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April 7, 2016

Jasper County Hospital c/o Franciscan Alliance, Inc.  
1701 South Creasy Lane  
Lafayette, IN 47905

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2015 to August 31, 2015. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Jasper County Hospital, as of August 31, 2015 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the finding in the report classified as a material weakness and referenced in the Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA  
State Examiner



**JASPER COUNTY HOSPITAL**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**AUGUST 31, 2015**

*CPAs / ADVISORS*



**JASPER COUNTY HOSPITAL**

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AUGUST 31, 2015

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Jasper County Hospital  
Rensselaer, Indiana

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Jasper County Hospital (the Hospital), a component unit of Jasper County, Indiana, and its discretely presented component unit, Jasper County Hospital Foundation, Inc. (the Foundation ), which comprise the consolidated balance sheet as of August 31, 2015, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the eight month period ended August 31, 2015, and the related notes to the consolidated financial statements.

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

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

### Auditor's Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Board of Trustees  
Jasper County Hospital  
Rensselaer, Indiana

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

#### Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of August 31, 2015, and the results of its operations, changes in its net position and its cash flows for the eight month period ended August 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

#### Emphasis of Matter

As described in Note 2 to the consolidated financial statements, on August 31, 2015, Franciscan Alliance, Inc. purchased, and assumed, substantially all of the Hospital's assets and liabilities and transferred them to Franciscan Health Rensselaer, a new financial entity under Franciscan Alliance, Inc. The assets, liabilities and net position of the Foundation were excluded from the transaction. Our opinion is not modified with respect to that matter.

#### Correction of Error

As described in Note 3 to the consolidated financial statements, certain errors resulting in the overstatement of amounts previously reported for accounts payable and accrued expenses as of December 31, 2014, were discovered by the Hospital's management during 2015. Accordingly, an adjustment has been made to the Hospital's consolidated net position as of December 31, 2014 to correct the error. Our opinion is not modified with respect to this matter.

#### Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Trustees  
Jasper County Hospital  
Rensselaer, Indiana

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2016 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

**Blue & Co., LLC**

Indianapolis, Indiana  
March 30, 2016

**REQUIRED SUPPLEMENTARY INFORMATION**

# JASPER COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

AUGUST 31, 2015

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This section of Jasper County Hospital's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance as of and for the eight month period ended August 31, 2015. This MD&A also includes a discussion and analysis of the activities and results of the Hospital's Discrete Component Unit, Jasper County Hospital Foundation, Inc. (the Foundation). Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

### FINANCIAL HIGHLIGHTS

In June 2015, the Hospital entered into an Asset Purchase Agreement (Agreement) with Franciscan Alliance, Inc. (Franciscan Alliance) and Franciscan Health Rensselaer, both Indiana nonprofit corporations. The effective closing date of the Agreement was August 31, 2015, whereby, Franciscan Alliance purchased substantially all of the Hospital's assets, except for specifically excluded assets, as determined by the Agreement. The purchase price was outlined in the Agreement as the aggregate amount of assumed liabilities on August 31, 2015, except for specifically excluded liabilities. The assets and liabilities were transferred to Franciscan Health Rensselaer on August 31, 2015. The Foundation's assets, liabilities and net position were excluded from the Agreement. The Foundation will continue to support the activities of Franciscan Health Rensselaer.

Substantially all of the financial changes for 2015 relate to the purchase and subsequent transfer of assets and liabilities to Franciscan Health Rensselaer on August 31, 2015.

- The Hospital's total assets and deferred outflows decreased approximately \$33,328,000 or 95% during the eight month period ended August 31, 2015. Total liabilities decreased approximately \$24,711,000 or 100% during the eight month period ended August 31, 2015.
- The Hospital's net position decreased approximately \$8,617,000 or 84% during the eight month period ended August 31 2015.
- The Hospital reported an operating loss of approximately \$2,610,000 for the eight month period ended August 31, 2015. The operating loss for the year ended December 31, 2014 was approximately \$3,350,000.
- During 2015, the Hospital paid off its long-term debt the United States Department of Agriculture of approximately \$14,257,000 with the proceeds from a note payable from Franciscan Alliance.
- The Hospital leased the operations of a long-term care facility. As a result of the lease agreement, the Hospital recognized approximately \$2,700,000 of additional gross patient service revenue related to long-term care during the eight month period ended August 31, 2015.

# JASPER COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

AUGUST 31, 2015

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### **USING THIS ANNUAL REPORT**

The Hospital's consolidated financial statements consist of three statements, a Balance Sheet; a Statement of Revenues, Expenses and of Changes in Net Position; and a Statement of Cash Flows. These consolidated financial statements and related notes provide information about the activities and the financial position of the Hospital.

The Consolidated Balance Sheet includes all of the Hospital's assets, deferred outflows and liabilities and provides information about the nature and amounts of investments in resources (assets and deferred outflows) and the obligations to Hospital creditors (liabilities). All of the current period's revenue earned and expenses incurred are accounted for in the Consolidated Statement of Revenues, Expenses and Changes in Net Position.

