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May 16, 2017

Board of Trustees
Sullivan County Community Hospital
2200 North Section Street, PO Box 10
Sullivan, IN 47882

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2015 to December 31, 2015. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Report of Independent Auditors, the financial statements included in the report present fairly the financial condition of the Sullivan County Community Hospital, as of December 31, 2015 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The audit 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 in internal control and is referenced in the 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*.

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

Paul D. Joyce, CPA
State Examiner

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana

Independent Auditor's Report and Financial Statements
December 31, 2015 and 2014

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
December 31, 2015 and 2014

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Independent Auditor's Report

Board of Trustees
Sullivan County Community Hospital
Sullivan, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Sullivan County Community Hospital (Hospital), a component unit of Sullivan County, Indiana, and SCCH Fitness Center, Inc., the Hospital's discretely presented component unit as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

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 opinions 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. The financial statements of MSO Clinics, Inc., which are included in the Hospital's financial statements, were not audited in accordance with *Government Auditing Standards*. The financial statements of SCCH Fitness Center, Inc., a component unit included in the financial statements as a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

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 opinions.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as 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 Governmental Accounting Standards Board, 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 April 22, 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

Indianapolis, Indiana
April 22, 2016

Sullivan County Community Hospital

A Component Unit of Sullivan County, Indiana

Management's Discussion and Analysis

Year Ended December 31, 2015 and 2014

Introduction

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

Financial Highlights

- Cash and investments increased in 2015 by \$1,368,319 or 8.8% compared to a decrease of \$1,407,820 or 8.3% in 2014.
- The Hospital's net position increased in 2015 by \$266,434 or 0.8% compared to an increase of \$1,316,992 or 4.3% in 2014.
- The Hospital reported operating income in 2015 of \$331,826 after reporting operating income in 2014 of \$1,256,842. Operating results in 2015 decreased by \$925,016 and 73.6% while in 2014, the operating income increased by \$731,607 or 139.9%.
- Net nonoperating expenses for 2015 were \$65,392 compared to net nonoperating revenues of \$60,150 for 2014. This is a decrease of net nonoperating activity of \$125,542 or 208.7%. In 2014, net nonoperating activity increased by \$70,110 or 703.9%.

Using This Annual Report

The Hospital's financial statements consist of three statements—the balance sheets; the statements of revenues, expenses and changes in net position; and the statements 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 is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheets and Statements of Revenues, Expenses and Changes in Net Position

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

These two statements report the Hospital's net position and changes in them. The Hospital's total net position—the difference between assets and liabilities—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 Statements of Cash Flows

The statements of cash flows report cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheets. The Hospital's net position increased by \$266,434 or 0.8% in 2015 over 2014 compared to an increase in net position of \$1,316,992 or 4.3% in 2014 over 2013 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2015	2014	2013
Assets			
Patient accounts receivable, net	\$ 3,344,057	\$ 3,960,234	\$ 3,139,867
Other current assets	6,920,036	2,737,590	2,819,154
Capital assets, net	13,585,472	13,925,257	13,433,353
Other noncurrent assets	11,037,515	14,012,907	14,947,022
Total assets	<u>\$ 34,887,080</u>	<u>\$ 34,635,988</u>	<u>\$ 34,339,396</u>
Liabilities	<u>\$ 2,759,493</u>	<u>\$ 2,774,835</u>	<u>\$ 3,795,235</u>
Net Position			
Net investment in capital assets	13,585,472	13,925,257	13,433,353
Unrestricted	18,542,115	17,935,896	17,110,808
Total net position	<u>32,127,587</u>	<u>31,861,153</u>	<u>30,544,161</u>
Total liabilities and net position	<u>\$ 34,887,080</u>	<u>\$ 34,635,988</u>	<u>\$ 34,339,396</u>

A significant change in the Hospital's assets in 2015 is the decrease in patient accounts receivable of approximately \$616,177 or 15.6%. This decrease was a result of slight increases in net patient service revenue of approximately \$535,400 or 1.8% in 2015 with improved collections during the same period. This decrease in patient receivables represents approximately 8 days of revenue.

Patient accounts receivable increased in 2014 by approximately \$820,000 or 26%. The increase was a result of an increase in net patient service revenue of approximately \$4,105,000 or 16% as well as an increase in physician operations with the addition of one new clinic during 2014. This increase in patient accounts receivable represented approximately 4 days of revenue as the collection cycle had been extended due to credentialing delays with the transition of all physician clinics to a separate legal entity, MSO Clinics, Inc. (Clinics), which is a blended component unit of the Hospital.

Another significant change in the Hospital's financial position in 2015 was an increase in cash and investments of approximately \$1,368,000 or 8.8%. This increase was largely driven by the decrease in net patient accounts receivable with improved collections during 2015 on clinic receivable balances. In 2014, there was a decrease in cash and investments of approximately \$1,408,000. This decrease was largely driven by an increase in purchases of capital assets with the opening of one new clinic in 2014.

