FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECATUR COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF
DECATUR COUNTY, INDIANA

Year Ended December 31, 2008

DECATUR COUNTY MEMORIAL HOSPITAL

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DECATUR COUNTY MEMORIAL HOSPITAL

HOSPITAL OFFICIALS

| Office | Official | Term |
|---|---|---|
| President/Treasurer | Mr. Bill Alloy | 03-01-08 to 02-28-09 |
| Vice President of Finance<br>Co Treasurer | Mr. Michael R. Ruckel | 03-01-08 to 02-28-09 |
| Chairman of the<br>Hospital Board | Ms. Toni Collins | 03-01-08 to 02-28-09 |
| President of the Board of<br>County Commissioners | Mr. John Richards | 01-01-08 to 12-31-08 |

Kerber, Eck & Braeckel LLP

CPAs and
Management Consultants

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# INDEPENDENT AUDITORS' REPORT

Board of Directors
Decatur County Memorial Hospital
Decatur County, Indiana

We have audited the accompanying balance sheet of Decatur County Memorial Hospital as of December 31, 2008 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Decatur County Memorial Hospital as of December 31, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the hospital. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kerber, Eck & Braeckel LLP

Carbondale, Illinois
April 9, 2009



Other Locations

Belleville, IL • Springfield, IL • Jacksonville, IL • Cape Girardeau, MO • St. Louis, MO • Milwaukee, WI

## DECATUR COUNTY MEMORIAL HOSPITAL

### MANAGEMENT DISCUSSION AND ANALYSIS

Decatur County Memorial Hospital (Hospital) located in Greensburg, Indiana was established in 1922. The Hospital is committed to improving the health of the people who live in the community. The values, standards of excellence and vision provide the framework for directing the actions of the Hospital.

This section of the Hospital's annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the fiscal year ended December 31, 2008. This MD&A should be read together with the financial statements included in this report.

### OPERATING RESULTS AND FINANCIAL PERFORMANCE

During 2008, the Hospital derived most of its revenue from patient services and other related activities. Approximately 76% of the Hospital's patient revenue is dependent upon outpatient procedures as ordered by physicians. The Hospital has entered into agreements with third-party payers, including governmental programs, under which payments for healthcare services provided to patients are based upon discounts from gross charges and predetermined rates relating to a patient's diagnosis. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the gross charges for services and the actual or anticipated payment.

The Hospital derives a significant portion of its revenues caring for patients covered under government health programs, principally Medicare and Medicaid. In 2008, inpatient revenues derived from the Medicare and Medicaid programs were 61.6% of total inpatient revenues compared to 48.4% in 2007. Outpatient revenues derived from both programs were 45.0% in 2008 compared to 44.5% in 2007.

The table below presents the percentages of gross revenues for patient services, by payer, for the years ended December 31, 2007 and 2006, respectively:

| | 2008 | 2007 |
|---|---|---|
| Medicare | 39.1% | 37.9% |
| Medicaid | 10.1% | 10.5% |
| Blue Cross | 21.3% | 20.7% |
| Other | 22.2% | 21.5% |
| Self Pay | 7.3% | 9.4% |

## FINANCIAL ANALYSIS

The Hospital's Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets along with the Statement of Cash Flows report the information about the Hospital's activities. A comparative summary of the Hospital's Balance Sheet as of December 31, 2008 and December 31, 2007 is presented below:

| **Assets:** | 2008 | 2007 |
|---|---|---|
| Cash and equivalents | $ 10,404,310 | $ 5,885,711 |
| Long term investments | $ 347,219 | $ 2,600,000 |
| Other designated cash and equiv | $ 4,829,953 | $ 2,953,791 |
| Accounts Receivable | $ 7,127,472 | $ 5,320,233 |
| Other Current Assets | $ 1,534,273 | $ 1,209,634 |
| Net property and equipment | $ 24,510,913 | $ 24,965,172 |
| Other assets | $ 153,801 | $ 170,850 |
| **Liabilities and Fund Balance:** | | |
| Current and other liabilities | $ 4,633,946 | $ 4,640,055 |
| Long-term obligations | $ 5,064,784 | $ 6,051,458 |
| Net assets | $ 32,209,211 | $ 32,413,878 |