Finally, the purpose of the Consolidated Statement of Cash Flows is to provide information about the Hospital's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources, uses and the changes in cash and cash equivalents balance during the period.

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

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

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

#### Table 1 – Condensed Consolidated Balance Sheet

The significant change in the Hospital's assets and deferred outflows was in current assets and net capital assets which decreased approximately \$31,171,000 as of August 31, 2015 compared to December 31, 2014. Total liabilities decreased approximately \$24,711,000 as of August 31, 2015 compared to December 31, 2014. Net position decreased by approximately \$8,617,000 as of August 31, 2015 compared to December 31, 2014. These changes were the result of the Agreement and transfer of assets and liabilities to Franciscan Health Rensselaer as of August 31, 2015.

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## JASPER COUNTY HOSPITAL

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

AUGUST 31, 2015

The remaining assets, liabilities and net position as of August 31, 2015 relate to the Foundation. The following is a summary of the consolidated balance sheets:

	8/31/2015	Restated 12/31/2014	Change
<b>Assets</b>			
Current assets	\$ 1,630,176	\$ 10,487,873	\$ (8,857,697)
Assets whose use is limited	-0-	1,832,939	(1,832,939)
Capital assets, net	-0-	22,313,567	(22,313,567)
Total assets	1,630,176	34,634,379	(33,004,203)
<b>Deferred outflows</b>	-0-	323,437	(323,437)
Total assets and deferred outflows	<u>\$ 1,630,176</u>	<u>\$ 34,957,816</u>	<u>\$ (33,327,640)</u>
<b>Liabilities</b>			
Current liabilities	\$ -0-	\$ 9,305,160	\$ (9,305,160)
Long-term debt	-0-	15,405,895	(15,405,895)
Total liabilities	<u>-0-</u>	<u>24,711,055</u>	<u>(24,711,055)</u>
<b>Net position</b>			
Net investment in capital assets	-0-	5,675,286	(5,675,286)
Restricted for debt service	-0-	1,021,353	(1,021,353)
Unrestricted	1,630,176	3,550,122	(1,919,946)
Total net position	<u>1,630,176</u>	<u>10,246,761</u>	<u>(8,616,585)</u>
Total liabilities and net position	<u>\$ 1,630,176</u>	<u>\$ 34,957,816</u>	<u>\$ (33,327,640)</u>

Table 2 – Condensed Consolidated Statement of Revenues, Expenses and Changes in Net Position

As the Agreement and transfer of assets and liabilities to Franciscan Health Rensselaer was effective as of August 31, 2015, the consolidated statement of revenues, expenses and changes in net position reflect eight months of activity in 2015 compared to a full year of activity in 2014.

Total operating revenue decreased approximately \$13,370,000 during the eight month period ended August 31, 2015 compared to the year ended December 31, 2014. Total operating expenses decreased approximately \$14,110,000 over this same time period compared to 2014. Depreciation and amortization, a component of total operating expenses, increased in 2015 by approximately \$4,700 mainly due to a change in the attribution period for deferred outflows related to goodwill.

The operating loss for the eight month period ended August 31, 2015 was approximately \$2,610,000 compared to approximately \$3,350,000 for the year ended December 31, 2014.

## JASPER COUNTY HOSPITAL

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

AUGUST 31, 2015

Nonoperating revenue (expense) changed approximately \$113,000 during the eight month period ended August 31, 2015 compared to the year ended December 31, 2014.

The Hospital transferred assets and liabilities to Franciscan Health Rensselaer of approximately \$5,576,000 during 2015, which when combined with other activity, resulted in a total decrease in change in net position of approximately \$8,617,000 for the eight month period ended August 31, 2015 compared to a decrease of approximately \$3,893,000 for the year ended December 31, 2014.

The following is a summary of the consolidated statement of revenues, expenses and changes in net position:

	Eight Months Ended 8/31/2015	Restated Year Ended 12/31/2014	Change
<b>Operating revenue</b>			
Net patient service revenue	\$ 22,951,770	\$ 35,489,061	\$ (12,537,291)
Other operating revenue	321,900	1,154,971	(833,071)
Total operating revenue	23,273,670	36,644,032	(13,370,362)
<b>Operating expenses</b>			
Salaries and benefits	13,067,725	20,119,374	(7,051,649)
Professional fees and contract services	5,050,598	6,859,727	(1,809,129)
Supplies	3,029,337	4,908,283	(1,878,946)
Depreciation and amortization	1,376,719	1,372,068	4,651
Other	3,359,470	6,734,184	(3,374,714)
Total operating expenses	25,883,849	39,993,636	(14,109,787)
Operating loss	(2,610,179)	(3,349,604)	739,425
<b>Nonoperating revenue (expense), net</b>	(430,632)	(543,465)	112,833
<b>Transfer to Franciscan Health Rensselaer</b>	(5,575,774)	-0-	(5,575,774)
Change in net position	(8,616,585)	(3,893,069)	(4,723,516)
<b>Net position</b>			
Beginning of period	10,246,761	14,139,830	(3,893,069)
End of period	\$ 1,630,176	\$ 10,246,761	\$ (8,616,585)