Operating Results and Changes in the Hospital's Net Position

In 2015, the Hospital's net position increased by \$266,434 or 0.8%, as shown in Table 2. This increase is made up of several different components and represents a decrease of 80% compared with the increase in net position for 2014 of \$1,316,992. In 2014, the increase in net position of \$1,316,992 represents an increase of 156% compared with the increase in net position for 2013 of \$515,275.

Table 2: Operating Results and Changes in Net Position

	2015	2014	2013
Operating Revenues			
Net patient service revenue	\$ 30,408,368	\$ 29,872,951	\$ 25,767,488
Other operating revenues	200,487	379,175	438,970
Total operating revenues	<u>30,608,855</u>	<u>30,252,126</u>	<u>26,206,458</u>
Operating Expenses			
Salaries and wages and employee benefits	18,364,944	16,464,400	14,161,416
Purchased services and professional fees	4,050,431	3,512,337	3,738,438
Depreciation and amortization	1,641,981	1,756,510	1,732,403
Other operating expenses	6,219,673	7,262,037	6,048,966
Total operating expenses	<u>30,277,029</u>	<u>28,995,284</u>	<u>25,681,223</u>
Operating Income	<u>331,826</u>	<u>1,256,842</u>	<u>525,235</u>
Nonoperating Revenues (Expenses)			
Investment income	48,551	46,297	(397)
Other	(113,943)	13,853	(9,563)
Total nonoperating revenues (expenses)	<u>(65,392)</u>	<u>60,150</u>	<u>(9,960)</u>
Increase in Net Position	<u>\$ 266,434</u>	<u>\$ 1,316,992</u>	<u>\$ 515,275</u>

Operating Income

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported an operating income. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Sullivan County and the surrounding area. The Hospital implements strong cost controls to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating income was \$331,826 for 2015 compared to operating income of \$1,256,842 for 2014, which equates to an decrease of \$925,016, or 73.6%, while the operating income for 2014 increased by \$731,607 or 139.3% as compared to 2013. The primary components of the decreased operating income in 2015 are:

- Net patient service revenue was \$30,408,368 for 2015 compared to \$29,872,951 in 2014, which is an increase of \$535,417 or 1.8%.
- Salaries, wages and benefits for the Hospital's employees were \$18,364,944 for 2015 compared to \$16,464,400 for 2014, which results in an increase of \$1,900,544 or 11.5%.
- Purchased services and professional fees for the Hospital were \$4,050,431 for 2015 compared to \$3,512,337 for 2014, which results in an increase of \$538,097 or 15.3%.

One component of the increase in net patient service revenue was an increase in overall volumes of the Hospital and related clinics. The effect of volume increases was offset by declines in Indiana Medicaid supplemental payment under the Hospital Assessment Fee (HAF) and Disproportionate Share Hospital (DSH) programs resulting in the net increase of approximately \$195,000.

Employee salaries and wages and benefits increased in both 2015 and 2014 in connection with the Hospital's retention and recruitment efforts. These efforts result primarily from the shortage of nurses and other health care professionals in the United States. Additionally in 2015, the Hospital operated a clinic opened in 2014 for a full year compared to the partial year in 2014.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Expenditures for supplies and prescription drugs are a major component of the Hospital's costs. In 2015, supplies and prescription drug costs totaled \$2,790,750, or 9.2%, of total operating expenses. In 2014, they totaled \$2,726,500 or 9.4%, of total operating expenses.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, rental income on Hospital-owned property and payments made to subsidize the Hospital's discretely presented component unit. Changes in investment and rental income were insignificant in 2015 and 2014. The Hospital's subsidy of its discretely presented component unit increased by approximately \$104,400 or 82% to \$231,821 in 2015.

The Hospital's Cash Flows

The Hospital's operating cash flows increased \$1,957,884 in 2015 compared to 2014. The primary driver of this increase was an increase in cash receipts from patients and a reduction of patient accounts receivable. The Hospital's cash flows from capital and related financing activity increased by \$943,797 in 2015 compared to 2014 as a result of completion of clinic remodel projects in 2014. The Hospital's cash flows from investing activities increased by \$1,915,735 in 2015 compared to 2014 as a result of the disposition of certain investments that were transferred to cash for use in operations.

Capital Asset and Debt Administration

Capital Assets

At the end of 2015, the Hospital had \$13,585,472 invested in capital assets, net of accumulated depreciation. In 2015 and 2014, the Hospital had capital acquisitions of approximately \$1,300,000 and \$2,200,000, respectively. The majority of these purchases were related replacement equipment and implementing updated information systems. Please reference Note 5 of the audited financial statements for additional disclosures concerning capital asset activity.

