

Cameron Memorial Community Hospital, Inc.

Accountants' Report and Consolidated Financial Statements

September 30, 2012 and 2011



Cameron Memorial Community Hospital, Inc.

September 30, 2012 and 2011

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Independent Accountants' Report

Board of Directors
Cameron Memorial Community Hospital, Inc.
Angola, Indiana

We have audited the accompanying consolidated balance sheets of Cameron Memorial Community Hospital, Inc. (Hospital) as of September 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets and cash flows for the years 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 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 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 audits provide 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 Cameron Memorial Community Hospital, Inc. as of September 30, 2012 and 2011, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

February 15, 2013

Cameron Memorial Community Hospital, Inc.

Consolidated Balance Sheets

September 30, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,398,162	\$ 2,854,888
Patient accounts receivable, net of allowance; 2012 - \$2,435,000; 2011 - \$2,564,000	7,066,641	7,010,960
Other receivables	176,337	136,159
Inventory	933,543	784,010
Prepaid expenses	<u>304,185</u>	<u>326,473</u>
Total current assets	<u>11,878,868</u>	<u>11,112,490</u>
Assets Limited as to Use		
Externally restricted by donors	199,854	201,320
Held by trustee under bond indenture agreements	354,800	1,022,381
Internally designated for capital improvements	<u>1,853,188</u>	<u>1,697,910</u>
Total assets limited as to use	<u>2,407,842</u>	<u>2,921,611</u>
Investments	<u>15,628,463</u>	<u>12,231,089</u>
Property and Equipment, Net	<u>19,281,953</u>	<u>19,727,139</u>
Other Assets		
Deferred financing costs	58,708	176,122
Receivable from Cameron Hospital Foundation, Inc.	<u>536,015</u>	<u>309,191</u>
Total other assets	<u>594,723</u>	<u>485,313</u>
Total assets	<u>\$ 49,791,849</u>	<u>\$ 46,477,642</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 1,409,155	\$ 1,530,189
Accounts payable	1,355,697	1,098,949
Accrued salaries and related liabilities	1,679,228	1,562,019
Accrued expenses and other liabilities	878,116	642,229
Estimated amounts due to third-party payers	<u>362,551</u>	<u>211,860</u>
Total current liabilities	5,684,747	5,045,246
Long-Term Debt	<u>14,378,554</u>	<u>15,325,097</u>
Total liabilities	<u>20,063,301</u>	<u>20,370,343</u>
Net Assets		
Unrestricted	28,821,931	25,420,364
Temporarily restricted	<u>906,617</u>	<u>686,935</u>
Total net assets	<u>29,728,548</u>	<u>26,107,299</u>
Total liabilities and net assets	<u>\$ 49,791,849</u>	<u>\$ 46,477,642</u>

Cameron Memorial Community Hospital, Inc.

Consolidated Statements of Operations Years Ended September 30, 2012 and 2011

	2012	2011
Unrestricted Revenue, Gains and Other Support		
Net patient service revenue	\$ 45,111,366	\$ 39,076,151
Other	2,954,230	2,078,713
Net assets released from restrictions used for operations	13,091	12,750
Total unrestricted revenue, gains and other support	48,078,687	41,167,614
Expenses		
Salaries and wages	14,805,748	14,340,232
Payroll taxes and employee benefits	6,155,390	5,245,223
Purchased services and professional fees	8,761,985	8,643,941
Supplies	3,246,707	2,687,353
Repairs and maintenance	1,280,286	1,241,907
Utilities	630,732	598,432
Equipment rent	537,625	507,886
Insurance	398,524	350,781
Interest	399,374	456,421
Depreciation and amortization	2,904,774	2,287,106
Provision for uncollectible accounts	4,357,268	3,073,850
Other	3,211,385	1,718,504
Total expenses	46,689,798	41,151,636
Operating Income	1,388,889	15,978
Other Income (Expense)		
Investment return, interest and dividends	286,907	342,999
Realized gains on investments	66,621	111,527
Unrealized gains (losses) on trading securities	1,615,172	(662,413)
Contribution income	43,978	56,174
Total other income (expense)	2,012,678	(151,713)
Excess (Deficiency) of Revenue Over Expenses and Increase (Decrease) in Unrestricted Net Assets	\$ 3,401,567	\$ (135,735)

Cameron Memorial Community Hospital, Inc.