**JASPER COUNTY HOSPITAL**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

AUGUST 31, 2015

Table 3 – Condensed Consolidated Statement of Cash Flows

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

Total cash and cash equivalents decreased approximately \$3,821,000 during the eight month period ended August 31, 2015. This is a decrease of approximately \$1,499,000 from 2014. Operating activities used cash and cash equivalents of approximately \$3,060,000 during the eight month period ended August 31, 2015. Capital and related financing used cash and cash equivalents of approximately \$776,000 and investing activities provided cash and cash equivalents of approximately \$15,000 during the eight month period ended August 31, 2015.

The following is a summary of cash flows:

Cash flows	Eight Months Ended 8/31/2015	Restated Year Ended 12/31/2014	Change
From operating activities	\$ (3,060,115)	\$ (117,790)	\$ (2,942,325)
From capital and related financing activities	(776,095)	(2,293,896)	1,517,801
From investing activities	15,018	89,794	(74,776)
Change in cash and cash equivalents	<u>\$ (3,821,192)</u>	<u>\$ (2,321,892)</u>	<u>\$ (1,499,300)</u>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

During 2015, the Hospital invested minimally in capital assets, net of asset disposals and transfers. Capital assets are comprised of the following as of August 31, 2015 and December 31, 2014.

	8/31/2015	Restated 12/31/2014	Change
Land	\$ -0-	\$ 53,965	\$ (53,965)
Land improvements	-0-	1,859,740	(1,859,740)
Buildings and improvements	-0-	22,511,009	(22,511,009)
Equipment	-0-	10,950,614	(10,950,614)
Total capital assets	-0-	35,375,328	(35,375,328)
Less accumulated depreciation	-0-	13,061,761	(13,061,761)
Capital assets, net	<u>\$ -0-</u>	<u>\$ 22,313,567</u>	<u>\$ (22,313,567)</u>

# JASPER COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

AUGUST 31, 2015

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Approximately \$21,327,000 in net capital assets was transferred to Franciscan Health Rensselaer at August 31, 2015. More detailed information about the Hospital's capital assets is presented in the notes to the consolidated financial statements.

### Long-Term Debt and Capital Leases

During 2015, the Hospital paid off its long-term debt the United States Department of Agriculture of approximately \$14,257,000 with the proceeds from a note payable from Franciscan Alliance. More detailed information about the Hospital's long-term debt and capital leases is presented in the notes to the consolidated financial statements.

### **ECONOMIC OUTLOOK**

Due to continued pressure on operating margins and cash flows, the Hospital executed the Agreement with Franciscan Alliance effective August 31, 2015. The Foundation will continue to support Franciscan Health Rensselaer as it did Jasper County Hospital.

### **CONTACTING HOSPITAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's financial condition. If you have any questions about this report, you may contact the Hospital's Administrative offices at 1104 East Grace Street, Rensselaer, Indiana 47978.

# JASPER COUNTY HOSPITAL

## CONSOLIDATED BALANCE SHEET AUGUST 31, 2015

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### ASSETS

	Hospital	Foundation	Total reporting entity
<b>Current assets</b>			
Cash and cash equivalents	\$ -0-	\$ 697,916	\$ 697,916
Investments	-0-	932,260	932,260
Total current assets	-0-	1,630,176	1,630,176
Total assets	\$ -0-	\$ 1,630,176	\$ 1,630,176

### LIABILITIES AND NET POSITION

<b>Liabilities</b>			
Total liabilities	\$ -0-	\$ -0-	\$ -0-
<b>Net position</b>			
Unrestricted	-0-	1,630,176	1,630,176
Total net position	-0-	1,630,176	1,630,176
Total liabilities and net position	\$ -0-	\$ 1,630,176	\$ 1,630,176

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See accompanying notes to consolidated financial statements.