Debt

The Hospital issued no new debt in 2015 or 2014, and has no outstanding debt as of December 31, 2015 or 2014.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers 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 Hospital Administration by telephoning (812) 268-4311.

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Balance Sheets
December 31, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Current Assets		
Cash	\$ 5,849,604	\$ 1,505,893
Patient accounts receivable, net of allowance:		
2015 - \$2,179,669, 2014 - \$2,554,200	3,344,057	3,960,234
Supplies	619,615	606,837
Estimated amounts due from third-party payers	-	185,930
Prepaid expenses and other current assets	450,817	438,930
Total current assets	<u>10,264,093</u>	<u>6,697,824</u>
 Noncurrent Cash and Investments - Funded depreciation	 11,037,515	 14,012,907
 Capital Assets	 <u>13,585,472</u>	 <u>13,925,257</u>
 Total assets	 <u><u>\$ 34,887,080</u></u>	 <u><u>\$ 34,635,988</u></u>

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 895,422	\$ 767,225
Accrued expenses	1,744,231	2,007,610
Estimated amounts due to third-party payers	119,840	-
Total current liabilities	<u>2,759,493</u>	<u>2,774,835</u>
 Net Position		
Net investment in capital assets	13,585,472	13,925,257
Unrestricted	18,542,115	17,935,896
Total net position	<u>32,127,587</u>	<u>31,861,153</u>
 Total liabilities and net position	 <u><u>\$ 34,887,080</u></u>	 <u><u>\$ 34,635,988</u></u>

Sullivan County Community Hospital

A Component Unit of Sullivan County, Indiana

SCCH Fitness Center, Inc.

Statements of Financial Position

December 31, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Property and equipment, net of accumulated depreciation of \$785,490 and \$726,414 for 2015 and 2014, respectively	<u>\$ 493,328</u>	<u>\$ 518,607</u>
Total assets	<u><u>\$ 493,328</u></u>	<u><u>\$ 518,607</u></u>

Liabilities and Net Assets

Liabilities

Accrued expenses	\$ 28,261	\$ 19,950
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Net Assets - Unrestricted

	<u>465,067</u>	<u>498,657</u>
Total liabilities and net assets	<u><u>\$ 493,328</u></u>	<u><u>\$ 518,607</u></u>

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of \$3,576,647 and \$5,075,241 for 2015 and 2014, respectively	\$ 30,408,368	\$ 29,872,951
Other	200,487	379,175
Total operating revenues	<u>30,608,855</u>	<u>30,252,126</u>
Operating Expenses		
Salaries and wages	14,601,737	13,124,173
Employee benefits	3,763,207	3,340,227
Purchased services and professional fees	4,050,431	3,512,337
Supplies	2,790,750	2,726,500
Utilities	415,895	451,331
Repair and maintenance	1,154,428	1,166,765
Leases and rentals	324,248	325,697
Insurance	426,404	364,313
Depreciation and amortization	1,641,981	1,756,510
Other	586,485	511,979
Provider hospital assessment fee	521,463	1,715,452
Total operating expenses	<u>30,277,029</u>	<u>28,995,284</u>
Operating Income	<u>331,826</u>	<u>1,256,842</u>
Nonoperating Revenues (Expenses)		
Investment income	48,551	46,297
Other	(113,943)	13,853
Total nonoperating revenues (expenses)	<u>(65,392)</u>	<u>60,150</u>
Increase (Decrease) in Net Position	266,434	1,316,992
Net Position, Beginning of Year	<u>31,861,153</u>	<u>30,544,161</u>
Net Position, End of Year	<u><u>\$ 32,127,587</u></u>	<u><u>\$ 31,861,153</u></u>

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
SCCH Fitness Center, Inc.
Statements of Activities
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues, Gains and Other Support		
Membership, training, class and other revenue	\$ 200,121	\$ 211,890
Operating support from the Hospital	231,821	127,397
Total revenues, gains and other support	<u>431,942</u>	<u>339,287</u>
Expenses		
Salaries and wages	218,723	181,847
Employee benefits	100,535	88,632
Purchased services	28,212	26,513
Supplies	5,676	5,030
Utilities	18,379	19,539
Repair and maintenance	9,519	8,546
Depreciation	59,075	56,303
Other	25,413	7,159
Total expenses	<u>465,532</u>	<u>393,569</u>
Decrease in Net Assets	(33,590)	(54,282)
Unrestricted Net Assets, Beginning of Year	<u>498,657</u>	<u>552,939</u>
Unrestricted Net Assets, End of Year	<u>\$ 465,067</u>	<u>\$ 498,657</u>

