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June 10, 2014

Board of Directors  
Dearborn County Hospital  
600 Wilson Creek Road  
Lawrenceburg, IN 47025-2751

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2013 to December 31, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Dearborn County Hospital, as of December 31, 2013 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS



**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2013**



# DEARBORN COUNTY HOSPITAL

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Dearborn County Hospital  
Lawrenceburg, Indiana

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Dearborn County Hospital (the Hospital), which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

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

### Auditor's Responsibility

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

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

Board of Trustees  
Dearborn County Hospital  
Lawrenceburg, Indiana

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2013, and its results of operations, changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Change in Accounting Principles

As discussed in Note 1 to the consolidated financial statements, in 2013, the Hospital adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### Report on Required Supplementary Information

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

### Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information as listed in the accompanying table of contents is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual entities, 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 supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements

Board of Trustees  
Dearborn County Hospital  
Lawrenceburg, Indiana

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 supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Blue & Co., LLC*

Indianapolis, Indiana  
May 15, 2014

**REQUIRED SUPPLEMENTARY INFORMATION**

# DEARBORN COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013

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This section of Dearborn County Hospital's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance. This MD&A does include a discussion and analysis of the activities and results of the Hospital's Blended Component Unit, Health Services Corporation of Southeastern Indiana (HSC). Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

### Financial Highlights

- The Hospital's total assets increased approximately \$29,084,000 or 20.4% during 2013. Total liabilities increased approximately \$14,209,000 or 27.8% during 2013.
- The Hospital's net position increased approximately \$14,874,000 or 16.3% in 2013.
- The Hospital reported operating income of approximately \$10,769,000 for 2013, representing an increase of approximately \$6,042,000 in comparison to the 2012 results.
- The Hospital added capital assets of approximately \$2,215,000 during 2013 while capital assets with a net book value of approximately \$16,000 were disposed. Net additions and disposals combined with depreciation expense of approximately \$5,641,000 resulted in net capital assets decreasing approximately \$3,442,000 from 2012.
- The Hospital's assets whose use is limited, net of current portion, increased approximately \$4,883,000 as a result of favorable operating income and investment returns.
- The Hospital entered into agreements to lease the operations of multiple long-term care facilities. As a result of the lease agreements, the Hospital recognized approximately \$130,111,000 and \$30,507,000 of gross patient service revenue related to long-term care during 2013 and 2012, respectively.

### Using This Annual Report

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

The Consolidated Balance Sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities).

# DEARBORN COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013

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All of the current year's revenue earned and expenses incurred are accounted for in the Consolidated Statement of Revenues, Expense and Changes in Net Position.

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

### **The Consolidated Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position**

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

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

#### Table 1 – Consolidated Balance Sheets

The significant change in the Hospital's assets was in current assets which increased approximately \$27,860,000 in 2013 compared to 2012 as a result of an increase in cash and cash equivalents and additional patient accounts receivable of approximately \$6,251,000 mainly related to long-term care services. Cash and cash equivalents, included in current assets, increased approximately \$17,985,000 during 2013.

Included in current assets as of December 31, 2013 is the current portion of assets whose use is limited of approximately \$28,000,000 related to the current classification of the Hospital's revenue bonds. As of December 31, 2012, approximately \$28,500,000 of assets whose use was limited was classified in current assets. The noncurrent portion of assets whose use is limited increased approximately \$4,883,000 in 2013 compared to 2012.

# DEARBORN COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013

Current liabilities increased by approximately \$14,233,000. The majority of the increase related to accounts payable which increased approximately \$10,015,000 for the long-term care services.

Long-term liabilities decreased approximately \$23,000 related to payments on the Hospital's capital lease obligations.

Net position increased by approximately \$14,874,000 from 2012 through 2013. The increase relates to a favorable operating income driven from operations and investment return.

