373
2031 – 2035	28,658,941	27,335,000	1,323,941
2036	2,175,508	2,170,000	5,508
	\$ 129,587,685	\$ 98,366,551	\$ 31,221,134

### **Note 10: Line of Credit**

The Hospital has an unsecured open-ended demand line of credit in the amount of \$5,000,000 with a bank. Amounts outstanding under the line of credit bear interest at the 30-day LIBOR, plus 1.25% adjusted monthly. There were \$1,000,000 of borrowings on the line of credit at December 31, 2015 and 2014.

# Floyd Memorial Hospital and Health Services

## A Component Unit of Floyd County, Indiana

### Notes to Financial Statements December 31, 2015 and 2014

#### Note 11: Interest Rate Swap Agreement

##### ***Objective of the Interest Rate Swap Agreement***

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

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

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

##### ***Terms***

The 2003A swap agreement was entered into on November 10, 2003, and is scheduled to expire on March 1, 2034, and required no initial net cash receipt or payment by the Hospital. The agreement provides for the Hospital to receive interest from the counterparty at 70.00% of the one-month LIBOR and to pay interest to the counterparty at a fixed rate of 4.17% on notional amounts of \$30,450,000 and \$31,050,000 at December 31, 2015 and 2014, respectively. Beginning in 2009, the notional amount of the swap agreement declines by a corresponding amount each time a principal payment is scheduled to become due on the associated debt until the notional amount reaches \$2,650,000 at the termination of the swap agreement. Under the swap agreement, the Hospital pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

##### ***Fair Value***

As of December 31, 2015 and 2014, the swap agreement had a fair value of (\$8,265,934) and (\$8,454,270), respectively, calculated using the par-value method, *i.e.*, the fixed rate on the swap agreement was compared with the current fixed rates that could be achieved in the marketplace should the swap agreement be unwound. The fixed-rate components were valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate components were assumed to be at par value because the interest rates reset to the

# Floyd Memorial Hospital and Health Services

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### Notes to Financial Statements

#### December 31, 2015 and 2014

market rate at every reset date. The fair value was then calculated by subtracting the estimated market value of the fixed components from the established market value of the variable components. The fair value of the swap agreement is recognized in long-term liabilities. Through the date of the defeasance of the 2008 Bonds, the swap agreement was an effective hedging instrument and, therefore, the offsetting balance was reflected as a deferred outflow of resources on the Hospital's balance sheets. The cumulative amount of changes in fair value through the date of the 2008 Bond defeasance (\$10,902,924) was included in the loss on defeasance, which is reported in deferred outflows of resources.

Subsequent to the defeasance, hedge accounting was resumed and changes in fair value of the interest rate swap agreement were \$188,336 and (\$2,271,465) and are reflected in deferred inflows of resources as of December 31, 2015 and 2014, respectively.

#### ***Credit Risk***

The swap agreement's fair value represented the Hospital's credit exposure to the counterparty as of December 31, 2015. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Hospital has a maximum possible loss equivalent to the swap agreement's fair value at that date. As of December 31, 2015, the Hospital was not exposed to credit risk because the swap agreement had a negative fair value. The swap agreement counterparty was rated A by Fitch Ratings, A- by Standard & Poor's and Baa by Moody's Investors Service as of December 31, 2015 and 2014. To mitigate the potential for credit risk, if the counterparty's credit quality rating falls below the current rating for at least two of the three rating agencies, the fair value of the swap agreement is to be fully collateralized by the counterparty with U.S. Treasury obligations to be held by a third-party custodian on behalf of the Hospital. The Hospital does not currently have a policy of requiring the counterparty to post collateral in the event the Hospital becomes exposed to credit risk. The Hospital does not currently have a policy requiring a master netting agreement with the counterparty and does not currently have such an agreement in place.

#### ***Basis Risk***

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

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

## Notes to Financial Statements December 31, 2015 and 2014

### **Termination Risk**

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

### **Swap Payments and Associated Debt**

Using rates as of December 31, 2015, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are set forth in the table below. As rates vary, variable-rate interest payments and net swap payments will vary.