## CAPITAL ASSETS

During 2008, the Hospital made the following significant capital acquisitions and improvements:

- Purchased a telemetry monitoring system for cardiac rehab department at a cost of $43,000.
- Purchased and replaced heart monitors and defibrillators at a cost of $60,000.
- Replaced various heating and air conditioning systems at a cost of $163,000.
- Roof replacement at the recently acquired MAP building at a cost of $77,000.
- Updated and renovated existing elevator at a cost of $72,000.
- Began Phase 1 of the replacement of the Hospital's telecommunication system at a cost of $118,000.
- Continued the process of replacing the older wooden windows in the Hospital at a cost of $55,000.

A summary of the Hospital's capital assets as of December 31, 2008 and 2007 is presented below:

| | As of 12/31/08 | As of 12/31/07 |
|---|---|---|
| Land | $ 905,928 | $ 905,928 |
| Land Improvements | 432,832 | 430,255 |
| Buildings | 24,815,095 | 24,739,207 |
| Equipment | 19,564,902 | 19,732,128 |
| Construction in progress | 462,196 | - |
| Total capital assets | 46,180,953 | 45,807,518 |
| Less accumulated depreciation | 21,670,040 | 20,842,346 |
| Net capital assets | $ 24,510,913 | $ 24,965,172 |

For additional information relating to capital assets of the hospital, please see the Notes to the Financial Statements.

## LONG-TERM DEBT

The hospital has the following long-term debt at December 31, 2008:

| Description | Purpose | |
|---|---|---|
| 2002 Refunding Bonds | Hospital Construction | $ 1,835,000 |
| 2002 Revenue Bonds | Hospital Construction | $ 2,857,500 |
| Capital Lease | MRI Equipment | $ 307,495 |
| Loan | Facility Renovation | $ 188,099 |

The 2002 Refunding Bond issue defeased a Revenue Bond issue from 1994, which was for the purpose of adding approximately 36,000 sq ft of new space for the hospital. This included new surgery suites, new emergency room, new radiology and diagnostic areas, new patient registration area, new physical therapy area, as well as a renovated lab area. The hospital funds on a monthly basis to a restricted fund, the amount necessary for principal and interest due to the bondholders, in accordance with the bond ordinance.

The 2002 Revenue Bonds were issued for the purpose of funding additional construction to the existing hospital facility. Construction was completed in 2005 on the 30,000 sq ft addition, which included a new women's center, a new emergency room, new clinical areas, new conference areas, as well as renovation of existing hospital spaces. The hospital funds on a monthly basis to a restricted fund, the amount necessary for principal and interest due the bondholders, in accordance with the bond ordinance.

The Hospital entered in to a capital lease for the acquisition of new MRI equipment in 2006. This lease is scheduled to be paid off in 2011.

The Hospital entered in to a loan agreement for renovation costs to the existing facility, for installation of new MRI equipment. This loan is scheduled to be paid off in 2011.

For additional information on long-term debt of the hospital, please see the Notes to the Financial Statements.

## FINANCIAL SUMMARY

A comparative summary of the Statement of Revenues, Expenses and Changes in Net Assets for the years ended December 31, 2008 and December 31, 2007 is presented below:

| | 2008 | 2007 |
|---|---|---|
| **Revenues**: | | |
| Net patient service revenue | $ 46,890,348 | $ 36,000,998 |
| Other | 638,655 | 566,133 |
| **Total Revenues** | 47,529,003 | 36,567,131 |
| **Operating Expenses:** | | |
| Salaries and benefits | 23,529,052 | 21,020,457 |
| Supplies | 7,020,518 | 5,460,359 |
| Other | 8,374,132 | 6,697,570 |
| Depreciation | 2,320,724 | 2,298,406 |
| **Total Operating Expenses** | 41,244,426 | 35,476,792 |
| **Operating income** | 6,284,577 | 1,090,339 |
| **Nonoperating income (net)** | 581,919 | 478,693 |
| Excess of revenues over expenses | 6,866,496 | 1,569,032 |
| Net assets, beginning of year | 32,413,878 | 30,618,286 |
| Assets released from restriction | (127,252) | (28,927) |
| Capital grants and contributions | 56,089 | 255,487 |
| **Net assets, end of year** | $ 39,209,211 | $ 32,413,878 |

*Notes on Hospital's Statement of Revenues and Expenses:*

- The Hospital's contractual adjustments for the year ended December 31, 2008 were 36.8% of gross patient revenue compared to 42.3% in 2007.