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 31,330,315	\$ 27,429,783
Payments to suppliers and contractors	(9,058,624)	(8,386,378)
Payments to employees	(18,628,323)	(16,414,705)
Other payments, net	(907,461)	(1,850,677)
Net cash provided by operating activities	<u>2,735,907</u>	<u>778,023</u>
Capital and Related Financing Activity - purchase of capital assets	<u>(1,302,196)</u>	<u>(2,245,993)</u>
Investing Activities		
Interest and dividends on investments	40,591	56,191
Purchase of investments	(8,082,788)	(8,540,144)
Proceeds from disposition of investments	11,066,140	9,464,365
Other investing activities	(113,943)	13,853
Net cash provided by investing activities	<u>2,910,000</u>	<u>994,265</u>
Increase (Decrease) in Cash	4,343,711	(473,705)
Cash, Beginning of Year	<u>1,505,893</u>	<u>1,979,598</u>
Cash, End of Year	<u><u>\$ 5,849,604</u></u>	<u><u>\$ 1,505,893</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 331,826	\$ 1,256,842
Depreciation	1,641,981	1,756,510
Provision for uncollectible accounts	3,576,647	5,075,241
Changes in operating assets and liabilities:		
Patient accounts receivable	(2,960,470)	(5,895,608)
Estimated amounts due to/from third-party payers	305,770	(1,162,801)
Accounts payable and accrued expenses	(135,182)	(43,529)
Other assets	(24,665)	(208,632)
Net cash provided by operating activities	<u><u>\$ 2,735,907</u></u>	<u><u>\$ 778,023</u></u>

Sullivan County Community Hospital

A Component Unit of Sullivan 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

Sullivan County Community Hospital (Hospital) is an acute care hospital located in Sullivan, Indiana. The Hospital is a component unit of Sullivan County (County) and the Board of County Commissioners appoints members to the Governing Board of the Hospital pursuant to the provisions of Indiana Code 16-22-2-2. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Sullivan County surrounding area. It also operates a home health agency in the same geographic area.

In accordance with GASB Statement No. 61, the financial statements include the financial statements of MSO Clinics, Inc. (MSO Clinics), reported as a blended component unit. The primary government appoints a voting majority of the MSO Clinics' board of directors and a financial benefit/burden relationship exists between the Hospital and MSO Clinics. Although it is legally separate from the Hospital, MSO Clinics is reported as if it were a part of the Hospital as it provides services entirely or almost entirely for the benefit of the Hospital. All significant intercompany transactions have been eliminated for financial reporting purposes. Separate audited financial statements are not issued for MSO Clinics.

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 and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Investment income is included in nonoperating revenues and expenses.

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 and liabilities 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.

Sullivan County Community Hospital
A Component Unit of Sullivan 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; medical malpractice; 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

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income 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.

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 method over the estimated useful life of each asset. The following estimated useful lives are being used by the Hospital:

Land improvements	5 - 20 years
Buildings and leasehold improvements	10 - 20 years
Equipment	3 - 10 years

Sullivan County Community Hospital

A Component Unit of Sullivan County, Indiana

Notes to Financial Statements

December 31, 2015 and 2014

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 to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. 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 are expected to be paid within one year of the balance sheet date and is therefore included in current liabilities.

Net Position

Net position of the Hospital is classified in two components. Net investment in capital assets, consist 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. Unrestricted net position are remaining assets, less remaining liabilities that do not meet the definition of net investment in capital assets.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$671,512 for 2015 compared to \$249,515 for 2014.

SCCH Fitness Center

SCCH Fitness Center, Inc. (Fitness Center) is a legally separate, tax-exempt component unit of the Hospital. The Fitness Center's primary function is to provide community access to health and fitness equipment. The Hospital appoints a voting majority of the Fitness Center's board and a financial relationship exists where the Hospital subsidizes the operations of the Fitness Center. Because of this relationship, the Fitness Center is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements. Separate financial statements for the Fitness Center may be obtained by contacting Fitness Center management.

During the years ended December 31, 2015 and 2014, the Hospital provided \$231,821 and \$127,397, respectively, of support to the Fitness Center for operations.

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Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. In addition, the Hospital is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Fitness Center is exempt from federal income taxes under Section 501(c)(3) and 509(a)(2) of the U.S. Internal Revenue Code and a similar provision of state law. However, the Fitness Center is subject to federal income tax on any unrelated business taxable income. The Fitness Center files federal tax returns in the U.S. federal jurisdiction.

MSO Clinics has applied for exempt status under Section 501(c)(3) of the U.S. Internal Revenue Code and a similar provision of state law. As of the date of the auditor's report, IRS approval has not been received.

Electronic Health Records Incentive Program

The Electronic Health Records 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 electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. 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. The final amount for any payment year under both programs 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 began recognizing incentive payment revenue earned under the Medicare program in 2014, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. The Hospital recorded revenue of approximately \$460,000 from Medicare in 2014, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position. This estimate was reduced by \$130,000 in 2015 when the application for payment was made and no additional amounts were recorded. At December 31, 2015, estimate amounts of \$330,000 have not been received. The Hospital has recognized Medicaid EHR funding in the amount of \$215,200 during 2014, which is included in other operating revenue in the statements of revenues, expenses and changes in net position.