## JASPER COUNTY HOSPITAL

### CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION EIGHT MONTH PERIOD ENDED AUGUST 31, 2015

	Hospital	Foundation	Eliminations	Total reporting entity
<b>Operating revenue</b>				
Net patient service revenue	\$ 22,951,770	\$ -0-	\$ -0-	\$ 22,951,770
Other operating revenue	321,207	110,518	(109,825)	321,900
Total operating revenue	23,272,977	110,518	(109,825)	23,273,670
<b>Operating expenses</b>				
Salaries and benefits	13,067,725	-0-	-0-	13,067,725
Professional fees and contract services	5,050,598	-0-	-0-	5,050,598
Supplies	3,029,337	-0-	-0-	3,029,337
Facility and equipment leases	728,032	-0-	-0-	728,032
Insurance	348,223	-0-	-0-	348,223
HAF Program	397,063	-0-	-0-	397,063
Depreciation and amortization	1,376,719	-0-	-0-	1,376,719
Other	1,885,771	110,206	(109,825)	1,886,152
Total operating expenses	25,883,468	110,206	(109,825)	25,883,849
Operating income (loss)	(2,610,491)	312	-0-	(2,610,179)
<b>Nonoperating revenue (expense)</b>				
Investment income (loss)	1,311	(37,639)	-0-	(36,328)
Interest expense	(414,584)	-0-	-0-	(414,584)
Other	20,280	-0-	-0-	20,280
Total nonoperating revenue (expense)	(392,993)	(37,639)	-0-	(430,632)
<b>Transfer to Franciscan Health Rensselaer</b>	(5,575,774)	-0-	-0-	(5,575,774)
Change in net position	(8,579,258)	(37,327)	-0-	(8,616,585)
<b>Net position</b>				
Beginning of period	8,579,258	1,667,503	-0-	10,246,761
End of period	\$ -0-	\$ 1,630,176	\$ -0-	\$ 1,630,176

See accompanying notes to consolidated financial statements.

# JASPER COUNTY HOSPITAL

## CONSOLIDATED STATEMENT OF CASH FLOWS EIGHT MONTH PERIOD ENDED AUGUST 31, 2015

	Hospital	Foundation	Total reporting entity
<b>Operating activities</b>			
Cash received from patients and third-party payors	\$ 27,262,404	\$ -0-	\$ 27,262,404
Cash paid to employees for salaries and benefits	(15,162,973)	-0-	(15,162,973)
Cash paid to vendors for goods and services	(15,481,065)	(110,206)	(15,591,271)
Other operating receipts, net	321,207	110,518	431,725
Net cash from operating activities	(3,060,427)	312	(3,060,115)
<b>Capital and related financing activities</b>			
Acquisition and construction of capital assets	(63,965)	-0-	(63,965)
Proceeds from issuance of debt	14,828,618	-0-	14,828,618
Interest paid on debt	(414,584)	-0-	(414,584)
Principal payments on debt	(15,126,164)	-0-	(15,126,164)
Net cash from capital and related financing activities	(776,095)	-0-	(776,095)
<b>Investing activities</b>			
Sale of investments	-0-	41,771	41,771
Investment and other nonoperating revenue (expense)	10,886	(37,639)	(26,753)
Net cash from investing activities	10,886	4,132	15,018
Change in cash and cash equivalents	(3,825,636)	4,444	(3,821,192)
<b>Cash and cash equivalents</b>			
Beginning of period	3,825,636	693,472	4,519,108
End of period	\$ -0-	\$ 697,916	\$ 697,916
<b>Reconciliation of cash and cash equivalents to the balance sheet</b>			
Cash and cash equivalents			
In current assets	\$ -0-	\$ 697,916	\$ 697,916
Total cash and cash equivalents	\$ -0-	\$ 697,916	\$ 697,916

See accompanying notes to consolidated financial statements.

# JASPER COUNTY HOSPITAL

## CONSOLIDATED STATEMENT OF CASH FLOWS EIGHT MONTH PERIOD ENDED AUGUST 31, 2015

	Hospital	Foundation	Total reporting entity
<b>Reconciliation of operating income (loss)</b>			
<b>to net cash from operating activities</b>			
Operating income (loss)	\$ (2,610,491)	\$ 312	\$ (2,610,179)
Adjustments to reconcile operating income (loss) to net cash from operating activities			
Depreciation and amortization	1,376,719	-0-	1,376,719
Provision for bad debts	3,377,907	-0-	3,377,907
Changes in operating assets and liabilities			
Patient accounts receivable	1,629,790	-0-	1,629,790
Inventory and other current assets	1,903,422	-0-	1,903,422
Accounts payable and accrued expenses	(6,342,526)	-0-	(6,342,526)
Accrued salaries and related liabilities	(2,095,248)	-0-	(2,095,248)
Estimated third-party settlements	(300,000)	-0-	(300,000)
Net cash flows from operating activities	\$ (3,060,427)	\$ 312	\$ (3,060,115)
<b>Supplementary disclosure of cash flows information</b>			
Capital assets acquired through capital leases	\$ 119,722	\$ -0-	\$ 119,722
Transfer of assets and liabilities to Franciscan Health Rensselaer	\$ 5,575,774	\$ -0-	\$ 5,575,774

See accompanying notes to consolidated financial statements.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2015

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

Jasper County Hospital (the Hospital) was a county-owned facility and operated under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provided short-term inpatient, outpatient and long-term health care. The Board of County Commissioners of Jasper County appointed the Governing Board of the Hospital and a financial benefit/burden relationship existed between the County and the Hospital. For these reasons, the Hospital was considered a component unit of Jasper County Indiana (the County).

The consolidated financial statements of Hospital are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial position of the County as of August 31, 2015, and the changes in its financial position or its cash flows for the eight month period then ended.