Consolidated Statements of Changes in Net Assets Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted Net Assets		
Excess (Deficiency) of Revenue Over Expenses and Increase (decrease) in unrestricted net assets	\$ <u>3,401,567</u>	\$ <u>(135,735)</u>
Temporarily Restricted Net Assets		
Contributions received	231,849	313,795
Investment return, interest and dividends	924	1,302
Net assets released from restriction	<u>(13,091)</u>	<u>(12,750)</u>
Increase in temporarily restricted net assets	<u>219,682</u>	<u>302,347</u>
Increase in Net Assets	3,621,249	166,612
Net Assets, Beginning of Year	<u>26,107,299</u>	<u>25,940,687</u>
Net Assets, End of Year	\$ <u>29,728,548</u>	\$ <u>26,107,299</u>

Cameron Memorial Community Hospital, Inc.

Consolidated Statements of Cash Flows Years Ended September 30, 2012 and 2011

	2012	2011
Operating Activities		
Increase in net assets	\$ 3,621,249	\$ 166,612
Items not requiring cash		
Depreciation and amortization	2,904,774	2,287,107
Net realized and unrealized (gains) losses on investments	(1,681,793)	550,886
Restricted contributions for acquisition of property and equipment	(226,824)	(309,191)
Changes in		
Patient accounts receivable, net	(55,681)	(764,962)
Accounts payable	78,763	(56,934)
Estimated amounts due to third-party settlements	150,691	187,159
Other assets and liabilities	(41,151)	(200,871)
Net cash provided by operating activities	4,750,028	1,859,806
Investing Activities		
Proceeds from disposition of investment	5,649,646	7,126,991
Purchase of investments	(6,851,458)	(5,031,024)
Purchase of property and equipment	(1,672,736)	(3,122,311)
Net cash used in investing activities	(2,874,548)	(1,026,344)
Financing Activities		
Restricted contributions for acquisition of property and equipment	226,824	309,191
Principal payments on long-term debt	(417,644)	(381,210)
Principal payments on capital lease obligations	(1,141,386)	(784,489)
Proceeds from issuance of long-term debt	—	1,432,736
Net cash provided by (used in) financing activities	(1,332,206)	576,228
Increase in Cash and Cash Equivalents	543,274	1,409,690
Cash and Cash Equivalents, Beginning of Year	2,854,888	1,445,198
Cash and Cash Equivalents, End of Year	\$ 3,398,162	\$ 2,854,888
Supplemental Cash Flows Information		
Interest paid (net of capitalized interest)	\$ 399,374	\$ 456,421
Property and equipment in accounts payable	219,329	41,344
Capital lease obligation incurred for property and equipment	491,453	—

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

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

Nature of Operations

Cameron Memorial Community Hospital, Inc. (Hospital), a not-for-profit organization, is a general acute care facility in Angola, Indiana with 25 licensed beds and associated ancillary service departments including outpatient services, home health care and an urgent care center in Angola, Indiana. The Hospital provides health care services primarily in the northeast portion of Indiana. Expenses relate to the provision of medical care and related general and administrative costs.

Cameron Medical Outreach, Inc. (CMO), a not-for-profit organization, is a community outreach organization providing health care needs of indigent individuals, medically underserved areas and the community as a whole. CMO primarily earns revenue from rental and leasing arrangements. The Hospital is the sole member of Cameron Medical Outreach, Inc. CMO began operations on October 1, 2007, and operates an assisted living facility (Cameron Woods) and medical office buildings in Angola, Indiana.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Cameron Memorial Community Hospital, Inc. (Hospital) and Cameron Medical Outreach, Inc. (CMO), the Hospital's wholly controlled subsidiary. Intercompany transactions and balances have been eliminated in consolidation.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Hospital and CMO consider all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At September 30, 2012, cash equivalents consisted primarily of money market funds and certificates of deposit.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At September 30, 2012, the Hospital's and CMO's cash accounts did not exceed federally insured limits.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts through December 31, 2012, at all FDIC insured institutions.

Cash equivalents awaiting longer-term investing are included as investments in the consolidated balance sheets.

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

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 doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Investments and Investment Return

Investments in equity securities, having a readily determinable fair value, and all debt securities are carried at fair value. The Hospital has classified all of its investments in debt and equity securities as trading securities. Investment return includes dividend, interest and other investment income, and realized and unrealized gains and losses on investments carried at fair value. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of operations and changes in net assets as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

Assets Limited as to Use

Assets limited as to use include: (1) assets restricted by donors, (2) assets held by trustees under bond indenture agreements and (3) assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

Inventory

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

Property and Equipment

Property and equipment other than that received by donation, are reported at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

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Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred at September 30 was:

	<u>2012</u>	<u>2011</u>
Total interest expense incurred on borrowings for project	\$ 204,627	\$ 210,682
Interest income from investment of proceeds of borrowings for project	<u>—</u>	<u>—</u>
Net interest cost capitalized	\$ <u>204,627</u>	\$ <u>210,682</u>
Interest capitalized	\$ 204,627	\$ 210,682
Interest charged to expense	<u>399,374</u>	<u>456,421</u>
Total interest incurred	\$ <u>604,001</u>	\$ <u>667,103</u>

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are amortized over the term of the respective debt using the straight-line method.