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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. 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. A summary of payment arrangements include:

Medicare. The Hospital is designated by Medicare as a critical access hospital (CAH). Inpatient acute care and swing bed services, and most outpatient services, are reimbursed based on a cost reimbursement methodology. Interim per diem rates for inpatient services and percent of charges for outpatient services are reimbursed throughout the year, with final settlement determined after submission of the annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to the service provided and the patient diagnosis.

Approximately 53% and 60% percent of net patient service revenue are 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 participates in a state specific provider assessment program to increase Medicaid payments to hospitals. The Hospital paid approximately \$521,000 and \$1,715,000 into this Medicaid program for 2015 and 2014, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position. The program is scheduled to sunset on June 30, 2017. There is no assurance this program will continue to be implemented in the future.

The Hospital also qualifies as a Medicaid Disproportionate Share Hospital (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 \$1,337,000 and \$596,000 within net patient service revenue related to this supplemental payment program for the years ended December 31, 2015 and 2014, respectively.

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

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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 deposits 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 Depository 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 are considered collateralized.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities, in bank repurchase agreements, and other investments defined in Indiana Code 16-22-3-20.

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

Type	December 31, 2014				
	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Fixed income mutual funds	\$ 3,012,728	\$ 3,012,728	\$ -	\$ -	\$ -

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy limits investments to certificates of deposit and certain bond and mutual funds. No more than 50% of the total Hospital portfolio (including deposits) should be invested in bond mutual funds. Generally, the maturity date on all investments shall not exceed two years.

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 certain bond and mutual funds to the American Hospital Association's Investment Fund and other portfolios with AAA or government-backed ratings. At December 31, 2014, the Hospital's investments in bond funds were rated by Standard & Poor's and or Moody's Investors Service as follows:

Type	December 31, 2014				
	Fair Value	AAA	AA	A	BBB
Fixed income mutual funds	\$ 3,012,728	\$ 1,074,640	\$ 586,578	\$ 1,210,815	\$ 140,695

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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. The Hospital's investment policy does not address how securities underlying repurchase agreements are to be held.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2015	2014
Carrying value:		
Deposits	\$ 16,887,119	\$ 12,506,072
Investments	-	3,012,728
	<u>\$ 16,887,119</u>	<u>\$ 15,518,800</u>
Included in the following balance sheets captions:		
Cash	\$ 5,849,604	\$ 1,505,893
Noncurrent cash and investments - funded depreciation	<u>11,037,515</u>	<u>14,012,907</u>
	<u>\$ 16,887,119</u>	<u>\$ 15,518,800</u>

Investment Income

Investment income for the years ended December 31 consisted of:

	2015	2014
Interest and dividend income	\$ 40,591	\$ 56,191
Net change in fair value of investments	<u>7,960</u>	<u>(9,894)</u>
Investment income	<u>\$ 48,551</u>	<u>\$ 46,297</u>

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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 consisted of:

	2015	2014
Medicare	\$ 863,485	\$ 976,847
Medicaid	243,371	239,252
Other third-party payers	1,925,352	2,560,721
Patients	2,491,518	2,737,614
	<u>5,523,726</u>	<u>6,514,434</u>
Less allowance for uncollectible accounts	<u>2,179,669</u>	<u>2,554,200</u>
	<u><u>\$ 3,344,057</u></u>	<u><u>\$ 3,960,234</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Hospital					
Land	\$ 1,042,227	\$ -	\$ -	\$ -	\$ 1,042,227
Buildings and leasehold improvements	19,046,178	133,466	-	-	19,179,644
Equipment	15,539,750	1,128,448	-	-	16,668,198
Construction in progress	-	40,282	-	-	40,282
	<u>35,628,155</u>	<u>1,302,196</u>	<u>-</u>	<u>-</u>	<u>36,930,351</u>
Less accumulated depreciation:					
Buildings and leasehold improvements	10,767,649	797,259	-	-	11,564,908
Equipment	10,935,249	844,722	-	-	11,779,971
	<u>21,702,898</u>	<u>1,641,981</u>	<u>-</u>	<u>-</u>	<u>23,344,879</u>
Total Hospital capital assets, net	<u><u>\$ 13,925,257</u></u>	<u><u>\$ (339,785)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 13,585,472</u></u>