#### Discrete Component Units

Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the consolidated financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Jasper County Foundation, Inc. (the Foundation) was considered a discrete component unit for reporting purposes. All significant transactions between the Hospital and the Foundation have been eliminated for financial reporting purposes. The financial statements of the Foundation may be obtained from the Treasurer's office at 1104 East Grace Street, Rensselaer, Indiana 47978.

#### Long-Term Care Services

The Hospital leased a long-term care facility to provide inpatient, therapy and other related long-term care services to its patients. The Hospital provided these services through a purchased service agreement with a long-term care vendor which expired on August 31, 2015.

#### Use of Estimates

The preparation of the consolidated financial statements include only the financial position, results of operations, changes in net position and cash flows of the Hospital in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2015

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### Enterprise Fund Accounting

The Hospital utilizes the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

### Cash and Cash Equivalents

Cash and cash equivalents included demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less. The Hospital maintained its cash in accounts, which at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

### Investments

Investments consist of mutual funds held by the Foundation. Investments are stated at fair value in the consolidated financial statements. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenues (expenses) in the consolidated statement of revenues, expenses and changes in net position.

### Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable were recorded at the time services to patients are performed. The Hospital was a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital was granted Critical Access Status by Medicare and was paid for Medicare services based upon a cost reimbursement methodology. The Hospital was reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received were reflected as deductions from revenue. At the Hospital's period-end, a cost report was filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement was reflected as a receivable from or payable to the third-party program.

These programs have audited the period and year-end cost report filed with the Medicare program through December 31, 2013 with differences reflected as deductions from revenue in the year or period the cost report is settled. Amounts for unresolved cost reports for 2014 and 2015 were reflected in estimated third-party settlements on the consolidated balance sheet. During eight month period ended August 31, 2015, the Hospital recognized a decrease of approximately \$103,000 in net patient service revenue in the consolidated statement of revenues, expenses and changes in net position due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2015

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The Hospital entered into agreements with certain commercial carriers. Reimbursement for services under these agreements included discounts from established charges and other payment methodologies. Patient charges under these programs, on which no interim payments were received, were included in patient accounts receivable at the estimated net realizable value of such charges.

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

### Inventory and Other Current Assets

Inventory was valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory consisted of medical supplies and pharmaceuticals. Other current assets consisted of other receivables and various other current items related to long-term care operations. These assets were classified as current as they were expected to be utilized during the next fiscal year.

### Assets Whose Use is Limited

Assets whose use is limited were stated at fair value in the consolidated financial statements. These assets included investments designated by the Hospital Board for internal purposes such as funded depreciation and investments restricted for debt service. These investments consisted of cash and cash equivalents. Investment income is reported as nonoperating revenue in the consolidated statement of revenues, expenses and changes in net position.

### Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, were reported at historical cost. Contributed or donated assets were reported at estimated fair value at the time received. Capital assets under capital lease obligations were amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization was included in depreciation and amortization in the consolidated financial statements.

The capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) was \$2,500 per item. Depreciation was calculated on the straight-line method over the estimated useful lives of capital assets, which ranged from 5-40 years. A mid-year convention was used for calculating depreciation of capital assets. For depreciated assets, the cost of normal maintenance and repairs that did not add to the value of the asset or materially extend assets lives were not capitalized.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2015

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### Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets were capitalized as a component of the cost of acquiring those assets. During the eight month period ended August, 31 2015, no interest was capitalized.

### Net Position

The net position of the Hospital was classified into three components. Net investment in capital assets represented capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position was the assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. Unrestricted net position was the remaining assets that did not meet the definition of invested in capital assets net of related debt or restricted. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Hospital's policy is to first apply to restricted resources then unrestricted.

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

The Hospital's consolidated statement of revenues, expenses and changes in net position distinguished between operating and nonoperating revenues and expenses. Operating revenues resulted from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonoperating revenue included contributions received for purposes other than capital asset acquisition, and other nonoperating activities and were reported as nonoperating revenue. Operating expenses were all expenses incurred to provide health care services, other than financing costs.

### Grants and Contributions

From time to time, the Hospital received contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) were recognized when all eligibility requirements, including time requirements were met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose were reported as nonoperating revenue. Amounts, if any, restricted to capital acquisitions were reported as nonoperating revenue and expense.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2015

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### Charity Care

The Hospital provided care without charge or at amounts less than its established rates to patients who met certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because the Hospital did not pursue collection of approved charity care balances, the charges were not reflected in net revenue. Rather, charges approved for charity were posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue.

Of the Hospital's total expenses reported within the consolidated statement of revenue and expenses, an estimated \$62,000 arose from providing services to charity patients. The estimated costs of providing charity services were based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges was calculated based on the Hospital's total expenses including interest expense to gross patient service revenue.

### Advertising and Community Relations

The Hospital expensed advertising and community relations costs as they were incurred. Total advertising and community relations expense for the eight month period ended August 31, 2015 was approximately \$26,000.