## FUTURE OUTLOOK AND 2009 BUSINESS PLAN

Management believes the hospital industry will continue to be under significant pressure to continue to control costs and maintain reasonable rates while providing higher quality services. One of the Hospital's main challenges as a small rural hospital is to compete in the surrounding market for qualified and caring personnel. The Hospital must continue to look at opportunities for increasing staff efficiency and productivity while maintaining staff and enhancing patient care.

The hospital will continue to strive to reduce costs, and to increase the quality of patient services, with the ultimate goal to be able to continue to fund the hospital's mission.

As always, the hospital continuously strives to provide quality patient care. Plans and decisions made for the hospital in 2009 will always be made in the best interests of the patient.

DECATUR COUNTY MEMORIAL HOSPITAL

STATEMENT OF NET ASSETS

December 31, 2008

Assets

| | |
|---|---|
| Current assets | |
| Cash and cash equivalents | $ 9,504,310 |
| Short-term investments | 900,000 |
| Patient accounts receivable, net of estimated uncollectibles of $6,641,715 | 7,127,472 |
| Supplies and other current assets | 924,101 |
| Estimated third-party settlements | 610,172 |
| Total current assets | 19,066,055 |
| Noncurrent cash and investments | |
| Internally designated for capital improvements | 3,269,909 |
| Held by trustee for debt service | 432,718 |
| Other long-term investments | 347,219 |
| Restricted by bond agreements, contributors and grantors | 1,127,326 |
| | 5,177,172 |
| Capital assets | |
| Land and construction work in progress | 1,368,124 |
| Depreciable capital assets, net of accumulated depreciation | 23,142,789 |
| Total capital assets, net of accumulated depreciation | 24,510,913 |
| Other assets | 153,801 |
| Total assets | $ 48,907,941 |
| Current liabilities | |
| Current maturities of long-term debt | $ 1,005,689 |
| Accounts payable and accrued expenses | 3,511,056 |
| Other current liabilities | 117,201 |
| Total current liabilities | 4,633,946 |
| Long-term debt, net of current maturities | 5,064,784 |
| Total liabilities | 9,698,730 |
| Net assets | |
| Invested in capital assets, net of related debt | 18,440,440 |
| Restricted | |
| For debt service | 1,403,309 |
| Expendable for capital acquisitions | 58,449 |
| Expendable for specific operating activities | 98,286 |
| Unrestricted | 19,208,727 |
| Total net assets | 39,209,211 |
| Total liabilities and net assets | $ 48,907,941 |

The accompanying notes are an integral part of these statements.

DECATUR COUNTY MEMORIAL HOSPITAL

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended December 31, 2008

| | |
|---|---|
| Operating revenues | |
| Net patient service revenue (net of provision for bad debts of $5,342,846) | $ 46,890,348 |
| Other | 638,655 |
| Total operating revenues | 47,529,003 |
| Operating expenses | |
| Salaries and benefits | 23,529,052 |
| Medical supplies and drugs | 5,852,656 |
| Insurance | 305,306 |
| Other supplies | 1,167,862 |
| Depreciation and amortization | 2,320,724 |
| Other expenses | 8,068,826 |
| Total operating expenses | 41,244,426 |
| Operating income | 6,284,577 |
| Nonoperating revenues (expenses) | |
| Investment income | 181,187 |
| Interest expense | (288,184) |
| Noncapital grants and contributions | 287,001 |
| Other nonoperating gains and losses | 401,915 |
| Total nonoperating revenues (expenses) | 581,919 |
| Excess of revenues over expenses before capital grants and contributions | 6,866,496 |
| Capital grants and contributions | 56,089 |
| Capital contributions released from restriction | (127,252) |
| Increase in net assets | 6,795,333 |
| Net assets at beginning of year | 32,413,878 |
| Net assets at end of year | $ 39,209,211 |

The accompanying notes are an integral part of these statements.