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	2014				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Hospital					
Land	\$ 1,042,227	\$ -	\$ -	\$ -	\$ 1,042,227
Buildings and leasehold improvements	16,948,085	1,862,627	-	235,466	19,046,178
Equipment	15,175,648	383,366	(19,264)	-	15,539,750
Construction in progress	235,466	-	-	(235,466)	-
	<u>33,401,426</u>	<u>2,245,993</u>	<u>(19,264)</u>	<u>-</u>	<u>35,628,155</u>
Less accumulated depreciation:					
Buildings and leasehold improvements	10,008,236	759,413	-	-	10,767,649
Equipment	9,959,837	997,097	(21,685)	-	10,935,249
	<u>19,968,073</u>	<u>1,756,510</u>	<u>(21,685)</u>	<u>-</u>	<u>21,702,898</u>
Total Hospital capital assets, net	<u>\$ 13,433,353</u>	<u>\$ 489,483</u>	<u>\$ 2,421</u>	<u>\$ -</u>	<u>\$ 13,925,257</u>

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims 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 such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: 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 \$1,000,000, and an individual policy maximum of \$75,000. 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 reasonably possible that the Hospital's estimate will change by a material amount in the near term.

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

	2015	2014
Balance, beginning of year	\$ 232,223	\$ 182,123
Current year claims incurred and changes in estimates for		
claims incurred in prior years	1,740,893	1,532,808
Claims and expenses paid	<u>(1,716,754)</u>	<u>(1,482,708)</u>
Balance, end of year	<u><u>\$ 256,362</u></u>	<u><u>\$ 232,223</u></u>

Note 8: Pension Plan

The Hospital & MSO Clinic contribute to defined-contribution pension plans covering substantially all employees following one year of service. Pension expense is recorded for the amount of the employer's required contributions, determined in accordance with the terms of the plans. The Hospital plans are administered by a board of trustees appointed by the Hospital Board. The MSO Clinic plan is administered by its governing body. The plans provide retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan documents and were established and can be amended by action of the Hospital's governing body. Plan members may contribute up to \$18,000 of their annual covered salary. The Hospital and MSO Clinic are required to match one-half of the employee contribution up to 5% of employee's compensation. In addition, the Hospital contributes 2% of the annual covered payroll for all eligible active participants. The MSO Clinics may make a discretionary contribution as determined by its governing body. Expense related to employer contributions to the plans was \$251,507 for 2015 and \$250,741 for 2014. The Hospital had accrued benefits payable to the plan of \$156,166 at December 31, 2015 compared to \$166,945 as of December 31, 2014.

Note 9: Operating Leases

A noncancellable operating lease for primary care outpatient office space began in October 2013 and expires in October 2018. This lease contains renewal options for five year periods and requires the Hospital to pay all executory costs (property taxes, maintenance and insurance). Rental expense for operating leases during 2015 and 2014 were \$324,248 and \$206,452, respectively. Future minimum lease payments at December 31, 2015 were:

2016	\$ 220,486
2017	220,486
2018	<u>165,364</u>
	<u><u>\$ 606,336</u></u>

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Note 10: Contingencies

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 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 legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 11: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products.

Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs will be substantially decreased. Each state's participation in an expanded Medicaid program is optional. In 2015, the state of Indiana expanded its Medicaid program with the implementation of the Healthy Indiana Plan (HIP) 2.0. Under HIP 2.0, the first \$2,500 of beneficiary medical expenses are reimbursed from special savings accounts funded partly by the state and partly by the beneficiary.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

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Note 12: Combining Financial Statement Information and Blended Component Unit

The Hospital's combining financial statement information, including that of its blended component unit was summarized as follows for the years ended December 31, 2015 and 2014:

Combining Balance Sheets as of December 31, 2015 and 2014

	2015			2014		
	Hospital	MSO Clinics	Total	Hospital	MSO Clinics	Total
Assets						
Current Assets						
Cash	\$ 5,750,672	\$ 98,932	\$ 5,849,604	\$ 1,461,979	\$ 43,914	\$ 1,505,893
Patient accounts receivable, net of allowance of \$2,179,669	2,865,762	478,295	3,344,057	3,027,023	933,211	3,960,234
Supplies	521,708	97,907	619,615	536,263	70,574	606,837
Estimated amounts due from third-party payers	-	-	-	185,930	-	185,930
Prepaid expenses and other current assets	450,817	-	450,817	438,930	-	438,930
Total current assets	9,588,959	675,134	10,264,093	5,650,125	1,047,699	6,697,824
Noncurrent Cash and Investments - funded depreciation						
	11,037,515	-	11,037,515	14,012,907	-	14,012,907
Capital Assets						
	12,328,803	1,256,669	13,585,472	12,575,396	1,349,861	13,925,257
Total assets	<u>\$ 32,955,277</u>	<u>\$ 1,931,803</u>	<u>\$ 34,887,080</u>	<u>\$ 32,238,428</u>	<u>\$ 2,397,560</u>	<u>\$ 34,635,988</u>
Liabilities and Net Position						
Current Liabilities						
Accounts payable	\$ 895,422	\$ -	\$ 895,422	\$ 767,225	\$ -	\$ 767,225
Accrued expenses	1,658,996	85,235	1,744,231	1,955,379	52,231	2,007,610
Estimated amounts due to third-party payers	119,840	-	119,840	-	-	-
Total current liabilities	2,674,258	85,235	2,759,493	2,722,604	52,231	2,774,835
Net Position						
Net investment in capital assets	12,328,803	1,256,669	13,585,472	12,575,396	1,349,861	13,925,257
Unrestricted	17,952,216	589,899	18,542,115	16,940,428	995,468	17,935,896
Total net position	30,281,019	1,846,568	32,127,587	29,515,824	2,345,329	31,861,153
Total liabilities and net position	<u>\$ 32,955,277</u>	<u>\$ 1,931,803</u>	<u>\$ 34,887,080</u>	<u>\$ 32,238,428</u>	<u>\$ 2,397,560</u>	<u>\$ 34,635,988</u>