Years Ending December 31	2012 Bonds		Hedging Derivative Instrument, Net	Total to be Paid
	Principal	Interest		
2016	\$ 1,025,000	\$ 664,116	\$ 1,178,846	\$ 2,867,962
2017	1,110,000	647,845	1,151,654	2,909,499
2018	1,140,000	630,839	1,122,785	2,893,624
2019	1,180,000	613,085	1,091,900	2,884,985
2020	1,250,000	594,729	1,060,680	2,905,409
2021 – 2025	9,065,000	2,618,510	4,469,241	16,152,751
2026 – 2030	12,715,000	1,775,693	2,505,241	16,995,934
2031 – 2035	14,465,000	683,734	367,572	15,516,306
2036	2,170,000	5,508	-	2,175,508
	\$ 44,120,000	\$ 8,234,059	\$ 12,947,919	\$ 65,301,978

### **Note 12: Billing Under Arrangement**

As disclosed in Note 5, since 2006, the Hospital has a 48% interest in Northgate Surgery Center, LLC, formerly known as KKA Surgery Center, LLC, which has been accounted for on the equity method. This Joint Venture with KKA (holder of the other 52% interest) was created for the purpose of offering greater surgical capacity to Hospital patients. As part of the Joint Venture, the Hospital has entered into a billing under arrangement agreement, in which nongovernmental program patient revenues are billed under the Hospital's employer identification number (EIN) and 95% of net patient revenue is remitted to the Joint Venture as a management fee, inclusive of all

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

## Notes to Financial Statements December 31, 2015 and 2014

operating expenses and costs associated with the services being rendered. For the years ended December 31, 2015 and 2014, net patient service revenue related to the Joint Venture was \$4,245,209 and \$4,694,706, respectively, and associated management fee expense was \$4,236,276 and \$4,696,939, respectively. At December 31, 2015 and 2014, net patient accounts receivable related to the Joint Venture was \$600,593 and \$560,321 and accounts payable to the counterparty of the Joint Venture, KKA, was \$311,392 and \$318,084, respectively.

### Note 13: Operating Leases

The Hospital has entered into various operating leases for office space and medical equipment expiring at various years through 2023. Rent expense was \$8,300,397 and \$6,682,098 for the years ended December 31, 2015 and 2014, respectively.

Future minimum lease payments at December 31, 2015, are:

2016	\$ 4,895,319
2017	3,983,970
2018	3,508,515
2019	2,984,226
2020	2,754,301
2021 – 2023	<u>4,972,206</u>
Future minimum lease payments	<u><u>\$ 23,098,537</u></u>

### Note 14: Defined Benefit Pension Plan

#### *Plan Description*

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

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

## Notes to Financial Statements December 31, 2015 and 2014

### **Benefits Provided**

#### **Normal Retirement Benefit**

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

Traditional monthly accrued benefit is for participants terminating after May 1, 1989, and is the sum of 36% of average monthly earnings and 18% of average monthly earnings in excess of covered compensation multiplied by credited service projected to normal retirement date, not to exceed 30 years, divided by 30 and credited service at termination date divided by credited service projected to normal retirement date. The monthly minimum benefit is the greatest of \$6.00 per year of credited service up to May 1, 2010, or for employees who became participants prior to April 30, 1985, .9% of 1985 average monthly earnings multiplied by years of credited service up to May 1, 2010, plus .6% of 1985 average monthly earnings that are in excess of \$400 multiplied by years of credited service up to May 1, 2010, (not greater than 35).

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

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

For participants with at least 10 years of vesting service as of May 1, 2010, the cash balance account shall be credited with additional pay credit for each year of credited service beginning on May 1, 2010, and ending no later than April 30, 2020:

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

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

## Notes to Financial Statements December 31, 2015 and 2014

### ***Early Retirement Benefit***

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

### ***Late Retirement Benefit***

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

- (a) The greater of the traditional monthly accrued benefit or the monthly minimum benefit at normal retirement date, with actuarial increases through late retirement date, plus the participant's cash balance benefit at normal retirement date with interest credits only through late retirement date.
- (b) The greater of the monthly benefit based on the traditional monthly accrued benefit formula or monthly minimum benefit formula using the participant's credited service and average monthly earnings through the earlier of the late retirement date or May 1, 2010, plus the participant's cash balance benefit as of the late retirement date.

### ***Disability Retirement Benefit***

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

For purposes of the traditional monthly accrued benefit or the monthly minimum benefit, credited service will continue to accrue for any periods of time while receiving other employer-provided disability insurance benefits up to the earlier of the date the benefits cease or May 1, 2010.

Monthly earnings during this period are assumed equal to earnings immediately preceding the earlier of date of disability or May 1, 2010. Average monthly earnings and covered compensation will be calculated as of the Plan year immediately preceding the earlier of the date when all other employer-provided disability insurance benefits cease of May 1, 2010.

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

**Floyd Memorial Hospital and Health Services  
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**Notes to Financial Statements  
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***Pre-Retirement Death Benefit***

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

The employees covered by the Plan as included in the actuarial valuation used for the 2015 and 2014 financial statements are as follows:

	<b>2015</b>	<b>2014</b>
Inactive employees or beneficiaries currently receiving benefits	57	47
Inactive employees entitled to but not yet receiving benefits	603	586
Active employees	1,737	1,613
	2,397	2,246

***Contributions***

The Hospital's governing body has the authority to establish and amend the contribution requirements of the Hospital and active employees. The governing body establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For each of the years ended December 31, 2015 and 2014, employees are required to contribute 0% of their annual covered salary, and the Hospital contributed \$3,150,000 to the Plan.