	2013	2012	2013-2012 Change
<b>Assets</b>			
Current assets	\$ 104,656,367	\$ 76,796,012	\$ 27,860,355
Assets whose use is limited	21,189,579	16,306,405	4,883,174
Capital assets, net	45,072,513	48,514,219	(3,441,706)
Other assets	395,631	613,911	(218,280)
Total assets	<u>\$ 171,314,090</u>	<u>\$ 142,230,547</u>	<u>\$ 29,083,543</u>
<b>Liabilities</b>			
Current liabilities	\$ 65,382,812	\$ 51,150,099	\$ 14,232,713
Long-term debt, net	-0-	23,435	(23,435)
Total liabilities	<u>65,382,812</u>	<u>51,173,534</u>	<u>14,209,278</u>
<b>Net position</b>			
Net investment in capital assets	17,048,707	19,965,004	(2,916,297)
Unrestricted	<u>88,882,571</u>	<u>71,092,009</u>	<u>17,790,562</u>
Total net position	<u>105,931,278</u>	<u>91,057,013</u>	<u>14,874,265</u>
Total liabilities and net position	<u>\$ 171,314,090</u>	<u>\$ 142,230,547</u>	<u>\$ 29,083,543</u>

### Table 2 – Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Hospital's performance in 2013 was favorable with a return on equity of 14.0% compared to prior year of 8.2%.

Total operating revenue increased approximately \$122,504,000 as utilization in inpatient, outpatient and long-term care services increased. Net patient service revenue accounted for \$119,101,000 of the increase in 2013. The increase in other operating revenue of approximately of \$3,403,000 relates to other long-term care services.

# DEARBORN COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013

During 2013, the Hospital's net patient service revenue was enhanced by an Indiana Medicaid Disproportionate Share Hospital payment of approximately \$2,096,000 for State Fiscal Year (SFY) ended June 30, 2012. In contrast, during 2012, the Hospital recorded Indiana Medicaid Municipal Hospital net final Upper Payment Limit payments for SFYs ended June 30, 2011 and 2010 totaling approximately \$516,000. Medicaid and Medicaid Electronic Health Record incentive revenue of approximately \$2,335,000 was recorded in 2012; however, no such revenue was recorded in 2013. The Hospital also recorded Medicaid rate increases related to the Indiana Hospital Assessment Fee (HAF) program during 2013 and 2012.

Expenses increased by approximately \$116,462,000 between 2012 and 2013. Salaries, wages and benefits increased approximately \$2,736,000. Long-term care services contributed to the majority of the increases related to total expenses including professional fees and contract services increase of \$70,508,000, facility and equipment leases of \$12,905,000 and supplies and other expenses of \$21,225,000. During 2013, the Hospital recorded HAF program expense of approximately \$5,337,000 compared to approximately \$5,982,000 during 2012.

Nonoperating revenues (expenses) increased by approximately \$1,361,000 due to investment income of approximately \$4,433,000 in 2013 compared to \$3,189,000 in 2012. Interest expense decreased approximately \$32,000 from 2012 while other nonoperating revenue increased \$85,000 due to a gain on the disposal of capital assets in 2013.

	2013	2012	2013-2012 Change
<b>Operating revenues</b>			
Net patient service revenue	\$ 247,794,646	\$ 128,693,509	\$ 119,101,137
Other operating revenue	8,145,746	4,742,901	3,402,845
Total operating revenues	255,940,392	133,436,410	122,503,982
<b>Operating expenses</b>			
Salaries, wages and benefits	59,973,414	57,237,852	2,735,562
Professional fees and contract services	96,668,596	26,160,545	70,508,051
Supplies	25,821,663	15,250,700	10,570,963
Depreciation and amortization	5,791,145	6,068,830	(277,685)
Other	56,916,150	23,991,178	32,924,972
Total operating expenses	245,170,968	128,709,105	116,461,863
Operating income	10,769,424	4,727,305	6,042,119
<b>Nonoperating revenues (expense)</b>	4,104,841	2,743,401	1,361,440
Change in net position	14,874,265	7,470,706	7,403,559
<b>Net position</b>			
Beginning of year	91,057,013	83,586,307	7,470,706
End of year	\$ 105,931,278	\$ 91,057,013	\$ 14,874,265

# DEARBORN COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013

### Table 3 – Consolidated Statements of Cash Flows

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

Total cash and cash equivalents increased approximately \$15,993,000 in 2013. Operating activities generated cash and cash equivalents of \$21,138,000 during 2013 mainly from operating income. Capital and related financing decreased cash and cash equivalents by \$3,053,000 during 2013 mainly as the result of expenditures for property and equipment additions and debt service. Investing activities decreased cash and cash equivalents by \$2,093,000 in 2013 as cash equivalents were used to purchase investments.