Temporarily 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.

Patient Accounts Receivable Financing

The Hospital offers to self-pay patients interest free loans with an annual administrative fee. The loans are a maximum term of five years depending on the patient's balance. The loans are managed by a third party while the receivable balance remains part of the Hospital's total accounts receivable balance. At September 30, 2012 and 2011, these receivables totaled \$599,201 and \$97,348, respectively. The Hospital has made provision for accounts estimated to be uncollectible in the allowance for uncollectible accounts under these agreements.

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, including estimated retroactive revenue adjustments. Retroactive adjustments are considered in the

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

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recognition of revenue on an estimated basis in the period the related services are rendered and revised in future periods, as adjustments become known.

Charity Care

The Hospital and CMO provide care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the entities do not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair values at the date each promise 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 as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Receipt of contributions which are conditional are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Self-Insured Employee Health Claims

The Hospital is self-insured for its exposure to risk of loss from employee health claims. An estimated provision was accrued for employee health claims at September 30, 2012 and 2011, and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Estimated Malpractice Costs

An annual estimated provision is accrued for the self-insured portion of medical malpractice claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

The Hospital and CMO have been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Hospital and CMO are subject to federal income tax on any unrelated business taxable income.

The Hospital and CMO file tax returns in the Indiana and U.S. federal jurisdictions. With a few exceptions, the Hospital and CMO are no longer subject to Indiana and U.S. federal examinations by tax authorities for years before 2009.

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

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 are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. 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. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year 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 recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2012, the Hospital completed the first-year requirements under the Medicaid program and has recorded revenue of approximately \$460,000, which is included in other revenue within operating revenues in the statement of operations.

Excess (Deficiency) of Revenue Over Expenses

The statements of operations include excess (deficiency) of revenue over expenses. There were no items excluded from the excess (deficiency) of revenue over expenses.

Note 2: Charity Care

Charges excluded from revenue under the entities' charity care policies were \$1,048,149 and \$989,080 for 2012 and 2011, respectively.

Note 3: Net Patient Service Revenue and Estimated Amounts due to Third-Party Payers

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

Medicare. On February 1, 2003, the Hospital elected critical access hospital (CAH) designation. As a CAH, inpatient and outpatient services are paid on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with a final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicare fiscal intermediaries.

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Medicaid. For Medicaid inpatient services, the Hospital is reimbursed under a prospectively determined rate-per-discharge. Reimbursement for Medicaid outpatient services is based on predetermined rates. The differences between standard charges and reimbursement from this program are recorded as contractual adjustments.

Approximately 36% and 34% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

In 2011, the State of Indiana submitted certain Medicaid State Plan Amendments to the Centers for Medicare and Medicaid Services (CMS) to incorporate a Provider Assessment Fee, requesting retroactive approval to July 1, 2011, which was approved by CMS in 2012. The effect of the Provider Assessment Fee on reimbursement is to increase Medicaid base fee for service and diagnosis related group payment rates to Indiana hospitals and reduce the level of Medicaid lump sum payments made under the existing Medicaid Supplemental Payment programs. For the year ended September 30, 2012, the Hospital paid Provider Assessment Fees of approximately \$1,250,000, of which approximately \$250,000 related to the September 30, 2011 calendar year, and received payments from the program of approximately \$2,130,000, of which approximately \$430,000 related to the September 30, 2011 calendar year, yielding a net increase to 2012 revenue in excess of expenses of approximately \$880,000, of which approximately \$180,000 relates to 2011. Provider Assessment Fee expense is included within other expenses and additional reimbursements received from the program are included in net patient service revenue on the 2012 consolidated statement of operations.