***Net Pension Liability***

The Hospital's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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

## Notes to Financial Statements December 31, 2015 and 2014

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

Salary increase – 3.50%

Investment rate of return – 7.00%

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

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

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

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

### ***Discount Rate***

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

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**December 31, 2015 and 2014**

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

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

The net pension liability of the Hospital has been calculated using a discount rate of 7%. The following presents the net pension liability using a discount rate 1% higher and 1% lower than the current rate.

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
Net pension liability	<u>\$ 26,727,054</u>	<u>\$ 21,232,851</u>	<u>\$ 16,566,798</u>

**Floyd Memorial Hospital and Health Services  
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**Notes to Financial Statements  
December 31, 2015 and 2014**

***Pension Expense and Deferred Outflows of Resources Related to Pensions***

For the year ended December 31, 2015, the Hospital recognized pension expense of \$2,681,815. At December 31, 2015, the Hospital reported deferred outflows of resources related to pensions from the following sources:

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

At December 31, 2015, the Hospital reported \$3,150,000 as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date and prior to year-end that will be recognized as a reduction of the net pension liability at December 31, 2016. Other amounts reported as deferred outflows of resources at December 31, 2015, related to pensions will be recognized in pension expense as follows:

2016	\$ 19,394
2017	19,394
2018	19,394
2019	19,396
	<u>\$ 77,578</u>

***GASB 27 Disclosures***

For 2014, GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, reporting requirements are applicable the Hospital. The following additional information regarding the Plan is provided in accordance with GASB 27.

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

## Notes to Financial Statements December 31, 2015 and 2014

### ***Funding Policy***

The authority to establish and amend obligations of Plan members is established by the written agreement between the Hospital's board of trustees and the Plan administrator. Plan members are required to contribute 0% of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate. The Hospital's annual required contributions for 2014 was \$3,072,291, and contributions made to the Plan in 2014 was \$3,252,012.

### ***Annual Pension Cost and Net Pension Obligation***

The Hospital's annual pension cost and net pension obligation to the Plan for December 31, 2014, was as follows:

	<b>2014</b>
Annual required contribution	\$ 3,072,291
Interest on net pension obligation	1,054,508
Adjustment to annual required contribution	(1,315,998)
Annual pension cost	2,810,801
Contributions made	(3,150,000)
Decrease in net pension obligation	(339,199)
Net pension obligation at beginning of the year	15,064,402
Net pension obligation at end of the year	\$ 14,725,203

### ***Funded Status and Funding Progress***

As of May 1, 2014, the most recent actuarial valuation date, the Plan was 65% funded. The actuarial accrued liability for benefits was \$47,885,513 and the actuarial value of assets was \$31,174,237, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,711,276. The covered payroll (annual payroll of active employees covered by the Plan) was \$88,332,419 and the ratio of the UAAL to the covered payroll was 19%.

As of December 31, 2015, the fair value of the pension trust fund assets had decreased to \$21,109,777.

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

## Notes to Financial Statements December 31, 2015 and 2014

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### **Actuarial Methods and Assumptions**

The annual required contribution for 2015 was determined as part of an actuarial valuation on May 1, 2014, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 3.5% per year. The actuarial value of assets was determined using market value. The UAAL is being amortized on a level dollar basis over a 30-year period.

### **Three-Year Trend Information**

Year Ended	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
December 31, 2012	\$ 2,758,796	90%	\$ 14,439,581
December 31, 2013	\$ 3,104,406	80%	\$ 15,064,402
December 31, 2014	\$ 2,912,813	85%	\$ 14,725,203

### **Note 15: Defined Contribution Pension Plan – New Plan**

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

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

## Notes to Financial Statements December 31, 2015 and 2014

plan document and were established and can be amended by action of the Hospital's governing body. Contributions made by plan members for the years ended December 31, 2015 and 2014, were \$6,141,597 and \$5,230,473, or 5%, respectively, of total payroll for both years. Contributions made by the Hospital for the years ended December 31, 2015 and 2014, were \$1,619,153 and \$1,481,629, or 1%, respectively, of total payroll for both years.

