MARSHALL COUNTY HOSPITAL DISTRICT
Financial Statements

Years Ended December 31, 2016 and 2015
with Report of Independent Auditors

CONTENTS

DORTON

DEAN DORTON ALLEN FORD, PLLC

Report of Independent Auditors

Board of Trustees
Marshall County Hospital District
Benton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Marshall County Hospital District (the District) which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marshall County Hospital District as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dean Dorton Allen Ford, PLLC

July 6, 2017
Lexington, Kentucky

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MARSHALL COUNTY HOSPITAL DISTRICT

Balance Sheets

December 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	**$ 12,454,105**	$ 11,535,363
Patient accounts receivable, less allowance for uncollectible accounts of $1,724,033 and $1,708,229 in 2016 and 2015, respectively	**2,420,026**	2,735,095
Ad valorem taxes receivable	**74,856**	69,774
Inventories	**438,911**	448,666
Prepaid expenses and other current assets	**343,635**	349,199
Estimated Medicare - Medicaid cost report settlements receivable	**92,027**	382,579
Total current assets	**15,823,560**	15,520,676
Assets limited as to use:		
Internally designated for capital improvements	**2,577,645**	2,717,051
Internally designated for debt service	**2,314,251**	2,316,854
	4,891,896	5,033,905
Property and equipment, net	**22,954,978**	24,151,344
Investment in affiliate	**600,000**	750,000
Other assets	**42,542**	52,375
Total assets	**$ 44,312,976**	$ 45,508,300

	2016	2015
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 438,282**	$ 623,726
Accrued expenses	**1,388,161**	1,210,335
Current maturities of long-term debt	**955,000**	931,974
Total current liabilities	**2,781,443**	2,766,035
Long-term debt, net of current maturities	**22,755,000**	23,710,000
Total liabilities	**25,536,443**	26,476,035
Net assets:		
Unrestricted:		
Internally designated	**4,891,896**	5,033,905
Undesignated	**13,884,637**	13,998,360
Total net assets	**18,776,533**	19,032,265
Total liabilities and net assets	**$ 44,312,976**	$ 45,508,300

See accompanying notes.

MARSHALL COUNTY HOSPITAL DISTRICT

Statements of Operations and Changes in Net Assets

Years ended December 31, 2016 and 2015

	2016	2015
Operating revenues:		
Patient service revenue (net of contractual allowances and discounts)	$ 22,357,830	$ 21,092,245
Provision for bad debts	(1,375,166)	(1,192,328)
Net patient service revenue less provision for bad debts	20,982,664	19,899,917
Interest income	13,303	8,847
Other	245,274	372,115
Total operating revenues	21,241,241	20,280,879
Operating expenses:		
Salaries and wages	9,479,026	9,041,262
Supplies	2,709,614	2,352,423
Depreciation and amortization	2,223,598	2,281,640
Other operating expenses	2,625,603	2,489,118
Employee benefits	2,252,862	2,030,156
Purchased services and professional fees	1,914,730	1,791,463
Interest expense	1,084,134	1,125,030
Provider taxes	215,180	215,180
Total operating expenses	22,504,747	21,326,272
Deficit of revenues over expenses	(1,263,506)	(1,045,393)
Nonoperating revenues:		
Ad valorem taxes	1,000,928	965,713
Contributions	6,846	8,556
Total nonoperating revenues	1,007,774	974,269
Decrease in net assets	(255,732)	(71,124)
Net assets, beginning of year	19,032,265	19,103,389
Net assets, end of year	$ 18,776,533	$ 19,032,265

See accompanying notes.