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

A summary of gross patient service revenue and contractual adjustments for the years ended September 30, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Patient service revenue		
Routine services	\$ 4,261,285	\$ 4,461,345
Inpatient	7,994,635	8,051,078
Outpatient	68,309,195	58,951,271
Charity care	<u>(1,048,149)</u>	<u>(989,080)</u>
Total patient service revenue	79,516,966	70,474,614
Contractual adjustments	<u>(34,405,600)</u>	<u>(31,398,463)</u>
Net patient service revenue	<u>\$ 45,111,366</u>	<u>\$ 39,076,151</u>

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Note 4: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are area residents and are insured under third-party payer agreements. The mix of receivables, net of contractals, from patients and third-party payers at September 30 was:

	2012	2011
Commercial insurance	25%	20%
Medicare	22	20
Medicaid	4	4
Self-pay	34	39
Blue Cross	12	11
Workers' compensation	2	2
Other	1	4
	100%	100%

Note 5: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use at September 30 include:

	2012	2011
Externally restricted by donors		
Cash	\$ <u>199,854</u>	\$ <u>201,320</u>
Held by trustee under bond indenture agreements		
Money market funds	\$ <u>354,800</u>	\$ <u>1,022,381</u>
Internally designated for capital improvements		
*Mutual funds	\$ <u>1,853,188</u>	\$ <u>1,697,910</u>

Long-Term Investments

Long-term investments at September 30 include:

	2012	2011
Cash and Money market funds	\$ 2,378,997	\$ 679,439
*Mutual funds	13,249,466	9,605,645
*Common stocks	—	1,852,982
U.S. Government agency securities	—	93,023
	\$ <u>15,628,463</u>	\$ <u>12,231,089</u>

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

* Information regarding the nature and risks of each major investment type based on activity or business sector is detailed in Note 17.

Total investment return is comprised of the following:

	2012	2011
Interest and dividend income (net of fees of \$13,128 and \$79,321)	\$ 287,831	\$ 344,301
Realized gains on sales of securities	66,621	111,527
Unrealized gains (losses) on trading securities	<u>1,615,172</u>	<u>(662,413)</u>
Total investment return	<u>\$ 1,969,624</u>	<u>\$ (206,585)</u>

Total investment return is reflected in the statements of operations and changes in net assets as follows:

	2012	2011
Unrestricted net assets		
Other nonoperating income	\$ 1,968,700	\$ (207,887)
Temporarily restricted net assets	<u>924</u>	<u>1,302</u>
	<u>\$ 1,969,624</u>	<u>\$ (206,585)</u>

Note 6: Property and Equipment, Net

Property and equipment is recorded at cost, and at September 30 consist of:

	2012	2011	Estimated Useful Life
Buildings and improvements	\$ 20,978,038	\$ 21,207,437	5-50 years
Equipment	16,387,204	15,840,209	3-20 years
Construction in progress	<u>4,446,028</u>	<u>3,474,776</u>	
	41,811,270	40,522,422	
Less accumulated depreciation and amortization	<u>(26,149,452)</u>	<u>(24,708,601)</u>	
	15,661,818	15,813,821	
Land	750,190	1,043,373	
Land held for expansion	<u>2,869,945</u>	<u>2,869,945</u>	
Property and equipment, net	<u>\$ 19,281,953</u>	<u>\$ 19,727,139</u>	

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

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Note 7: Note Payable to Bank

The Hospital has a \$2,000,000 revolving bank line of credit expiring in 2013. At September 30, 2012 and 2011, there were no borrowings against this line. The line is unsecured. Interest varies with the bank's prime rate and is payable monthly. In connection with the line of credit, the entities are required to meet certain covenant requirements.

Note 8: Long-Term Debt

Long-term debt at September 30 consists of the following:

	<u>2012</u>	<u>2011</u>
Indiana Finance Authority Health Facility Revenue Bonds, Series 2009A, dated December 29, 2009, 3.08%, payable in monthly installments of \$47,860 including interest, final payment due January 2013	\$ 9,237,884	\$ 9,522,514
Indiana Finance Authority Health Facility Revenue Bonds, Series 2009B, dated December 29, 2009, 3.25%, payable in monthly installments of \$23,225 including interest, final payment due January 2013	4,409,353	4,542,366
Various capital lease obligations, imputed interest rates ranging from 5.35% to 8.69%, expiring between 2013 and 2014, collateralized by leased equipment	<u>2,140,472</u>	<u>2,790,406</u>
	15,787,709	16,855,286
Less current maturities	<u>(1,409,155)</u>	<u>(1,530,189)</u>
	<u>\$ 14,378,554</u>	<u>\$ 15,325,097</u>

The Series 2009A and 2009B Revenue Bonds are collateralized by a mortgage and security agreement pledging essentially all of the Hospital's and CMO's property and equipment. In connection with the Series 2009A and 2009B Revenue Bonds, the entities are required to meet certain covenant requirements.

As discussed in Note 18, the series 2009A and 2009B Revenue Bonds were refinanced subsequent to year-end.