### Note 16: Deferred Outflows and Inflows of Resources

The Hospital's deferred outflows and inflows at December 31, 2015 and 2014, were as follows:

	2015	2014
<b>Deferred Outflows of Resources</b>		
Loss on bond defeasance	\$ 16,645,706	\$ 17,567,062
Pension	3,227,578	-
	\$ 19,873,284	\$ 17,567,062
<b>Deferred Inflows of Resources</b>		
Cumulative changes in fair value of resumed swap	\$ 2,636,990	\$ 2,448,654
Accumulated amortization of prior terminated swap liability	(1,302,460)	(861,190)
	\$ 1,334,530	\$ 1,587,464

### Note 17: Long-Term Care Facility

During 2014 and 2015, the Hospital had ventures with long-term care facilities, Lincoln Hills of New Albany (Lincoln Hills), Newburgh Health Care and Residential Center (Newburgh) and Diversicare of Providence (Providence), respectively. In connection with these ventures, the Hospital acquired the operations of the long-term care facilities, leased the real estate and simultaneously entered into a management agreement with the former operators. Terms of these agreements are perpetual with clauses providing for separation with, or without, cause.

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

The revenues and expenses associated with all of the operations of Lincoln Hills in 2015 and 2014, Newburgh through April 30, 2015, and all of 2014, and Providence from February 1, 2015, are within the financial statements of the Hospital.

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

## Notes to Financial Statements December 31, 2015 and 2014

### **Note 18: Significant Estimates and Concentrations**

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

#### ***Allowance for Net Patient Service Revenue Adjustments***

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

#### ***Malpractice Claims***

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

#### ***Incurred, But Not Reported, Employee Health Insurance Claims***

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

#### ***Litigation***

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

## **Required Supplementary Information**

**Floyd Memorial Hospital and Health Services**  
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**Schedule of Required Supplementary Information**  
**Schedule of Changes in the Hospital's Net Pension Liability and Related Ratios**  
**December 31, 2015 and 2014**

<b>Total Pension Liability</b>	
Service cost	\$ 1,051,230
Interest	2,872,306
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(13,756,291)</u>
<b>Net Change in Total Pension Liability</b>	(9,832,755)
<b>Total Pension Liability – Beginning</b>	<u>52,175,383</u>
<b>Total Pension Liability – Ending (a)</b>	<u>42,342,628</u>
<b>Plan Fiduciary Net Position</b>	
Contributions – employer	3,150,000
Contributions – member	-
Net investment income	1,427,611
Benefit payments, including refunds of employee contributions	(13,756,291)
Administrative expense	<u>(263,468)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	(9,442,148)
<b>Plan Fiduciary Net Position – Beginning</b>	<u>30,551,925</u>
<b>Plan Fiduciary Net Position – Ending (b)</b>	<u>21,109,777</u>
<b>Hospital's Net Pension Liability – Ending (a)-(b)</b>	<u>\$ 21,232,851</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	49.85%
<b>Covered-Employee Payroll</b>	\$ 85,981,516
<b>Hospital's Net Pension Liability as a Percentage of Covered-Employee Payroll</b>	24.69%

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**Schedule of Required Supplementary Information**  
**Schedule of Changes in the Hospital's Net Pension Liability and Related Ratios**  
**December 31, 2015 and 2014**

***Notes to Schedule***

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

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

**Floyd Memorial Hospital and Health Services**  
**A Component Unit of Floyd County, Indiana**  
**Schedule of Required Supplementary Information**  
**Schedule of Hospital Contributions**  
**December 31, 2015 and 2014**

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

**Notes to Schedule**

Valuation date: December 31, 2014

Methods and assumptions used to determine contribution rates:

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

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

**Floyd Memorial Hospital and Health Services**  
**A Component Unit of Floyd County, Indiana**  
**Schedule of Required Supplementary Information**  
**Schedule of Funding Progress**  
**December 31, 2015 and 2014**

**Schedule of Funding Progress for Defined Employee Pension Plan**

*(in thousands)*

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets a</b>	<b>Actuarial Liability (AAL) – Entry Age b</b>	<b>Unfunded AAL (UAAL) b-a</b>	<b>Funded Ratio a/b</b>	<b>Covered Payroll c</b>	<b>UAAL as a Percentage of Covered Payroll (b-a)/c</b>
May 1, 2012	\$ 30,092	\$ 51,972	\$ 21,880	58%	\$ 73,977	30%
May 1, 2013	\$ 29,427	\$ 51,631	\$ 22,204	57%	\$ 79,412	28%
May 1, 2014	\$ 31,174	\$ 47,886	\$ 16,712	65%	\$ 88,332	19%

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

Board of Trustees  
Floyd Memorial Hospital and Health Services  
New Albany, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Floyd Memorial Hospital and Health Services, a component unit of Floyd County, Indiana (Hospital), which comprise the balance sheet as of December 31, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated May 25, 2016, which included an emphasis of matter paragraph for a change in accounting principle.

### **Internal Control Over Financial Reporting**

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

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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. 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 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Hospital's management in a separate letter dated May 25, 2016.

## **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 compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BKD, LLP*

Louisville, Kentucky  
May 25, 2016