The following is a summary of cash flows:

Cash Flow Data	2013	2012	2013-2012 Change
From operating activities	\$ 21,137,993	\$ 7,851,217	\$ 13,286,776
From capital and related financing activities	(3,052,580)	(2,970,503)	(82,077)
From investing activities	(2,092,890)	3,360,707	(5,453,597)
Change in cash and cash equivalents	<u>\$ 15,992,523</u>	<u>\$ 8,241,421</u>	<u>\$ 7,751,102</u>

### **Capital Assets and Debt Administration**

During 2013, the Hospital invested approximately \$148,000 in capital assets net of asset disposals. The change in capital assets is outlined in the following table:

	2013	2012	2013-2012 Change
Land	\$ 921,882	\$ 771,882	\$ 150,000
Land improvements	2,172,666	2,172,666	-0-
Buildings and improvements	67,873,919	67,311,986	561,933
Equipment	46,928,406	47,889,167	(960,761)
Construction in process	837,216	440,022	397,194
Total	118,734,089	118,585,723	148,366
Less accumulated depreciation	<u>73,661,576</u>	<u>70,071,504</u>	<u>3,590,072</u>
Capital assets, net	<u>\$ 45,072,513</u>	<u>\$ 48,514,219</u>	<u>\$ (3,441,706)</u>

# DEARBORN COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013

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### Debt

The Hospital had no significant changes in debt as there were no new borrowings during 2013. Principal payments reduced the current and noncurrent debt balances by approximately \$525,000 during 2013. More detailed information about the Hospital's debt is presented in the Notes to the Consolidated Financial Statements.

### **Economic Outlook**

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant cost factor affecting the Hospital is the increases in labor costs due to the increasing competition for quality health care workers. Uncompensated care is also a significant factor on the Hospital's margin.

### **Contacting Hospital Management**

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's financial condition. If you have any questions about this report, you may contact the Hospital's Administrative offices at 600 Wilson Creek Road, Lawrenceburg, Indiana 47025.

# DEARBORN COUNTY HOSPITAL

## CONSOLIDATED BALANCE SHEET DECEMBER 31, 2013

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### ASSETS

#### Current assets

Cash and cash equivalents	\$ 29,754,571
Patient accounts receivable, less allowance for uncollectible accounts of \$2,811,000	33,505,644
Inventory	1,223,228
Current portion of assets whose use is limited	28,000,000
Other current assets	<u>12,172,924</u>
Total current assets	104,656,367

#### Assets whose use is limited

Internally designated, net of current portion	21,189,579
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#### Capital assets

Land	921,882
Depreciable capital assets	116,974,991
Construction in progress	<u>837,216</u>
	118,734,089
Less accumulated depreciation	<u>73,661,576</u>
Capital assets, net	45,072,513

#### Other assets

Total assets	<u>395,631</u>
	<u><u>\$ 171,314,090</u></u>

### LIABILITIES AND NET POSITION

#### Current liabilities

Current portion of capital leases	\$ 23,806
Current portion of revenue bonds payable	500,000
Accounts payable	26,319,695
Accrued salaries, wages, and related liabilities	5,528,907
Estimated third-party payor settlements	5,510,404
Revenue bonds payable (see Debt note)	<u>27,500,000</u>
Total current liabilities	65,382,812

#### Net position

Net investment in capital assets	17,048,707
Unrestricted	<u>88,882,571</u>
Total net position	<u>105,931,278</u>
Total liabilities and net position	<u><u>\$ 171,314,090</u></u>

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See accompanying notes to consolidated financial statements.