Property and equipment include the following property under capital leases:

	<u>2012</u>	<u>2011</u>
Equipment	\$ 5,764,610	\$ 5,614,295
Less accumulated depreciation	<u>(4,260,471)</u>	<u>(3,795,799)</u>
	<u>\$ 1,504,139</u>	<u>\$ 1,818,496</u>

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

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Aggregate annual maturities of long-term debt and payments on capital lease obligations at September 30, 2012, are as follows:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2013	\$ 82,231	\$ 1,423,931
2014	—	615,747
2015	—	122,147
2016	13,565,006	62,360
2017	—	51,966
Thereafter	—	—
	<u>\$ 13,647,237</u>	2,276,151
Less amount representing interest		<u>(135,679)</u>
Present value of future minimum lease payments		2,140,472
Less current maturities		<u>(1,326,924)</u>
Noncurrent portion		<u>\$ 813,548</u>

Note 9: Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30 are available for the following purpose:

	2012	2011
Health care services		
MRI housing addition	\$ 170,748	\$ 176,424
Home health care	<u>199,854</u>	<u>201,320</u>
	370,602	377,744
Funds for expansion, receivable due from Cameron Hospital Foundation, Inc.	<u>536,015</u>	<u>309,191</u>
	<u>\$ 906,617</u>	<u>\$ 686,935</u>

During 2012 and 2011, net assets were released from donor restrictions by incurring expenses or satisfying the restricted purposes in the amounts of \$13,091 and \$12,750, respectively.

Cameron Memorial Community Hospital, Inc.
Notes to Consolidated Financial Statements
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Note 10: Operating Leases

Noncancellable operating leases for certain diagnostic equipment and computer software and hardware expire in various years through May 2017. Rental payments include minimum rentals, plus contingent rentals based on the number of procedures performed using the equipment.

Future minimum lease payments at September 30, 2012, were:

2013	\$	247,006
2014		216,651
2015		166,020
2016		76,776
2017		<u>51,184</u>
	\$	<u>757,637</u>

Rental expense for all operating leases at September 30 consisted of:

	<u>2012</u>	<u>2011</u>
Minimum rentals	\$ 304,955	\$ 366,084
Contingent rentals	<u>121,926</u>	<u>56,147</u>
	<u>\$ 426,881</u>	<u>\$ 422,231</u>

The Hospital and CMO own a medical office building and an oncology facility adjacent to the Hospital facility, along with an assisted living facility. The medical office building and equipment are included in property and equipment, with a cost of \$1,563,677 and accumulated depreciation of \$1,563,677 and \$1,136,381 at September 30, 2012 and 2011, respectively. The oncology facility is included in property and equipment with a cost of \$1,297,182 and accumulated depreciation of \$381,027 and \$348,859 at September 30, 2012 and 2011, respectively. The assisted living facility is also included in property and equipment, with a cost of \$4,791,230 and \$4,647,736 and accumulated depreciation of \$1,536,852 and \$1,408,478 at September 30, 2012 and 2011, respectively.

The entities lease space in the medical office building and a portion of the oncology facility to physicians and tenants under various operating leases, with terms of three years with three-year renewal options. The entities also operate an assisted living facility which leases apartments under cancellable month-to-month lease terms. Rental income under the term of these leases is included in other revenue and was \$1,873,351 and \$1,569,062 in 2012 and 2011, respectively.

Future minimum lease payments to be received at September 30, 2012, were:

2013	\$	99,057
2014		<u>34,995</u>
Total	\$	<u>134,052</u>

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Note 11: Pension Plan

The Hospital has a defined contribution pension plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was \$494,685 and \$480,644 for 2012 and 2011, respectively.

Note 12: Medical Malpractice

The Hospital and CMO participate in the Indiana Medical Malpractice Act which limits the maximum recovery for qualified medical malpractice claims to \$1,250,000 per occurrence, the first \$250,000 of which would be the responsibility of the entities, with the balance paid by the state of Indiana Patient Compensation Fund.

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 claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 13: Self-Insured Employee Health Claims

The Hospital is self-insured for the first \$100,000 per occurrence and \$3,305,000 in aggregate of employee health claims. The Hospital purchases commercial insurance coverage above the self-insurance limits. The liability for employee health claims represents management's estimate of all incurred and reported claims plus estimated incurred but not reported claims based on the Hospital's reporting system. The carrying amount of the liability was approximately \$700,000 and \$502,000 as of September 30, 2012 and 2011, respectively. The liability is included in accrued expenses and other liabilities in the accompanying balance sheets. It is reasonably possible that the Hospital's estimate of losses will change by a material amount in the near term.