MARSHALL COUNTY HOSPITAL DISTRICT

Statements of Cash Flows

Years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Decrease in net assets	**$ (255,732)**	$ (71,124)
Adjustment to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	**2,223,598**	2,281,640
Gain on sale of property and equipment	**(19,846)**	(2,439)
Provision for bad debts	**1,375,166**	1,192,328
Forgiveness of physician notes receivable	**29,833**	29,625
Loss from investment in affiliate	**150,000**	-
Increase in cash due to changes in:		
Patient accounts receivable	**(1,060,097)**	(1,187,499)
Ad valorem taxes receivable	**(5,082)**	31,698
Inventories	**9,755**	(31,657)
Prepaid expenses and other current assets	**5,564**	101,189
Estimated Medicare - Medicaid cost report settlements	**290,552**	1,086,663
Accounts payable	**(185,444)**	3,793
Accrued expenses	**177,826**	83,218
Net cash provided by operating activities	**2,736,093**	3,517,435
Cash flows from investing activities:		
Purchase of property and equipment	**(1,034,432)**	(1,054,232)
Proceeds from sale of property and equipment	**27,046**	2,600
Decrease in assets limited as to use, net	**142,009**	125,520
Issuance of physician notes receivable	**(20,000)**	(30,000)
Net cash used in investing activities	**(885,377)**	(956,112)
Cash flows from financing activities:		
Repayment of debt	**(931,974)**	(900,176)
Net cash used in financing activities	**(931,974)**	(900,176)
Net increase in cash	**918,742**	1,661,147
Cash and cash equivalents, beginning of year	**11,535,363**	9,874,216
Cash and cash equivalents, end of year	**$ 12,454,105**	$ 11,535,363

MARSHALL COUNTY HOSPITAL DISTRICT

Statements of Cash Flows, continued

Years ended December 31, 2016 and 2015

		2016		2015
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	**$**	**1,084,134**	$	1,125,030

See accompanying notes.

1. Description of the Organization

Marshall County Hospital District (the District) operates under a board established in accordance with Kentucky Revised Statutes Sections 216.310 and 216.355 for the governance of the Marshall County Hospital (the Hospital). The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Marshall County and surrounding counties in Kentucky.

Marshall County Hospital Foundation (the Foundation) is governed by the same Board of Trustees as the District. Although it is legally separate from the Hospital, the Foundation is reported as a part of the District's reporting entity because of its identical board composition. The Foundation has been recognized as tax exempt pursuant to the Internal Revenue Code (the Code).

2. Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Hospital in the preparation of its financial statements:

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits and investments, other than certain investments limited as to use, with an original maturity of three months or less. At times, balances in the Hospital's cash accounts may exceed federally insured limits. The Hospital has not experienced any losses on such accounts. The Hospital believes it is not exposed to any significant credit risk on cash and cash equivalents.

Patient Accounts Receivable

Patient accounts receivable consist of amounts due from government programs (e.g., Medicare and Medicaid) and non-government payors (e.g., self-pay and commercial payors). Management believes there are minimal credit risks associated with the receivables from government programs. Non-government receivables are from various payors that are subject to differing economic conditions. Management continually monitors and adjusts the allowance for uncollectible accounts associated with credit risk of patient accounts receivable.

Ad Valorem Taxes

The Hospital receives financial support from ad valorem taxes. These funds are used to purchase capital assets, as well as to service long-term debt obligations.

Ad valorem taxes are assessed in January and are received beginning in November of each year and become delinquent after December of the same year. Revenue from ad valorem taxes is recognized in the year for which the taxes are levied.

2. Summary of Significant Accounting Policies, continued

Inventories

Inventories (primarily pharmaceuticals and medical supplies) are stated at the lower of cost (first-in, first-out method) or market.

Assets Limited as to Use

Assets limited as to use include assets held by trustees under debt agreements and designated assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Assets limited as to use consist of certificates of deposit and are measured at cost which approximates fair value.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the statements of operations and changes in net assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The capitalization threshold used for the years ended December 31, 2016 and 2015 was $5,000.

Investment in Affiliate

Marshall County MRI, LLC is a 50/50 joint venture with Mercy Health Partners – Lourdes, Inc. The joint venture purchased and operates magnetic resonance imaging equipment and was financed by $1,500,000 in original capital - $750,000 by each partner. Management believes it has "control" of the joint venture as defined by GAAP and has elected not to show the other owner's interests in the operations of the joint venture as "noncontrolling interest" in the net assets of the Hospital as it deems the amount of equity not controlled by the Hospital to be immaterial to the Hospital's financial statements.