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Combining Statements of Revenues, Expenses and Changes in Net Position for the Years Ended December 31, 2015 and 2014

	2015			2014		
	Hospital	MSO Clinics	Total	Hospital	MSO Clinics	Total
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts of 2015 - \$3,576,647; 2014 - \$5,075,241	\$ 25,793,275	\$ 4,615,093	\$ 30,408,368	\$ 28,055,545	\$ 1,817,406	\$ 29,872,951
Other	200,487	-	200,487	379,175	-	379,175
Total operating revenues	<u>25,993,762</u>	<u>4,615,093</u>	<u>30,608,855</u>	<u>28,434,720</u>	<u>1,817,406</u>	<u>30,252,126</u>
Operating Expenses						
Salaries and wages	10,599,905	4,001,832	14,601,737	11,291,315	1,832,858	13,124,173
Employee benefits	3,013,080	750,127	3,763,207	3,018,632	321,595	3,340,227
Purchased services and professional fees	3,531,970	518,461	4,050,431	3,414,581	97,756	3,512,337
Supplies	2,423,546	367,204	2,790,750	2,530,808	195,692	2,726,500
Utilities	392,274	23,621	415,895	439,675	11,656	451,331
Repair and maintenance	1,143,076	11,352	1,154,428	1,153,710	13,055	1,166,765
Leases and rentals	85,884	238,364	324,248	206,452	119,245	325,697
Insurance	361,778	64,626	426,404	338,532	25,781	364,313
Depreciation	1,542,822	99,159	1,641,981	1,713,805	42,705	1,756,510
Other	509,787	76,698	586,485	451,285	60,694	511,979
Provider hospital assessment fee	521,463	-	521,463	1,715,452	-	1,715,452
Total operating expenses	<u>24,125,585</u>	<u>6,151,444</u>	<u>30,277,029</u>	<u>26,274,247</u>	<u>2,721,037</u>	<u>28,995,284</u>
Operating Income (Loss)	<u>1,868,177</u>	<u>(1,536,351)</u>	<u>331,826</u>	<u>2,160,473</u>	<u>(903,631)</u>	<u>1,256,842</u>
Nonoperating Revenues (Expenses)						
Investment income	48,551	-	48,551	46,297	-	46,297
Other	(113,943)	-	(113,943)	13,853	-	13,853
Total nonoperating expenses	<u>(65,392)</u>	<u>-</u>	<u>(65,392)</u>	<u>60,150</u>	<u>-</u>	<u>60,150</u>
Increase (Decrease) in Net Position	<u>1,802,785</u>	<u>(1,536,351)</u>	<u>266,434</u>	<u>2,220,623</u>	<u>(903,631)</u>	<u>1,316,992</u>
Transfer From (To) Affiliate	<u>(1,037,590)</u>	<u>1,037,590</u>	<u>-</u>	<u>(3,248,960)</u>	<u>3,248,960</u>	<u>-</u>
Net Position, Beginning of Year	<u>29,515,824</u>	<u>2,345,329</u>	<u>31,861,153</u>	<u>30,544,161</u>	<u>-</u>	<u>30,544,161</u>
Net Position, End of Year	<u>\$ 30,281,019</u>	<u>\$ 1,846,568</u>	<u>\$ 32,127,587</u>	<u>\$ 29,515,824</u>	<u>\$ 2,345,329</u>	<u>\$ 31,861,153</u>

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Notes to Financial Statements

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Combining Statements of Cash Flows for the Years Ended December 31, 2015 and 2014