### Compensated Absences

The Hospital's employees earned time off at varying rates depending on years of service under separate policies for sick and vacation leaves. The estimated amount of unused time off was reported as a liability within the accrued salaries and related liabilities on the consolidated balance sheet.

### Income Taxes

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

The Foundation is a tax-exempt organization under Internal Revenue Code 501(c)(3). As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2015

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Accounting principles generally accepted in the United States of America required management to evaluate tax positions taken by the Hospital and Foundation and recognize a tax liability if the Hospital and Foundation took an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management analyzed the tax positions taken by the Hospital and the Foundation and concluded that as of August 31, 2015, there were no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements.

The Foundation has filed its federal and state income tax returns for periods through December 31, 2014. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions). The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

### Risk Management

The Hospital was 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; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage was purchased for claims arising from such matters. For 2015 and the two prior years, no settlements exceeded insurance coverage.

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

### Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is March 30, 2016.

## **2. ASSET PURCHASE AGREEMENT**

In June 2015, the Hospital entered into an Asset Purchase Agreement (Agreement) with Franciscan Alliance, Inc. (Franciscan Alliance) and Franciscan Health Rensselaer, both Indiana nonprofit corporations. The effective closing date of the Agreement was August 31, 2015, whereby, Franciscan Alliance purchased substantially all of the Hospital's assets, except for specifically excluded assets, as determined by the Agreement. The purchase price was outlined in the Agreement as the aggregate amount of assumed liabilities on August 31, 2015, except for specifically excluded liabilities.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2015

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The assets and liabilities were transferred to Franciscan Health Rensselaer on August 31, 2015. The following is a summary of the transfer:

Assets	
Cash and cash equivalents	\$ 1,139,078
Patient accounts receivable, net	3,285,657
Inventory and other current assets	2,328,945
Assets whose use is limited	469,810
Capital assets, net	21,327,211
Total assets	<u>28,550,701</u>
Liabilities	
Accounts payable and accrued expenses	(4,485,417)
Accrued wages and related liabilities	(1,419,053)
Estimated third-party settlements	(610,000)
Long-term debt	(16,460,457)
Total liabilities	<u>(22,974,927)</u>
Transfer to Franciscan Health Rensselaer	<u>\$ 5,575,774</u>

The Foundation's assets, liabilities and net position were excluded from the Agreement. The Foundation will continue to support the activities of Franciscan Health Rensselaer.

### 3. RESTATEMENT

Certain errors resulting in the overstatement of amounts previously reported for accounts payable and accrued expenses as of December 31, 2014, were discovered by the Hospital's management during 2015. The Hospital's accounts payable and accrued expenses were overstated by approximately \$665,000 as of December 31, 2014. As such, the Hospital's net position as of December 31, 2014 was restated from approximately \$9,582,000 to \$10,247,000. It was not practical to determine the restatement impact on the previously reported 2014 change in net position as the errors related to amounts reported in 2014 and prior years.

### 4. INVESTMENTS

Investments consist of mutual funds reported at fair value of approximately \$932,000 as of August 31, 2015.

**JASPER COUNTY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2015

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**5. ASSETS WHOSE USE IS LIMITED**

Assets whose use is limited consisted of cash and cash equivalent and was designated as follows:

Internally designated - Amounts transferred by the Hospital’s Board of Trustees through funding depreciation expense. Such amounts were to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by IC 16-22-3-13.

Restricted for debt service - Hospital funds deposited with a trustee and limited as to use in accordance with the requirements of a trust indenture for debt service.

**6. DEPOSITS AND INVESTMENTS**

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

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

As of August 31, 2015, the Hospital, through the Foundation, had the following investments and maturities, all of which were held in the Foundation’s name by custodial banks that are agents of the Foundation:

	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 932,260	\$ 932,260	\$ -0-	\$ -0-	\$ -0-

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

*Credit risk* – Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the U.S. Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations. The Hospital does not have a policy concerning credit risk.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2015

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*Concentration of credit risk* – The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments. The Hospital does not have a policy concerning concentration of credit risk. Deposits consist of the following as of August 31, 2015:

Carrying amount	
Deposits	\$ 697,916
Investments	932,260
	<u>\$ 1,630,176</u>
Included in the balance sheet captions	
Cash and cash equivalents	\$ 697,916
Investments	932,260
	<u>\$ 1,630,176</u>

### 7. FAIR VALUE MEASUREMENTS

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

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

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

## JASPER COUNTY HOSPITAL

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2015

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of August 31, 2015.

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

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments				
Mutual funds				
Mid cap	\$ 25,634	\$ 25,634	\$ -0-	\$ -0-
Large cap	534,345	534,345	-0-	-0-
International and global	118,904	118,904	-0-	-0-
Fixed income	253,377	253,377	-0-	-0-
Total investments	<u>\$ 932,260</u>	<u>\$ 932,260</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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

Realized gains (losses) are included in earnings are reported in the consolidated statement of revenues, expenses and changes in net position as a component of investment income (loss). There were no realized gains (losses) recorded during the eight month period ended August 31, 2015. Losses of approximately \$38,000 included in earnings for 2015 are attributable to the change in unrealized gains (losses) relating to assets held as of August 31, 2015 and are reported in the consolidated statement of revenues, expenses and changes in net position as a component of investment income (loss).