DECATUR COUNTY MEMORIAL HOSPITAL

STATEMENT OF CASH FLOWS

Year Ended December 31

| | 2008 |
|---|---|
| Cash flows from operating activities: | |
| Receipts from and on behalf of patients | $ 45,083,109 |
| Payments to suppliers and contractors | (6,880,796) |
| Payments to employees | (23,529,052) |
| Other receipts and payments, net | (8,222,315) |
| Net cash provided by operating activities | 6,450,946 |
| Cash flows from noncapital financing activities: | |
| Noncapital grants and contributions | 287,001 |
| Net assets released from restriction | (127,252) |
| Other | 401,915 |
| Net cash provided by noncapital financing activities | 561,664 |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets | (1,866,463) |
| Capital grants and contributions | 56,089 |
| Principal paid on long-term debt | (470,991) |
| Principal portion of capital lease contracts | (482,267) |
| Interest paid on long-term debt | (288,184) |
| Net cash used in capital and related financing activities | (3,051,816) |
| Cash flows from investing activities: | |
| Investment income | 181,187 |
| Cash invested in long-term investments | 2,352,781 |
| Net cash used in investing activities | 2,533,968 |
| Net increase in cash and cash equivalents | 6,494,762 |
| Cash and cash equivalents at beginning of year | 8,439,505 |
| Cash and cash equivalents at end of year | 14,934,267 |
| Reconciliation of cash and cash equivalents to the Statement of Net Assets: | |
| Cash and cash equivalents in current assets | 13,674,223 |
| Restricted cash and cash equivalents | 1,260,044 |
| Total cash and cash equivalents | $ 14,934,267 |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | $ 6,284,577 |
| Adjustments to reconcile operating income to net cash flows used in operating activities: | |
| Depreciation and amortization | 2,320,724 |
| Provision for bad debts | 5,342,846 |
| Changes in: | |
| Patient accounts receivable | (7,150,085) |
| Supplies and other current assets | 285,533 |
| Other assets | 17,049 |
| Accounts payable and accrued expenses | 159,495 |
| Other current liabilities | (9,862) |
| Estimated third-party payor settlements | (799,331) |
| Net cash provided by operating activities | $ 6,450,946 |

The accompanying notes are an integral part of the financial statements.

## NOTE A – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1. Reporting Entity

Decatur County Memorial Hospital (Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Decatur County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Decatur County.

On December 27, 1993, the Board of County Commissioners of Decatur County, upon written request of the Hospital Board of Trustees, created the Decatur County Memorial Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

The accompanying financial statements present the activities of the Hospital and its significant component units. The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Blended component units, although legally separate entities, are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government. Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the basic financial statements to emphasize that it is legally separate from the Hospital.

*Blended Component Units.* The Decatur County Memorial Hospital Foundation is a significant blended component unit of the Hospital. It would be misleading to exclude the Foundation from the Hospital's financial statements because of its relationship with the Hospital. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

*Enterprise Fund Accounting.* The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

### 2. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

NOTE A – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Short-term investments are investments with remaining maturities of up to ninety days.

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or nay United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investments in affiliated companies are reported using the equity method of accounting, or at cost, as applicable.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the statement of revenues, expenses, and changes in net assets.

3. Use of Estimates

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

4. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

NOTE A – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

| | Capitalization Threshold | Depreciation Method | Estimated Useful Life |
|---|---|---|---|
| Land improvements | $ 500 | Straight-line | 5 to 25 years |
| Buildings and improvements | 500 | Straight-line | 5 to 40 years |
| Fixed equipment | 500 | Straight-line | 5 to 25 years |
| Major moveable equipment | 500 | Straight-line | 3 to 25 years |
| Vehicles | 500 | Straight-line | 4 years |

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Hospital during the current year was $ 288,184.