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. The expense and the related liability for benefits are recognized when earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the employee's regular pay and termination pay rates in effect at the balance sheet dates, plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes computed using rates in effect at that date.

2. Summary of Significant Accounting Policies, continued

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. None of the Hospital's net assets are temporarily or permanently restricted.

Net Patient Service Revenue

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

Deficit of Revenues Over Expenses

The statements of operations and changes in net assets include deficit of revenues over expenses. Changes in unrestricted net assets which are excluded from deficit of revenues over expenses, consistent with industry practice, include ad valorem taxes and contributions.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Risk Management

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

2. Summary of Significant Accounting Policies, continued

Charity Care

The Hospital accepts patients regardless of their ability to pay. A patient is classified as a charity patient based on certain established policies. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital includes certain cases where incurred charges are significant when compared to the patient's income. Charity care provided, measured at cost was $(56,939) and $(46,666) for December 31, 2016 and 2015, respectively. These charges are not included in net patient service revenue.

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. However, the Hospital is subject to federal income tax on any unrelated business taxable income. Management believes they do not have any unrelated business taxable income.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through July 6, 2017, the date that the financial statements were available to be issued.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Board (ASU) 2016-02, *Leases (Topic 842)*, requiring all leases to be recognized on the Hospital's balance sheet as a right-of-use asset and a lease liability, unless the lease is a short term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, the Hospital will recognize: 1) a lease liability for Hospital's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents the Hospital's right to use, or control the use of, the specified asset for the lease term. Upon adopting the ASU, the Hospital will be required to recognize and measure its leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 will be effective for the Hospital for the year ending December 31, 2020, with early adoption permitted. The Hospital is currently evaluating the effect that the new standard will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, that changes how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes about its liquidity, financial performance, and cash flows. The ASU includes a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. This ASU will be effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The Hospital is currently evaluating the effects that the adoption of this guidance will have on its financial statements.

2. Summary of Significant Accounting Policies, continued

Reclassifications

Certain accounts in the 2015 financial statements have been reclassified for comparative purposes to conform with the presentation in the 2016 financial statements.

3. Net Patient Service Revenue

The Hospital has agreements with federal, state and third-party payors that provide for reimbursement at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates and amounts reimbursed by third-party payors. The Hospital participates in the Medicare and Medicaid programs. Approximately 64% and 60% of the Hospital's net patient service revenues in 2016 and 2015, respectively, were derived from services to patients covered by these programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. A summary of the payment arrangements with major third-party payors follows.

The Hospital has elected critical access hospital status for Medicare and Medicaid reimbursement purposes. The election allows the Hospital to receive cost-based reimbursement for services rendered to Medicare and Medicaid beneficiaries. The Hospital receives interim payments from Medicare and Medicaid. Final settlements are determined after the submission of annual cost reports filed by the Hospital and the audit or desk review thereof by Medicare and Medicaid. Management feels that adequate provision has been made for the effects, if any, for audits or desk reviews by either program.

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

The Kentucky General Assembly (the Assembly) enacted legislation which established a health care provider tax for the purpose of funding the Medicaid program. The tax on hospitals has been 2.5% of net patient service revenue received. As of July 1, 2006, the Assembly froze the dollar amounts of provider tax a provider will have to pay at their 2006 levels. In addition, this legislation provides for reimbursement to hospitals for inpatient and outpatient indigent care services below 100% of the Federal poverty level through a Medicaid Assistance Indigent Trust Fund. These reimbursements are based upon the individual hospital's Medicaid cost-to-charge ratios. During the years ended December 31, 2016 and 2015, the Hospital received payments of $18,852 and $18,977, respectively, related to these reimbursements.

Effective January 1, 2014, Kentucky expanded its Medicaid program to include five companies - Anthem, Passport, Wellcare, Humana and Coventry. The Hospital contracted with Passport, Wellcare, Humana and deals with Coventry on a case by case basis as an out-of-network provider.