Note 14: Functional Expenses

The Hospital and CMO provide general health care services to residents within their geographic location including pediatric care, cardiac intensive care and outpatient surgery. Expenses related to providing these services are as follows:

	<u>2012</u>	<u>2011</u>
Health care services	\$ 39,686,328	\$ 34,978,891
General and administrative	<u>7,003,470</u>	<u>6,172,745</u>
	<u>\$ 46,689,798</u>	<u>\$ 41,151,636</u>

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Note 15: Related Party Transactions

Cameron Memorial Community Hospital, Inc. and Cameron Hospital Foundation, Inc. (Foundation) are related parties that are not financially interrelated organizations. The Foundation was established to solicit contributions from the general public and to help support community and health care related educational events. In the absence of donor restrictions, funds are distributed as determined by the Foundation's Board of Directors, which are separately appointed from that of the Hospital. The Hospital provides accounting and financial management services to the Foundation and bills the Foundation \$16,000 annually.

The Foundation contributed approximately \$49,000 and \$60,000 to the Hospital in fiscal years 2012 and 2011, respectively. During the year ended September 30, 2011, the Foundation began a capital campaign for the construction of a new Hospital facility where all funds collected are raised specifically for the Hospital's capital campaign. As a result, the Hospital has recorded a receivable from the Foundation for \$536,015 and \$309,191 at September 30, 2012 and 2011, respectively. There were no significant intercompany payables at September 30, 2012 or 2011.

Note 16: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 3.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Note 12.

Employee Health Insurance

Estimates related to the accrual for self-insured employee health insurance are discussed in Notes 1 and 13.

Litigation

In the normal course of business, the entities are, 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 entities' insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The entities evaluate such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Current Economic Conditions

The current economic situation continues to present hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital and CMO.

Current economic conditions have made it difficult for certain of the Hospital and CMO's patients to pay for services rendered. Adjustments to health insurance plans and rising unemployment rates, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital and CMO's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts and contributions receivable that could negatively impact the Hospital and CMO's ability to meet debt covenants or maintain sufficient liquidity.

Note 17: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments and Assets Limited as to Use

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include common stocks, money market funds and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as a benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. Government treasury and agency securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 securities.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2012 and 2011:

		2012			
		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value				
Investments					
Money market funds	\$ 2,378,997	\$ 2,378,997	\$	—	\$ —
Equity mutual funds	8,359,027	8,359,027		—	—
Fixed income mutual funds	4,890,439	4,890,439		—	—
Assets Limited as to Use					
Money market funds	354,800	354,800		—	—
Fixed income mutual funds	1,853,188	1,853,188		—	—

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements September 30, 2012 and 2011

		2011			
		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
		Fair Value			
Investments					
Money market funds	\$	679,439	\$ 679,439	\$	—
Equity mutual funds		5,686,283	5,686,283	—	—
Fixed income mutual funds		3,919,362	3,919,362	—	—
Common stocks					
Information technology		357,529	357,529	—	—
Industrials		265,592	265,592	—	—
Consumer discretionary		258,653	258,653	—	—
Financials		228,879	228,879	—	—
Health care		253,370	253,370	—	—
Energy		164,837	164,837	—	—
Consumer staples		121,657	121,657	—	—
Materials		81,499	81,499	—	—
Utilities		85,106	85,106	—	—
Telecommunications services		35,860	35,860	—	—
U.S. Government treasury and agency securities		93,023	—	93,023	—
Assets Limited as to Use					
Money market funds		1,022,381	1,022,381	—	—
Fixed income mutual funds		1,697,910	1,697,910	—	—

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Note 18: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report which is the date the financial statements were available to be issued.

The Hospital is currently in the final planning stages of a \$53,000,000 redevelopment project including the construction of a \$37,000,000 replacement hospital facility on its current facility site. A financing plan, which includes \$47,000,000 in new long-term debt and \$6 million of Hospital investments and private contributions, will be used to finance the project and refinance approximately \$13,570,000 of existing debt. Current plans call for execution of the financing plan and initiation of the construction phase of the redevelopment project during fiscal year 2013. At September 30, 2012, the Hospital had expended approximately \$7,241,000 on initial planning activities and acquisition of land for the redevelopment project. In October 2012, the Hospital entered into a \$31,800,000 Guaranteed Maximum Price (GMP) contract with a third-party to construct the replacement facility. In February 2013, the Hospital issued \$37,000,000 in Bond Anticipation Notes (BANs) and \$10,000,000 in USDA guaranteed variable rate debt related to the construction of the replacement Hospital facility and to refinance the Series 2009A and 2009B bonds (see Note 8). The BANs require interest only payments at 2.2% during construction through February 2016. The BANs will be redeemed at or prior to the maturity date through the issuance of a USDA Direct Loan, which is expected to be issued upon the completion of the replacement facility. The USDA Direct Loan will have a term of 40 years at a fixed rate of 3.375%. The USDA guaranteed variable rate debt requires interest only payments not to exceed 4.5% during construction. Upon completion of the replacement facility, the USDA guaranteed variable rate debt will be amortized over 25 years at a rate not to exceed 5.75%. In conjunction with the \$31,800,000 GMP contract, the remaining useful life of certain of the assets of the Hospital has been reduced beginning in fiscal 2013. The additional depreciation expense that will be reflected as a result of the reduced lives is not considered to be significant to the consolidated financial statements as of September 30, 2013.