5. Net Assets

Net assets of the Hospital are classified in three components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowing used to finance the purchase or construction of those assets.

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note G.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

6. Grants and Contributions

From time to time, the Hospital receives grants from Decatur County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

7. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. If a donor has not provided specific instructions, state law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds.

NOTE A – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

9. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

10. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid days off, to a maximum of thirty days.

Paid days off are accrued when incurred and reported as a liability.

11. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disaster.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disaster are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

NOTE B – DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by either the Federal Depository Insurance Fund (FDIC) or the Public Deposit Insurance Fund (PDIF). Any deposit accounts issued or offered by a qualifying financial institution are included.

## NOTE B – DEPOSITS AND INVESTMENTS – CONTINUED

The Hospital's investments are categorized below to give an indication of the level of risk assumed by the Hospital at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department of agent but not in the Hospital's name.

| | Category | | | Reported | Fair |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | Amount | Value |
| Corporate debt instruments | $ - | $ - | $ 447,219 | $ 447,219 | $ 447,219 |
| Corporate equity instruments | - | - | - | - | - |
| Certificate of deposits | 1,100,000 | - | - | 1,100,000 | 1,100,000 |
| Totals | $ 1,100,000 | $ - | $ 447,219 | $ 1,547,219 | $ 1,547,219 |
| Total investments | | | | $ 1,547,219 | $ 1,547,219 |

## NOTE C – ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

| Patient Accounts Receivable | |
|---|---|
| Receivable from patients and their insurance carriers | $ 9,653,570 |
| Receivable from Medicare | 3,059,312 |
| Receivable from Medicaid | 1,056,305 |
| Total patient accounts receivable | 13,769,187 |
| Less allowance for uncollectible amounts | 6,641,715 |
| Patient accounts receivable, net | $ 7,127,472 |

| Accounts Payable and Accrued Expenses | |
|---|---|
| Payable to employees (including payroll taxes) | $ 1,657,041 |
| Payable to suppliers | 1,854,015 |
| Total accounts payable and accrued expenses | $ 3,511,056 |

NOTE D – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008, was as follows:

| Primary Government | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 905,928 | $ - | $ - | $ 905,928 |
| Construction in progress | - | 669,896 | 207,700 | 462,196 |
| Total capital assets, not being depreciated | 905,928 | 669,896 | 207,700 | 1,368,124 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 430,255 | 2,577 | - | 432,832 |
| Buildings | 24,739,207 | 100,924 | 25,036 | 24,815,095 |
| Fixed equipment | 2,375,899 | 210,242 | 491,546 | 2,094,595 |
| Major moveable equipment | 17,322,165 | 1,074,471 | 960,393 | 17,436,243 |
| Vehicles | 34,064 | - | - | 34,064 |
| Totals | 44,901,590 | 1,388,214 | 1,476,975 | 44,812,829 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 351,707 | 13,302 | - | 365,009 |
| Buildings | 6,381,362 | 659,223 | 25,036 | 7,015,549 |
| Fixed equipment | 1,859,941 | 63,588 | 490,829 | 1,432,700 |
| Major moveable equipment | 12,217,021 | 1,543,813 | 938,117 | 12,822,717 |
| Vehicles | 32,315 | 1,750 | - | 34,065 |
| Totals | 20,842,346 | 2,281,676 | 1,453,982 | 21,670,040 |
| Total capital assets, being depreciated, net | 24,059,244 | (893,462) | 22,993 | 23,142,789 |
| Total primary government capital assets, net | $24,965,172 | $ (223,566) | $ 230,693 | $ 24,510,913 |

At December 31, 2008, construction in process consisted primarily of expenses related to an elevator modernization project. The estimated cost to complete the project was approximately $100,000.