	2015			2014		
	Hospital	MSO Clinics	Total	Hospital	MSO Clinics	Total
Operating Activities						
Receipts from and on behalf of patients	\$ 26,260,306	\$ 5,070,009	\$ 31,330,315	\$ 26,545,588	\$ 884,195	\$ 27,429,783
Payments to suppliers and contractors	(7,807,663)	(1,250,961)	(9,058,624)	(7,852,619)	(533,759)	(8,386,378)
Payments to employees	(13,909,368)	(4,718,955)	(18,628,323)	(14,312,483)	(2,102,222)	(16,414,705)
Other payments, net	(830,763)	(76,698)	(907,461)	(1,789,983)	(60,694)	(1,850,677)
Net cash provided by (used in) operating activities	3,712,512	(976,605)	2,735,907	2,590,503	(1,812,480)	778,023
Noncapital Financing Activity -						
transfer from (to) affiliate	(1,037,590)	1,037,590	-	(2,843,339)	2,843,339	-
Capital and Related Financing Activity -						
purchase of capital assets	(1,296,229)	(5,967)	(1,302,196)	(1,259,048)	(986,945)	(2,245,993)
Investing Activities						
Interest and dividends on investments	40,591	-	40,591	56,191	-	56,191
Purchase of investments	(8,082,788)	-	(8,082,788)	(8,540,144)	-	(8,540,144)
Proceeds from disposition of investments	11,066,140	-	11,066,140	9,464,365	-	9,464,365
Other investing activities	(113,943)	-	(113,943)	13,853	-	13,853
Net cash provided by investing activities	2,910,000	-	2,910,000	994,265	-	994,265
Increase (Decrease) in Cash	4,288,693	55,018	4,343,711	(517,619)	43,914	(473,705)
Cash, Beginning of Year	1,461,979	43,914	1,505,893	1,979,598	-	1,979,598
Cash, End of Year	\$ 5,750,672	\$ 98,932	\$ 5,849,604	\$ 1,461,979	\$ 43,914	\$ 1,505,893
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities						
Operating income (loss)	\$ 1,868,177	\$ (1,536,351)	\$ 331,826	\$ 2,160,473	\$ (903,631)	\$ 1,256,842
Depreciation	1,542,822	99,159	1,641,981	1,713,805	42,705	1,756,510
Provision for uncollectible accounts	3,359,037	217,610	3,576,647	4,826,680	248,561	5,075,241
Changes in operating assets and liabilities:						
Patient accounts receivable	(3,197,776)	237,306	(2,960,470)	(4,713,836)	(1,181,772)	(5,895,608)
Estimated amounts due to third-party payers	305,770	-	305,770	(1,162,801)	-	(1,162,801)
Accounts payable and accrued expenses	(168,186)	33,004	(135,182)	(95,760)	52,231	(43,529)
Other assets and liabilities	2,668	(27,333)	(24,665)	(138,058)	(70,574)	(208,632)
Net cash provided by (used in) operating activities	\$ 3,712,512	\$ (976,605)	\$ 2,735,907	\$ 2,590,503	\$ (1,812,480)	\$ 778,023

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
Sullivan County Community Hospital
Sullivan, 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 Sullivan County Community Hospital (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 April 22, 2016. The financial statements of MSO Clinics, Inc., which are included in the Hospital's financial statements, were not audited in accordance with *Government Auditing Standards*. The financial statements of SCCH Fitness Center, Inc., a component unit included in the financial statements as a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

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 of the financial statements, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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. 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-001 to be a material weakness.

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*.

Management's Response to Findings

The Hospital's response to the findings 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 financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to the Hospital's management in a separate letter dated April 22, 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 entity'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.

BKD, LLP

Indianapolis, Indiana
April 22, 2016

Sullivan County Community Hospital

A Component Unit of Sullivan County, Indiana

Schedule of Findings and Responses

December 31, 2015

Reference Number	Finding
2015-001	Criteria or Specific Requirement: Internal Control Over Financial Reporting Condition: The chief financial officer has conflicting duties within various transaction cycles, having responsibilities related to recording investment transactions, certain electronic cash transactions, and the revenue transactions of the MSO Clinics, Inc. These access and recording functions conflict with monitoring functions, as the chief financial officer also prepares account reconciliations for investments, certain cash accounts and patient accounts receivable. Context: Proper segregation of duties and completion and review of account reconciliations is critical to internal control and financial reporting. Cause: Due to the size of the accounting and finance department, proper segregation of duties is difficult to mitigate and there is no secondary review of monthly reconciliations prepared by the chief financial officer. Similarly, cash reconciliations prepared throughout the year led to adjustments to the financial statements which were not timely recorded. Effect: Potential misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner. Recommendation: We recommend that all significant account reconciliations be prepared and reviewed monthly. Entries and reconciliations prepared by the chief financial officer should be reviewed by another member of the accounting and finance department. It is our understanding that management is making departmental changes to address these matters. Views of Responsible Officials and Planned Corrective Action: We concur and have worked diligently to improve our internal controls over cash and review of general ledger reconciliations. Steps have been put in place in late 2015 and 2016 to segregate duties to ensure that general ledger account balances are performed monthly by accounting and finance staff and that a secondary review of each reconciliation is completed and signed-off by the Chief Financial Officer.