In addition to the above, the Hospital entered into a development agreement on August 30, 2011, and is concluding the ground lease for the construction of a Medical Office Building (MOB) on land owned by the Hospital. The MOB will be constructed by the developer at no cost to the Hospital. Under the terms of the ground lease for an MOB primary site footprint of 14,752 square feet, the Hospital has agreed to lease land to the developer for a term of 50 years, with two renewal options of 25 years each. The Hospital will receive a net ground rent payment of \$7,855 per year for the first five years of the lease, adjusted thereafter every five years based on the consumer price index. The Hospital has also agreed to lease a yet-to-be-determined portion of the MOB for an initial term of 5 years with not less than two renewal terms of 5 years each. The Hospital has no master lease commitment associated with the MOB project as of September 30, 2012. In conjunction with the construction of the MOB, the Hospital has performed certain improvements to the area surrounding the current Hospital location included within the \$37,000,000 replacement facility hospital project plan. As of the date of the Independent Accountant's Report, these costs were estimated to be approximately \$400,000 to \$500,000. Approximately \$75,000 has been expended as of September 30, 2012.

The Hospital had no other firm commitments associated with the redevelopment project or the financing plan as of the date of the Independent Accountant's Report.

Supplementary Information

Independent Accountants' Report on Supplementary Information

Board of Directors
Cameron Memorial Community Hospital, Inc.
Angola, Indiana

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary consolidating information listed in the table of contents is presented for purposes of additional analysis rather than to present the financial position, results of operations and changes in net assets and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BKD, LLP

Fort Wayne, Indiana
February 15, 2013

Cameron Memorial Community Hospital, Inc.
Consolidating Balance Sheet
September 30, 2012

	Cameron Memorial Community Hospital, Inc.	Cameron Medical Outreach, Inc.	Eliminating Entries	Totals
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,486,769	\$ 911,393	\$ —	\$ 3,398,162
Patient accounts receivable, net of allowance; 2012 - \$2,435,000	7,066,641	—	—	7,066,641
Other receivables	649,886	337,622	(811,171)	176,337
Inventory	933,543	—	—	933,543
Prepaid expenses	<u>304,185</u>	<u>—</u>	<u>—</u>	<u>304,185</u>
Total current assets	<u>11,441,024</u>	<u>1,249,015</u>	<u>(811,171)</u>	<u>11,878,868</u>
Assets Limited as to Use				
Externally restricted by donors	199,854	—	—	199,854
Held by trustee under bond indenture agreements	354,800	—	—	354,800
Internally designated for capital improvements	<u>1,853,188</u>	<u>—</u>	<u>—</u>	<u>1,853,188</u>
Total assets limited as to use	<u>2,407,842</u>	<u>—</u>	<u>—</u>	<u>2,407,842</u>
Investments	<u>18,941,561</u>	<u>—</u>	<u>(3,313,098)</u>	<u>15,628,463</u>
Property and Equipment, Net	<u>16,027,574</u>	<u>3,254,379</u>	<u>—</u>	<u>19,281,953</u>
Other Assets				
Deferred financing costs	58,708	—	—	58,708
Receivable from Cameron Hospital Foundation, Inc.	<u>536,015</u>	<u>—</u>	<u>—</u>	<u>536,015</u>
Total other assets	<u>594,723</u>	<u>—</u>	<u>—</u>	<u>594,723</u>
Total assets	<u>\$ 49,412,724</u>	<u>\$ 4,503,394</u>	<u>\$ (4,124,269)</u>	<u>\$ 49,791,849</u>
Liabilities and Net Assets				
Current Liabilities				
Current maturities of long-term debt	\$ 1,409,155	\$ —	\$ —	\$ 1,409,155
Accounts payable	1,689,585	477,283	(811,171)	1,355,697
Accrued salaries and related liabilities	1,679,228	—	—	1,679,228
Accrued expenses and other liabilities	878,116	—	—	878,116
Estimated amounts due to third-party settlements	<u>362,551</u>	<u>—</u>	<u>—</u>	<u>362,551</u>
Total current liabilities	6,018,635	477,283	(811,171)	5,684,747
Long-Term Debt	<u>14,378,554</u>	<u>—</u>	<u>—</u>	<u>14,378,554</u>
Total liabilities	<u>20,397,189</u>	<u>477,283</u>	<u>(811,171)</u>	<u>20,063,301</u>
Net Assets				
Unrestricted	28,108,918	4,026,111	(3,313,098)	28,821,931
Temporarily restricted	<u>906,617</u>	<u>—</u>	<u>—</u>	<u>906,617</u>
Total net assets	<u>29,015,535</u>	<u>4,026,111</u>	<u>(3,313,098)</u>	<u>29,728,548</u>
Total liabilities and net assets	<u>\$ 49,412,724</u>	<u>\$ 4,503,394</u>	<u>\$ (4,124,269)</u>	<u>\$ 49,791,849</u>