## NOTE E – LEASES

### Capital Leases

The Hospital continues to lease certain equipment under capital leases with interest rates at 3.67% to 4.64%. Future minimum lease payments and present values of the net minimum lease payments under the capital leases at of year end are as follows:

| | |
|---|---|
| 2009 | $ 425,423 |
| 2010 | 241,226 |
| 2011 | 93,535 |
| Total minimum lease payments | 760,184 |
| Less amount representing interest | 50,464 |
| Present value of net minimum lease payments | $ 709,720 |

## NOTE F – LONG-TERM LIABILITIES

### Revenue Bonds

The Hospital issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at December 31, 2008 are as follows:

| Purpose | Interest Rates | Amount |
|---|---|---|
| 2002 refunding bonds | 3.6% to 5.0% | $ 2,095,000 |
| 2002 revenue bonds, building addition | 3.5% to 5.0% | 3,100,000 |
| Total | | $ 5,195,000 |

Revenue bonds debt service requirements to maturity are as follows:

| Year Ended December 31, | Principal | Interest |
|---|---|---|
| 2009 | 502,500 | 225,340 |
| 2010 | 527,500 | 206,499 |
| 2011 | 547,500 | 185,604 |
| 2012 | 567,500 | 163,143 |
| 2013 | 592,500 | 145,141 |
| 2014-2016 | 1,590,000 | 236,561 |
| 2017-2019 | 867,500 | 65,796 |
| Total | $ 5,195,000 | $ 1,228,084 |

NOTE F – LONG-TERM LIABILITIES – CONTINUED

Advance Refunding

In prior years the Hospital defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Hospital's financial statements. The following outstanding bonds, at December 31, 2008, were considered defeased:

| | Amount |
|---|---|
| Hospital | $ 1,970,000 |

Note Payable

During 2006 the Hospital authorized a $500,000 note payable to a bank to finance the expansion of the Hospital's MRI Suite. The Note bears an interest rate of 4.5% per annum, payable in monthly installments of $9,337 through 2011.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

| Primary Government | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable: | | | | | |
| Revenue | | | | | |
| Hospital association | $ 5,685,000 | $ - | $ 490,000 | $ 5,195,000 | $ 502,500 |
| Less deferred amount on refunding | 142,320 | - | 19,010 | 123,310 | - |
| Total bonds payable | 5,542,680 | - | 470,990 | 5,071,690 | 502,500 |
| Loan from bank | 385,486 | | 96,423 | 289,063 | 100,964 |
| Capital leases | 1,095,564 | - | 385,844 | 709,720 | 402,225 |
| Total long-term liabilities | $ 7,023,730 | $ - | $ 953,257 | $ 6,070,473 | $1,005,689 |

## NOTE G – RESTRICTED NET ASSETS

Restricted, expendable net assets are available for the following purposes:

| | 2008 |
|---|---|
| Debt service: | |
| Debt Service Fund | $ 970,591 |
| Funds held by Trustee | 432,718 |
| Capital acquisitions: | |
| Foundation | 58,449 |
| Specific operating activities: | |
| Federal Grant Funds | 66,388 |
| Colsher Trust | 28,252 |
| Foundation | 3,646 |
| Total expendable, restricted net assets | $ 1,560,044 |

## NOTE H – CHARITY CARE

Charges excluded from revenue under the Hospital's charity care policy were $621,344 for 2008.

## NOTE I – INTERNALLY DESIGNATED ASSETS

Noncurrent cash and investments internally designated include the following:

Designated Funds – Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

| | 2008 |
|---|---|
| Internally designated | |
| Board designation: | |
| Cash and cash equivalents | $ 3,269,909 |

## NOTE J – GENERAL OBLIGATION BONDS PAID BY COUNTY

The 2002 Revenue Bonds included in the Balance Sheet of the Hospital are half of the total bond issue. Decatur County assumed liability for a total amount of $4,000,000 for Hospital Construction. The bonds and interest thereon are being paid by tax levy revenues and are not an obligation of the Hospital. At December 31, 2008, bonds outstanding totaled $3,100,000.

## NOTE K – MEDICAL BENEFITS TO EMPLOYEES, RETIREES AND DEPENDENTS

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. The risk financing fund is accounted for in the General Fund where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of $100,000 per year, per covered person. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

## NOTE L – CONTINGENT LIABILITIES

### Litigation

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

## NOTE M – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments.

### Cash and Cash Equivalents

The carrying amount reported in the statement of net assets for cash and cash equivalents approximates its fair value.