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

## JASPER COUNTY HOSPITAL

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2015

#### 8. CAPITAL ASSETS

Capital asset activity for the eight month period ended August 31, 2015 is as follows:

	12/31/2014	Additions	Disposals	Transfers	8/31/2015
Land	\$ 53,965	\$ -0-	\$ -0-	\$ (53,965)	\$ -0-
Land improvements	1,859,740	-0-	-0-	(1,859,740)	-0-
Buildings and improvements	22,511,009	-0-	-0-	(22,511,009)	-0-
Equipment	10,950,614	183,687	(246,266)	(10,888,035)	-0-
Total	35,375,328	183,687	(246,266)	(35,312,749)	-0-
Accumulated depreciation	13,061,761	1,042,842	(119,065)	(13,985,538)	-0-
Net capital assets	<u>\$ 22,313,567</u>	<u>\$ (859,155)</u>	<u>\$ (127,201)</u>	<u>\$ (21,327,211)</u>	<u>\$ -0-</u>

There were no significant commitments for capital assets as of August 31, 2015.

#### 9. LONG-TERM DEBT

In 2010, the Hospital entered into a long-term debt arrangement with the United States Department of Agriculture (USDA) in order to finance a construction/renovation project primarily related to the Hospital's main building. The Hospital used the proceeds from a note payable from Franciscan Alliance of approximately \$14,441,000 to retire the USDA debt and accrued interest during 2015. The note payable to Franciscan Alliance was transferred to Franciscan Health Rensselaer on August 31, 2015.

The Hospital also had various capital lease obligations with interest rates that ranged from approximately 4% to 10% executed for property and equipment and were due at various times through 2019. Amounts were due in monthly installments ranging from approximately \$1,000 to \$20,000, including interest and were collateralized by equipment. The capital lease obligations were transferred to Franciscan Health Rensselaer on August 31, 2015.

A schedule of changes in the Hospital's long-term debt for the eight month period ended August 31, 2015:

	12/31/2014	Additions	Payments	Transfers	8/31/2015
USDA loan payable	\$ 14,257,189	\$ -0-	\$ (14,257,189)	\$ -0-	\$ -0-
Notes payable	64,059	14,828,618	(240,047)	(14,652,630)	-0-
Capital leases	2,317,033	119,722	(628,928)	(1,807,827)	-0-
Total long-term debt	<u>\$ 16,638,281</u>	<u>\$ 14,948,340</u>	<u>\$ (15,126,164)</u>	<u>\$ (16,460,457)</u>	<u>\$ -0-</u>

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2015

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### **10. OPERATING LEASES**

The Hospital had multiple operating leases. Leases that did not meet the criteria for capitalization were classified as operating leases with related rentals charged to operating expense as incurred. Total facility and equipment lease expense, including cancelable and non-cancelable leases, for the eight month period ended August 31, 2015 was approximately \$556,000.

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$172,000 for the eight month period ended August 31, 2015.

### **11. PATIENT SERVICE REVENUE**

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

#### Medicare

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

#### Medicaid and the Hospital Assessment Fee Program

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

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2015

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

During the eight month period ended August 31, 2015, the Hospital recognized HAF Program expense of approximately \$397,000. The HAF Program expense is included in operating expenses in the consolidated statement of revenues and expenses and changes in net position. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the consolidated statement of revenues, expenses and changes in net position.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$899,000 during the eight month period ended August 31, 2015. These programs are administered by the State of Indiana, but rely on Federal funding.

### Other Payors

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

Net patient service revenue for the eight month period ended August 31, 2015 consists of the following:

Inpatient services	\$ 7,559,966
Outpatient services	25,667,576
Long-term care services	<u>2,611,333</u>
Gross patient service revenue	35,838,875
Contractual allowances	9,421,928
Provision for bad debts	3,377,907
Charity care	<u>87,270</u>
Deductions from revenue	<u>12,887,105</u>
Net patient service revenue	<u><u>\$ 22,951,770</u></u>

**JASPER COUNTY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2015

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**12. EMPLOYEE HEALTH PLAN**

The Hospital was self-insured for employee health claims. The Hospital chose to establish a risk financing fund for risks associated with medical benefits to employees. An excess policy through commercial insurance generally covers individual claims in excess of \$80,000 per year with an overall aggregate of approximately \$3,100,000.

Claim expenditures and liabilities of the fund were reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNR).

Claim liabilities were calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors. Health insurance expense for the eight month period ended August 31, 2015 was approximately \$1,783,000.