# DEARBORN COUNTY HOSPITAL

## CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2013

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### Operating revenues

Net patient service revenue	\$ 247,794,646
Other operating revenue	<u>8,145,746</u>
Total operating revenues	255,940,392

### Operating expenses

Salaries and wages	45,722,813
Employee benefits	14,250,601
Professional fees and contract services	96,668,596
Supplies	25,821,663
Insurance	2,747,468
Facility and equipment leases	17,387,128
Repairs and maintenance	4,767,549
Utilities	5,205,012
HAF Program	5,336,921
Depreciation and amortization	5,791,145
Other	<u>21,472,072</u>
Total operating expenses	<u>245,170,968</u>

Operating income	10,769,424
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### Nonoperating revenues (expenses)

Investment income	4,432,938
Interest expense	(383,263)
Gain on disposal of capital assets	<u>55,166</u>
Total nonoperating revenues (expenses)	<u>4,104,841</u>

Change in net position	14,874,265
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### Net position

Beginning of year	<u>91,057,013</u>
End of year	<u><u>\$ 105,931,278</u></u>

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See accompanying notes to consolidated financial statements.

# DEARBORN COUNTY HOSPITAL

## CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2013

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### Operating activities

Cash received from patients and third-party payors	\$ 245,887,485
Cash paid to employees for salaries and benefits	(59,597,713)
Cash paid to vendors for goods and services	(173,297,525)
Other operating receipts, net	<u>8,145,746</u>
Net cash from operating activities	21,137,993

### Capital and related financing activities

Acquisition and construction of capital assets	(2,215,358)
Proceeds from sale of capital assets	71,450
Interest paid on debt	(383,263)
Principal payments on debt	<u>(525,409)</u>
Net cash from capital and related financing activities	(3,052,580)

### Investing activities

Investment income	4,432,938
Purchase of investments	<u>(6,525,828)</u>
Net cash from investing activities	<u>(2,092,890)</u>

Net change in cash and cash equivalents 15,992,523

### Cash and cash equivalents

Beginning of year	<u>23,900,259</u>
End of year	<u><u>\$ 39,892,782</u></u>

### Reconciliation of cash and cash equivalents to the balance sheets

Cash and cash equivalents	
In current assets	\$ 29,754,571
In assets whose use is limited	<u>10,138,211</u>
Total cash and cash equivalents	<u><u>\$ 39,892,782</u></u>

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See accompanying notes to consolidated financial statements.

# DEARBORN COUNTY HOSPITAL

## CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2013

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<b>Reconciliation of operating income to net cash from operating activities</b>	
Operating income	\$ 10,769,424
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	5,791,145
Provision for bad debts	12,064,634
Changes in assets and liabilities	
Patient accounts receivable	(18,315,594)
Inventory and other current assets	(4,124,583)
Other assets	218,280
Accounts payable	10,015,187
Accrued salaries, wages, and related liabilities	375,701
Estimated third-party payor settlements	<u>4,343,799</u>
Net cash flows from operating activities	<u><u>\$ 21,137,993</u></u>

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See accompanying notes to consolidated financial statements.

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

Dearborn County Hospital (the Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient, outpatient and long-term health care services. The Board of County Commissioners of Dearborn County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between Dearborn County (the County) and the Hospital. For these reasons, the Hospital is considered a component unit of the County.

The consolidated financial statements of Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital and its controlled subsidiaries. They do not purport to, and do not, present the financial position of the County as of December 31, 2013 and the changes in its financial position or its cash flows for the year then ended.

Accounting principles generally accepted in the United States require that these consolidated financial statements present the Hospital and its significant component unit, collectively referred to as the "primary government." The blended component unit, as discussed below, is included in the Hospital's reporting entity because of the significance of its operational or financial relationships with the Hospital. A blended component unit, although a legally separate entity, is in substance part of the primary government's operations and exists solely to provide services to the Hospital.

#### Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the blended component unit, Health Services Corporation of Southeastern Indiana (HSC). The Hospital appoints the majority of HSC's board and a financial benefit/burden relationship exists between the Hospital and HSC. Although it is a legally separate from the Hospital, HSC is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital. All significant intercompany transactions have been eliminated in the consolidated financial statements.