### Short-Term Investments

The carrying amount reported in the statement of net assets is the investment's fair value on the day it becomes a short-term investment.

### Investments

Fair values, which are the amounts reported in the statement of net assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

### Accounts Payable and Accrued Expenses

The carrying amount reported in the statement of net assets for accounts payable and accrued expenses approximates its fair value.

### Estimated Third-Party Payor Settlements

The carrying amount reported in the statement of net assets for estimated third-party payor settlements approximates its fair value.

## NOTE N – PENSION PLAN

### Plan Description

The Hospital has a defined benefit pension plan administered by AIG VALIC as authorized by IC 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

VALIC Financial Advisors, Inc.
630 W. Carmel Dr., Suite 140
Carmel, IN 46032

### Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital is required to contribute at an actuarially determined rate. The current rate is 3% of annual covered payroll. Employer contributions to the plan were $548,250 for 2008.

## NOTE O – NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from the established rate structure. A summary of the payment arrangements with major third party payors follows:

### Medicare

Effective December 1, 2005, the Hospital was granted status as a Critical Access Hospital (CAH) under the Medicare program. As a CAH, the Hospital receives cost reimbursement for the majority of Medicare patient care services. The Hospital is reimbursed for services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Prior to December 1, 2005, inpatient acute care services rendered to Medicare program beneficiaries were paid at prospectively determined rates per discharge. These rates varied according to a patient classification system that was based on clinical, diagnostic and other factors. Certain outpatient service costs related to Medicare beneficiaries were paid based on a cost reimbursement methodology and prospectively determined rates. The Hospital was reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

NOTE O – NET PATIENT SERVICE REVENUE - CONTINUED

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient services are reimbursed based upon defined allowable rates.

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

A significant portion of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs. 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 recorded the following contractual allowances:

| | 2008 |
|---|---|
| Gross patient service revenue | $ 82,547,214 |
| Contractual allowances | (30,314,020) |
| Net patient service revenue | $ 52,233,194 |

The Hospital has recorded $5,855,000 of revenue during the year from payments received from the Indiana State's Health Care for the Indigent program. The program requires payments to certain hospitals to account for the disproportionate number of low income patients served. Funding for the program comes from Federal (Medicare) and State (Medicaid) appropriations as well as intergovernmental transfers. Transfers to the program by the Hospital were approximately $2,185,000 in 2008. The program has sunset in 2008. It is uncertain whether the program will be re-enacted or not significantly modified.

NOTE P – DEFERRED COMPENSATION PLAN

The Hospital has also adopted a discretionary 457(f) deferred compensation plan for one of its officers. The benefit provided under the plan is conditional and determined solely by the Hospital Board of Trustees upon annual review. The benefit becomes vested upon the future performance of substantial services and subject to substantial risk of forfeiture.

At December 31, 2008 the value of the plan benefit was approximately $47,000. The deferred compensation plan is unfunded.