3. Net Patient Service Revenue, continued

The conversion of the state's Medicaid program to the managed care organizations has had an adverse effect on the reimbursement provided to the Hospital's employed physicians and the care provided to Medicaid beneficiaries by all Hospital service departments. Some improvement has been made with contractors adhering to the prompt payment of claims act as required by their contract. Many claims for emergency room visits are still being paid a $50 flat fee which leaves the Hospital to contest each claim further burdening the administrative function for all claim filings. The $50 "triage" fee is a state-wide issue and information has been provided to Kentucky Hospital Association and political figures in hope of getting some relief on this issue.

A summary of the Hospital's gross and net patient service revenue for the years ended December 31, 2016 and 2015 follows:

	2016	2015
Gross patient service revenue	**$ 35,984,285**	$ 33,504,650
Deductions from revenue:		
Contractual allowances	**13,780,414**	12,538,498
Charity care	**(153,959)**	(126,093)
Provision for bad debts	**1,375,166**	1,192,328
Net patient service revenue	**$ 20,982,664**	$ 19,899,917

4. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at December 31, 2016 and 2015 consisted of the following amounts:

Patient Accounts Receivable

	2016	2015
Receivable from patients and their insurance carriers	$ 2,597,041	$ 3,339,061
Receivable from Medicare	1,109,189	754,668
Receivable from Medicaid	438,209	349,595
Total patient accounts receivable	4,144,439	4,443,324
Less allowance for uncollectible amounts	(1,724,033)	(1,708,229)
Patient accounts receivable, net	$ 2,420,406	$ 2,735,095

Accounts Payable and Accrued Expenses

	2016	2015
Payable to employees (including payroll taxes)	$ 1,150,677	$ 1,012,933
Payable to suppliers and contractors	675,766	821,128
Total accounts payable and accrued expenses	$ 1,826,443	$ 1,834,061

5. Property and Equipment

Property and equipment consists of the following as of December 31:

	2016	2015
Land	$ 3,234,612	$ 3,234,612
Land improvements	3,434,733	3,313,274
Buildings	26,796,230	26,796,230
Equipment	10,875,981	10,433,910
Equipment under capital lease obligation	-	50,402
	44,341,556	43,828,428
Less accumulated depreciation and amortization	(21,882,732)	(19,677,084)
	22,458,824	24,151,344
Construction in progress	496,154	-
Property and equipment, net	$ 22,954,978	$ 24,151,344

5. Property and Equipment, continued

Depreciation expense for the years ended December 31, 2016 and 2015, amounted to $2,210,997 and $2,256,439, respectively. Amortization for equipment under capital lease obligation was $12,601 and $25,201 for the years ended December 31, 2016 and 2015, respectively.

As of December 31, 2016, the Hospital expects the remaining construction in process to approximate $1,894,000.

6. Long-Term Debt

A summary of long-term debt as of December 31:

	2016	2015
2008 KACO capital lease	**$ 23,710,000**	$ 24,625,000
Capital lease obligation, with an imputed interest rate of 2.2%, collateralized by leased equipment with an amortized cost of $25,201 as of December 31, 2015. Fully repaid in 2016.	**-**	16,974
Total long-term debt	**23,710,000**	24,641,974
Less current portion	**955,000**	931,974
Long-term debt, net of current portion	**$ 22,755,000**	$ 23,710,000

The 2008 capital lease was entered into by the District and the Kentucky Association of Counties Leasing Trust (KACO) for the acquisition, construction, installation and equipping of a new critical access hospital. The 2008 KACO capital lease is due January 20, 2033, with monthly interest payments due at various amounts and annual installments ranging from $955,000 to $1,930,000 over the life of the lease; the obligation is secured by real estate and equipment.

Scheduled payments are as follows:

Year ending December 31,	
2017	$ 955,000
2018	1,000,000
2019	1,045,000
2020	1,090,000
2021	1,140,000
Thereafter	18,480,000
	$ 23,710,000

7. Pension Plan

The Hospital has a defined contribution pension plan covering substantially all employees of the Hospital. Under the terms of the plan, covered employees may contribute a percentage of their bi-weekly gross pay, with matching contributions by the Hospital up to 2%. For the years ended December 31, 2016 and 2015, the amount of retirement expense was $89,472 and $85,987, respectively.

8. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2016 and 2015 was as follows:

	2016	2015
Medicare	**33** %	30 %
Medicaid	**12**	10
Other third-party payors	**24**	28
Patients	**31**	32
	100 %	100 %

Management believes the credit risks associated with the receivables from governmental programs are minimal. Non-government receivables are from various payers that are subject to differing economic conditions. Such non-government receivables do not represent any concentration risks to the Hospital. Management continually monitors and adjusts the allowance for uncollectible accounts associated with the credit risk of patient accounts receivable.

9. Management Agreements

The Hospital operates the Marshall County Ambulance Service under an agreement with the Fiscal Court. Under the terms of this agreement, the Hospital recorded a management fee of approximately $203,000 in both 2016 and 2015. Net patient accounts receivable include accounts related to the operation of the ambulance service of approximately $243,000 at both December 31, 2016 and 2015.

10. Commitments and Contingencies

Malpractice Claims

The Hospital maintains commercial insurance on a claims-made basis for medical malpractice liabilities. Should the current claims-made policy not be renewed or replaced with equivalent insurance, claims based upon occurrences during their terms but reported subsequently will be uninsured. Management intends to maintain such coverage in the future and is of the opinion that insurance coverage is adequate to cover any potential losses on asserted claims. Malpractice claims have been asserted against the Hospital by various claimants which may ultimately be brought to trial. The amount of liability, if any, from the claims cannot be determined with certainty; however, after consultation with legal counsel, management is of the opinion that the outcome of the claims will not have a material adverse impact on the financial position. Additionally, management has not recorded any insurance receivables related to the claims as there is no certainty that a loss over their deductible is probable. Due to uncertainties in the settlement process, it is at least reasonably possible that management's estimate of the outcome will change within the next year.

11. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31 are as follows:

	2016 (approximate)	2015
Health care services	**$ 20,048,000**	$ 18,998,103
General and administrative	**2,457,000**	2,238,169
	$ 22,505,000	$ 21,236,272

12. Healthcare Reform

Patient Protection and Affordable Care Act

On March 23, 2010, *The Patient Protection and Affordable Care Act* (the Act) was signed into law. The Act materially changed the requirements that hospitals must meet to obtain or maintain tax-exempt status under 501(c)(3). The Act created Section 501(r) in the IRC, which requires each tax-exempt hospital facility to:

- Conduct a community health needs assessment (CHNA) every three years
- Adopt an implementation strategy to meet the community health needs identified through the CHNA
- Establish written financial assistance policy (FAP) that includes eligibility criteria and the method for applying for financial assistance, among other provisions
- Establish a written emergency medical care policy (EMCP) that requires the provision of care to individuals for emergency medical conditions regardless of their eligibility for financial assistance
- Limit amounts charged for emergency or other medically necessary care provided to individuals eligible for financial assistance to not more than amounts generally billed (AGB) to insured patients
- Refrain from engaging in extraordinary collection actions (ECAs) before making "reasonable efforts" to determine whether individuals are eligible for financial assistance

The Act left the meaning of important terms such as AGB, ECA, and reasonable efforts to be clarified through regulations. Proposed regulations were published in 2012 and 2013. The Internal Revenue Service published final regulations on December 29, 2014.

The Hospital believes it is in compliance with the Act.

The American Recovery and Reinvestment Act of 2009

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the Recovery Act) was signed into law. A major component of the Recovery Act is its emphasis on improving health information technology (also known as HIT). The federal government believes the implementation of technology will ultimately increase the quality and reduce the cost of healthcare.

To accomplish the improvement of HIT, the Recovery Act includes payment incentives for qualifying professionals. Physicians and hospitals that are considered early adopters of electronic health records (EHR) can become eligible to receive a significant amount of money from Medicare or Medicaid.

The Hospital received $615,900 during the year ended December 31, 2016 relating to prior years' meaningful use. The funds are contingent on reaching certain metrics and various states of "meaningful use" as defined by the Recovery Act.

The Hospital believes it is in compliance with the Act.