#### Long-Term Care Operations

The Hospital owns the operations of twenty-two long-term care facilities by way of an arrangement with the Managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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While the management and related lease agreements are in effect, the performance of all activities of the Managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

The Hospital has entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital pays the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees and incentive management fees. The agreements expire at various times throughout 2014. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

### Enterprise Fund Accounting

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

### Accounting Standards

During 2013, the Hospital implemented GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14, the Financial Reporting Entity, and 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. The objective of the implementation is to improve financial reporting for a governmental financial reporting entity. As discussed in the Blended Component Unit note, the Hospital adopted GASB Statement No. 61 which requires reporting condensed combining information in the notes to the consolidated financial statements for blended component units of primary governments that are business-type activities.

Also during 2013, the Hospital implemented GASB Statement No. 65, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Furthermore under GASB Statement No. 65, debt issuance costs are now recognized as an expense in the period incurred. Previously, debt issuance costs were capitalized at issuance and amortized over the term of the related debt.

The implementation of GASB Statement Nos. 61 and 65 did not have an impact on previously reported net position, change in net position or cash flows.

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### Use of Estimates

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

### Cash and Cash Equivalents

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

### Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program.

These programs have audited the year-end cost report filed with the Medicare program through December 31, 2009 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2010 through 2013 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2013, the Hospital recognized an increase in change in net position in the consolidated statements of revenues, expenses and changes in net position of approximately \$313,000 due to differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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

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

### Inventory

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory consists of medical supplies and pharmaceuticals.

### Other Current Assets

Other current assets consist of prepaid expenses, other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized during 2014.

### Assets Whose Use is Limited – Internally Designated

Assets whose use is limited are stated at fair market value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes. These investments consist primarily of cash and cash equivalents, certificates of deposit and mutual funds. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenues (expenses) in the consolidated statement of revenues, expenses and changes in net position. Nonparticipating certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at contract value.

### Capital Assets and Depreciation

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

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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The capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) is \$2,500 per item, or a group of items with an aggregate cost of at least \$5,000. Depreciation is calculated on the straight-line method over the estimated useful lives of capital assets which range from 3-40 years. For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

### Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest cost was capitalized during 2013.

### Net Position

The net position of the Hospital is classified into two components (1) Net investment in capital assets represents capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets and (2) Unrestricted net position is the remaining assets that do not meet the definition of net investment in capital assets or restricted.

### Operating Revenues and Expenses

The Hospital's consolidated statement of revenues, expenses and changes in net position 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. Nonoperating revenues include contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenues or expenses. Operating expenses are generally all expenses incurred to provide health care services, other than financing costs.

### Grants and Contributions

From time to time, the Hospital receives 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, if any, restricted to capital acquisitions are reported as nonoperating revenues and expenses.

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### Charity Care

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

Of the Hospital's total expenses reported within the consolidated statements of revenues, expenses and changes in net position, an estimated \$805,000 arose from providing services to charity patients for 2013. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's expenses including interest expense to gross patient service revenue.

### Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense for 2013 was approximately \$174,000.

### Compensated Absences

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

### Federal or State Income Taxes

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

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

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and has concluded that as of December 31, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements.

HSC has filed its federal and state income tax returns for periods through December 31, 2012. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions). HSC is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

### Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

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

### Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is May 15, 2014.

## 2. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include:

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

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

The composition of assets whose use is limited includes the following as of December 31, 2013:

Internally designated	
Cash and cash equivalents	\$ 10,138,211
Certificates of deposit	3,797,392
Mutual funds	<u>35,253,976</u>
Total internally designated	49,189,579
Less current portion	<u>28,000,000</u>
	<u><u>\$ 21,189,579</u></u>

The current portion of assets whose use is limited reflects the current scheduled principal payments on the revenue bonds and the classification as current of the remaining portion of the revenue bonds due to the letter of credit terms. See the Debt note for further information.

### 3. DEPOSITS AND INVESTMENTS

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

Investments (assets whose use is limited) are carried at fair market value except for certificates of deposit and money market funds which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

As of December 31, 2013, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 3,797,392	\$ 3,797,392	\$ -0-	\$ -0-	\$ -0-
Mutual funds	35,253,976	35,253,976	-0-	-0-	-0-
	<u><u>\$39,051,368</u></u>	<u><u>\$39,051,368</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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

*Credit risk* – Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market 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.