DECATUR COUNTY MEMORIAL HOSPITAL

COMBINING STATEMENT OF NET ASSETS

Year Ended December 31, 2008

| | Hospital | Foundation | Total Reporting Entity |
|---|---|---|---|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 9,207,146 | $ 297,164 | $ 9,504,310 |
| Short-term investments | 900,000 | - | 900,000 |
| Patient accounts receivable | 7,127,472 | - | 7,127,472 |
| Supplies and other current assets | 924,101 | - | 924,101 |
| Estimated third-party settlements | 610,172 | - | 610,172 |
| Total current assets | 18,768,891 | 297,164 | 19,066,055 |
| Noncurrent cash and investments: | | | |
| Internally designated for capital improvements | 3,269,909 | - | 3,269,909 |
| Held by trustee for debt service and construction | 432,718 | - | 432,718 |
| Other long-term investments | 347,219 | - | 347,219 |
| Restricted by bond agreements, contributors and grantors | 1,065,231 | 62,095 | 1,127,326 |
| | 5,115,077 | 62,095 | 5,177,172 |
| Capital assets: | | | |
| Land and construction work in progress | 1,368,124 | - | 1,368,124 |
| Depreciable capital assets, net of accumulated depreciation | 23,142,789 | - | 23,142,789 |
| Total capital assets, net of accumulated depreciation | 24,510,913 | - | 24,510,913 |
| Other assets | 153,801 | - | 153,801 |
| Total assets | $ 48,548,682 | $ 359,259 | $ 48,907,941 |
| Liabilities and Net Assets | | | |
| Current liabilities: | | | |
| Current maturities of long-term debt | $ 1,005,689 | $ - | $ 1,005,689 |
| Accounts payable and accrued expenses | 3,511,056 | - | 3,511,056 |
| Other current liabilities | 105,644 | 11,557 | 117,201 |
| Total current liabilities | 4,622,389 | 11,557 | 4,633,946 |
| Long-term debt, net of current maturities | 5,064,784 | - | 5,064,784 |
| Total liabilities | 9,687,173 | 11,557 | 9,698,730 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 18,440,440 | - | 18,440,440 |
| Restricted: | | | |
| For debt service | 1,403,309 | - | 1,403,309 |
| Expendable for capital acquisitions | - | 58,449 | 58,449 |
| Expendable for specific operating activities | 94,640 | 3,646 | 98,286 |
| Unrestricted | 18,923,120 | 285,607 | 19,208,727 |
| Total net assets | 38,861,509 | 347,702 | 39,209,211 |
| Total liabilities and net assets | $ 48,548,682 | $ 359,259 | $ 48,907,941 |

DECATUR COUNTY MEMORIAL HOSPITAL

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended December 31, 2008

| | Primary Hospital | Foundation | Total Reporting Entity |
|---|---|---|---|
| Operating revenues: | | | |
| Net patient service revenue | $46,890,348 | - | $46,890,348 |
| Other | 638,655 | - | 638,655 |
| Total operating revenues | 47,529,003 | - | 47,529,003 |
| Operating expenses: | | | |
| Salaries and benefits | 23,529,052 | - | 23,529,052 |
| Medical supplies and drugs | 5,852,656 | - | 5,852,656 |
| Insurance | 305,306 | - | 305,306 |
| Other supplies | 1,167,862 | - | 1,167,862 |
| Depreciation and amortization | 2,320,724 | - | 2,320,724 |
| Other expenses | 8,068,826 | - | 8,068,826 |
| Total operating expenses | 41,244,426 | - | 41,244,426 |
| Operating Income | 6,284,577 | - | 6,284,577 |
| Nonoperating revenues (expenses) | | | |
| Investment income | 232,914 | (51,727) | 181,187 |
| Interest expense | (288,184) | - | (288,184) |
| Noncapital grants and contributions | 91,391 | 195,610 | 287,001 |
| Other | 478,552 | (76,637) | 401,915 |
| Total nonoperating revenues (expenses) | 514,673 | 67,246 | 581,919 |
| Excess of revenues over expenses before capital grants and contributions | 6,799,250 | 67,246 | 6,866,496 |
| Capital grants and contributions | 45,988 | 10,101 | 56,089 |
| Capital contributions released from restriction | (60,824) | (66,428) | (127,252) |
| Increase in net assets | 6,784,414 | 10,919 | 6,795,333 |
| Net assets, beginning of year | 32,077,095 | 336,783 | 32,413,878 |
| Net assets, end of year | $38,861,509 | $ 347,702 | $39,209,211 |

DECATUR COUNTY MEMORIAL HOSPITAL

AUDIT RESULTS AND COMMENTS

During our audit we noted certain matters and other comments and observations that we reported to the Hospital's management in a separate letter dated April 9, 2009.

DECATUR COUNTY MEMORIAL HOSPITAL

EXIT CONFERENCE

The contents of this report were discussed on February 27, 2009, with Mr. William Alloy, Chief Executive Officer and Mr. Michael R. Ruckel, Vice President of Finance. The officials concurred with our audit findings.