Changes in IBNR for the eight month period ended August 31, 2015 were as follows:

Unpaid claims, beginning of period	\$ 228,292
Incurred claims and changes in estimates	1,467,864
Claim payments	(1,380,730)
Transfer to Franciscan Health Rensselaer	(315,426)
Unpaid claims, end of period	<u><u>\$ -0-</u></u>

**13. RISK MANAGEMENT**

The Indiana Medical Malpractice Act (the Act) provides for a maximum recovery of \$1,250,000 per claim (\$7,500,000 annual aggregate) for professional liability, \$250,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. The Hospital was insured against medical malpractice claims under a claims-made basis policy, whereby claims resulting from incidents that occur and are reported to the insurance carrier during the policy term are covered. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$250,000 or aggregate claims exceeding \$5,000,000, for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$5,000,000 of coverage.

**JASPER COUNTY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2015

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**14. CONCENTRATIONS OF CREDIT RISK**

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

The mix of gross patient revenues from self-pay and third party payors for the eight month period ended August 31, 2015 was as follows:

	<u>Revenue</u>
Medicare	53%
Medicaid	11%
Blue Cross	16%
Commercial and other payors	10%
Self-pay payors	10%
	<u>100%</u>

**15. PENSION PLAN**

Plan Description

The Hospital maintained a defined contribution pension plan, Jasper County Hospital Money Purchase Pension Trust (the Plan) for employees that meet certain eligibility requirements. The Plan provided retirement benefits to Plan members. The Plan was established by written agreement between the Board of Trustees and the Plan administrator, Lincoln National Life Insurance Company. Reports of the Plan are available by contacting the Hospital's accounting department.

Funding Policy

The contribution requirements of Plan members were established by the written agreement between the Board of Trustees and the Plan administrator. Plan members were not required to contribute to the Plan. The most recent employer contribution rate was 2.5% of an eligible employee's first \$50,000 in wages and 5.0% on all wages above \$50,000 up to the maximum allowed by the Internal Revenue Service. Pension expense for the eight month period ended August 31, 2015 was approximately \$213,000.

**16. COMMITMENTS AND CONTINGENCIES**

The Hospital was involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position, results from operations, and cash flows.



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

Board of Trustees  
Jasper County Hospital  
Rensselaer, Indiana

Report on Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts, the consolidated financial statements of Jasper County Hospital (the Hospital), a component unit of Jasper County, Indiana, and its discretely presented component unit, Jasper County Hospital Foundation, Inc., which comprise the consolidated balance sheet as of August 31, 2015, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the eight month period ended August 31, 2015, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 30, 2016. Our report includes emphasis-of-matters paragraphs related to an Asset Purchase Agreement and a correction of an error related to accounts payable.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Trustees  
Jasper County Hospital  
Rensselaer, Indiana

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a material weakness as finding 2015-001.

#### Compliance and Other Matters

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

#### The Hospital's Response to Findings

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

#### Purpose of this Report

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

**Blue & Co., LLC**

Indianapolis, Indiana  
March 30, 2016

# JASPER COUNTY HOSPITAL

## SCHEDULE OF FINDINGS AND RESPONSES EIGHT MONTH PERIOD ENDED AUGUST 31, 2015

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### **FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS:**

#### 2015-001 – Material weakness related to segregation of duties and reconciliation of key accounts:

*Criteria* – Management is responsible for establishing and maintaining effective internal control over financial reporting.

*Condition* – With limited personnel resources in the Hospital's accounting department, maintaining segregation of duties in key accounting functions is restricted in assessing, reconciling and reviewing key financial statement accounts.

*Context* – A strong internal control environment requires adequate review and oversight of processes and procedures in the Hospital's key transaction cycles.

*Effect* - Potential material misstatements in the consolidated financial statements due to error or fraud could occur and not be prevented or detected and corrected in a timely manner. During 2015, the Hospital reconciled accounts payable and determined it be overstated by approximately \$665,000 related to 2014 and prior years.

*Cause* – The cause of this deficiency relates to limited personnel resources to provide oversight, review and approval of processes in the Hospital's key transaction cycles.

*Recommendation:* We recommend management review available personnel resources in conjunction with the procedures in the Hospital's key transaction cycles to strengthen and improve segregation of duties to promote cross training and additional compensating controls. This will ensure key accounts are reconciled timely and variations are identified and resolved.

*Views of Responsible Officials and Planned Corrective Actions:* The Hospital agrees with the finding 2015-001 and is assessing the resources available in the accounting department to strengthen segregation of duties.

### **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS:**

#### 2014-01 – Material weakness related to segregation of duties:

*Condition* – With limited personnel resources in the Hospital's accounting department, maintaining segregation of duties in key accounting functions is restricted in assessing and reviewing key financial statement accounts.

*Recommendation:* We recommended management review available personnel resources in conjunction with the procedures in the Hospital's key transaction cycles to strengthen and improve segregation of duties to promote cross training and additional compensating controls.

*Current status:* See item 2015-001.

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