*Concentration of credit risk* – The Hospital places a limit on the amount it may invest in any one issuer. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits consist of the following as of December 31, 2013:

Carrying amount	
Deposits	\$ 39,892,782
Investments	39,051,368
	<u>\$ 78,944,150</u>
Included in the balance sheet captions	
Cash and cash equivalents	\$ 29,754,571
Assets whose use is limited - internally designated	
Current	28,000,000
Non current	21,189,579
	<u>\$ 78,944,150</u>

#### 4. FAIR VALUE MEASUREMENTS

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2013.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2013.

- *Money market funds*: Valued based at the subscription and redemption activity at a \$1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of securities.
- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

The following tables set forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of December 31, 2013.

	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Assets whose use is limited				
Cash equivalents				
Money market funds	\$ 10,138,211	\$ -0-	\$ 10,138,211	\$ -0-
Mutual funds				
Fixed income	18,080,365	18,080,365	-0-	-0-
Small cap growth	1,663,383	1,663,383	-0-	-0-
Small cap value	2,170,102	2,170,102	-0-	-0-
Mid cap growth	963,132	963,132	-0-	-0-
Large cap blended	6,547,011	6,547,011	-0-	-0-
Growth and income	4,723,057	4,723,057	-0-	-0-
International growth	1,106,926	1,106,926	-0-	-0-
Total mutual funds	35,253,976	35,253,976	-0-	-0-
	45,392,187	\$ 35,253,976	\$ 10,138,211	\$ -0-
Certificates of deposit	3,797,392			
Total assets whose use is limited	\$ 49,189,579			

As of December 31, 2013, the market value of investments exceeded the cost by approximately \$4,645,200. The gains included in earnings for 2013 are attributable to the change in unrealized gains relating to assets held as of December 31, 2013 and are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment income. The unrealized gains approximated \$2,914,000 for 2013.

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

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

Cash and cash equivalents, accounts payable, accrued salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the consolidated balance sheet for cash and cash equivalents, accounts payable, accrued salaries, wages and related liabilities and estimated third-party settlements approximate fair value based on short-term maturity.

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

*Debt:* The carrying value of the Hospital's variable rate revenue bonds approximates fair value based upon current traded value. The carrying value of capital lease obligations approximates fair value based on current fixed rates available to similar entities with similar credit ratings.

### 5. 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 the following amounts as of December 31, 2013:

Patient accounts receivable	
Receivable from patients and their insurance carriers	\$ 22,198,767
Receivable from Medicare	17,970,430
Receivable from Medicaid	<u>12,685,009</u>
Total patient accounts receivable	52,854,206
Less allowance for contractual agreements	16,537,843
Less allowance for uncollectible amounts	<u>2,810,719</u>
Patient accounts receivable, net	<u><u>\$ 33,505,644</u></u>
Accounts payable and accrued expenses	
Payable to suppliers and others	\$ 26,319,695
Payable to employees and related liabilities	<u>5,528,907</u>
Total accounts payable and accrued expenses	<u><u>\$ 31,848,602</u></u>

### 6. CAPITAL ASSETS

Capital asset activity for 2013 is as follows:

	Balance December 31, 2012	Additions	Retirements	Transfers	Balance December 31, 2013
Land	\$ 771,882	\$ 150,000	\$ -0-	\$ -0-	\$ 921,882
Land improvements	2,172,666	-0-	-0-	-0-	2,172,666
Buildings and improvements	67,311,986	412,653	-0-	149,280	67,873,919
Equipment	47,889,167	344,842	(2,066,992)	761,389	46,928,406
Construction in process	440,022	1,307,863	-0-	(910,669)	837,216
Total capital assets	<u>118,585,723</u>	<u>2,215,358</u>	<u>(2,066,992)</u>	<u>-0-</u>	<u>118,734,089</u>
Less accumulated depreciation	<u>70,071,504</u>	<u>5,640,780</u>	<u>(2,050,708)</u>	<u>-0-</u>	<u>73,661,576</u>
Capital assets, net	<u><u>\$ 48,514,219</u></u>	<u><u>\$ (3,425,422)</u></u>	<u><u>\$ (16,284)</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 45,072,513</u></u>

There were no significant outstanding commitments on capital assets as of December 31, 2013.