Cameron Memorial Community Hospital, Inc.
Consolidating Statement of Operations
Year Ended September 30, 2012

	Cameron Memorial Community Hospital, Inc.	Cameron Medical Outreach, Inc.	Eliminating Entries	Totals
Unrestricted Revenue, Gains and Other Support				
Net patient service revenue	\$ 45,111,366	\$ —	\$ —	\$ 45,111,366
Other	1,391,415	1,900,437	(337,622)	2,954,230
Net assets released from restrictions used for operations	<u>13,091</u>	<u>—</u>	<u>—</u>	<u>13,091</u>
Total unrestricted revenue, gains and other support	<u>46,515,872</u>	<u>1,900,437</u>	<u>(337,622)</u>	<u>48,078,687</u>
Expenses				
Salaries and wages	14,238,247	567,501	—	14,805,748
Payroll taxes and employee benefits	6,155,390	—	—	6,155,390
Purchased services and professional fees	8,720,778	41,207	—	8,761,985
Supplies	3,246,707	—	—	3,246,707
Repairs and maintenance	1,244,739	35,547	—	1,280,286
Utilities	512,496	118,236	—	630,732
Equipment rent	865,424	9,823	(337,622)	537,625
Insurance	398,524	—	—	398,524
Interest	399,374	—	—	399,374
Depreciation and amortization	2,776,400	128,374	—	2,904,774
Provision for uncollectible accounts	4,357,268	—	—	4,357,268
Other	<u>2,582,227</u>	<u>629,158</u>	<u>—</u>	<u>3,211,385</u>
Total expenses	<u>45,497,574</u>	<u>1,529,846</u>	<u>(337,622)</u>	<u>46,689,798</u>
Operating Income	<u>1,018,298</u>	<u>370,591</u>	<u>—</u>	<u>1,388,889</u>
Other Income				
Investment return, interest and dividends	286,907	—	—	286,907
Realized gain on investments	66,621	—	—	66,621
Unrealized gain on trading securities	1,615,172	—	—	1,615,172
Contribution income	<u>43,978</u>	<u>—</u>	<u>—</u>	<u>43,978</u>
Total other income	<u>2,012,678</u>	<u>—</u>	<u>—</u>	<u>2,012,678</u>
Excess of Revenue Over Expenses and Increase in Unrestricted Net Assets	<u>\$ 3,030,976</u>	<u>\$ 370,591</u>	<u>\$ 0</u>	<u>\$ 3,401,567</u>

Cameron Memorial Community Hospital, Inc.
Consolidating Statement of Changes in Net Assets
Year Ended September 30, 2012

	Cameron Memorial Community Hospital, Inc.	Cameron Medical Outreach, Inc.	Eliminating Entries	Totals
Unrestricted Net Assets				
Excess of revenue over expenses and increase in unrestricted net assets	\$ 3,030,976	\$ 370,591	\$ —	\$ 3,401,567
Temporarily Restricted Net Assets				
Contributions received	231,849	—	—	231,849
Investment return, interest and dividends	924	—	—	924
Net assets released from restriction	<u>(13,091)</u>	<u>—</u>	<u>—</u>	<u>(13,091)</u>
Increase in temporarily restricted net assets	<u>219,682</u>	<u>—</u>	<u>—</u>	<u>219,682</u>
Increase in Net Assets	3,250,658	370,591	—	3,621,249
Net Assets, Beginning of Year	25,764,877	3,846,121	(3,503,699)	26,107,299
Transfers From Subsidiaries	<u>—</u>	<u>(190,601)</u>	<u>190,601</u>	<u>—</u>
Net Assets, End of Year	<u>\$ 29,015,535</u>	<u>\$ 4,026,111</u>	<u>\$ (3,313,098)</u>	<u>\$ 29,728,548</u>