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

### 7. DEBT

Indiana Finance Authority Hospital Revenue Bonds, Series 2006 original issue for \$30,000,000 were issued during 2006 for various building additions, improvements and renovations. The Series 2006 Bonds have a variable interest rate (0.06% as of December 31, 2013) and mature April 1, 2036. The Series 2006 Bonds are secured ultimately by the gross revenues of the Hospital.

The Hospital has an available letter of credit for approximately \$28,300,000 with a financial institution for the Series 2006 Bonds. The letter of credit is collateralized by the Hospital's gross revenues and expires in March 2015. There was no balance outstanding on the letter of credit as of December 31, 2013. The debt agreements require the Hospital to maintain certain financial ratios and restrictive covenants. As of December 31, 2013, the Hospital was in compliance with the financial ratios and restrictive covenants.

The letter of credit is intended to provide credit enhancement and liquidity support for the Hospital's tax-exempt bonds. In the event the Series 2006 Bonds are not remarketed, the financial institution will advance a liquidity drawing on the letter of credit. The Hospital will reimburse the financial institution for the liquidity drawing at the date of when the 2006 Series Bonds are remarketed, redeemed or purchased, but no later than 180 days after the liquidity drawing.

Accounting principles generally accepted in the United States of America require long-term debt backed by a letter of credit to be reported as current if the letter of credit does not provide a long-term financing option for liquidity drawings. Therefore, the scheduled principal repayments on the Series 2006 Bonds for 2015 through 2036 of \$27,500,000 are classified as current on the consolidated balance sheet as of December 31, 2013.

Capital lease obligations with interest rates ranging from 8% to 10% executed for property and equipment and are due at various times through 2014. Amounts are due in monthly installments ranging from approximately \$400 to \$1,900, including interest and are collateralized by equipment with a net book value of approximately \$22,000 as of December 31, 2013.

A progression of the Hospital's debt follows:

	Balance December 31, 2012	Additions	Payments	Balance December 31, 2013	Current portion
Revenue bonds payable	\$ 28,500,000	\$ -0-	\$ (500,000)	\$ 28,000,000	\$ 500,000
Capital leases	49,215	-0-	(25,409)	23,806	23,806
Total debt	<u>\$ 28,549,215</u>	<u>\$ -0-</u>	<u>\$ (525,409)</u>	<u>\$ 28,023,806</u>	<u>\$ 523,806</u>

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

The current portion of the revenue bonds payable reflects only the scheduled principal payments for 2014 and not the portion of the revenue bonds payable classified as current due to the letter of credit liquidity drawing requirements. Scheduled principal and interest payments on the Series 2006 Bonds are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 500,000	\$ 168,000	\$ 668,000
2015	500,000	165,000	665,000
2016	600,000	162,000	762,000
2017	600,000	158,400	758,400
2018	700,000	154,800	854,800
2019-2023	4,200,000	706,800	4,906,800
2024-2028	5,900,000	561,000	6,461,000
2029-2033	8,400,000	356,400	8,756,400
2034-2036	6,600,000	81,600	6,681,600
	<u>\$ 28,000,000</u>	<u>\$ 2,514,000</u>	<u>\$ 30,514,000</u>

Scheduled principal and interest payments on capital lease obligations are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	<u>\$ 23,806</u>	<u>\$ 1,022</u>	<u>\$ 24,828</u>

The following is an analysis of the leased assets included in property and equipment as of December 31, 2013:

Equipment	\$ 184,374
Accumulated depreciation	162,802
	<u>\$ 21,572</u>

### 8. PATIENT SERVICE REVENUE

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

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### Medicare

Medicare inpatient services are reimbursed based on a predetermined amount for each case based on the diagnosis associated with the patient (Prospective Payment Hospital). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment. The Hospital's classification of patients under the Prospective Payment Hospital and the appropriateness of patient admissions are subject to validation reviews by the Medicare peer review organization which is under contract with the Hospital to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

### Medicaid and the Indiana Hospital Assessment Fee Program

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

During 2012, Indiana Hospital Assessment Fee (HAF) Program was approved by the Centers for Medicare & Medicaid Services (CMS) for the period July 1, 2011 through June 30, 2013. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates.

During 2013, the Hospital recognized HAF Program expense of approximately \$5,337,000. The HAF Program expense is included in expenses in the consolidated statements of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program are included in patient service revenue in the consolidated statements of revenues, expenses and changes in net position. The HAF Program was approved for extension in March 2014 by CMS for the period July 1, 2013 through June 30, 2017.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Hospital Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient service revenue of approximately \$2,096,000 during 2013. These programs are administered by the State of Indiana, but rely on Federal funding.

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### Other Payors

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

Inpatient services	\$ 74,248,780
Outpatient services	145,434,216
Long-term care services	<u>130,110,928</u>
Gross patient service revenue	349,793,924
Contractual allowances	88,169,465
Charity care	1,765,179
Provision for bad debts	<u>12,064,634</u>
Deductions from revenue	<u>101,999,278</u>
Net patient service revenue	<u><u>\$ 247,794,646</u></u>

## 9. EMPLOYEE HEALTH AND DENTAL BENEFITS

The Hospital is self-insured for employee health and dental claims. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends, including frequency and amounts of payouts, and other economic and social factors. An excess policy through commercial insurance covers individual claims in excess of \$250,000 up to a maximum of \$2,000,000 per year with no overall annual aggregate limit. Health and dental insurance expense 2013 was approximately \$8,568,000.

Changes in the balance of claim liabilities are as follows:

Unpaid claims, beginning of year	\$ 1,100,000
Incurred claims and changes in estimates	8,568,280
Claim payments	<u>(8,368,280)</u>
Unpaid claims, end of year	<u><u>\$ 1,300,000</u></u>

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# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### 10. MEDICAL MALPRACTICE

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

### 11. CONCENTRATIONS OF CREDIT RISK

The Hospital is primarily located in Lawrenceburg, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable and gross patient revenues from self-pay and third party payors as of and for the year ended December 31, 2013 was as follows:

	<u>Receivables</u>	<u>Revenue</u>
Medicare	34%	37%
Medicaid	24%	28%
Blue Cross	10%	12%
Commercial and other payors	21%	17%
Self-pay payors	11%	6%
	<u>100%</u>	<u>100%</u>

### 12. PENSION PLANS

#### Defined Benefit Pension Plan

The Hospital has a defined benefit pension plan administered by Wells Fargo 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.

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

The contribution requirements of plan members are established and can be amended by the Hospital Board of Trustees. The Hospital is required to contribute at an actuarially determined rate. The current rate is approximately 4.7% of covered payroll. For 2013, the Hospital's annual pension cost of approximately \$1,707,000 was equal to the Hospital's required and actual contributions.

Actuarial information for the defined benefit pension plan is as follows:

Annual required contribution	\$ 1,706,913
Interest on net pension obligation	-0-
Adjustment to annual required contribution	-0-
Annual pension cost	1,706,913
Contributions made	(1,706,913)
Change in net pension obligation	-0-
Net pension obligation	
Beginning of year	-0-
End of year	\$ -0-

Contribution rate:

Hospital	4.72%
Eligible employees	0.00%
Actuarial valuation date	11/1/2012
Actuarial cost method	Frozen entry age
Amortization method	Level dollar amount
Amortization period	Various years ranging from 10-30: minimum contribution amount is interest only on unfunded liability
Amortization period (from date)	N/A
Asset valuation method	5 year expected return

Actuarial assumptions:

Investment rate of return	7.50%
Projected future salary increases	4.50%

### Three Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 1,511,254	100%	\$ -0-
2012	\$ 1,508,887	100%	\$ -0-
2013	\$ 1,706,913	100%	\$ -0-

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

The funded status of the plan as of November 1, 2012, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
\$ 23,996,810	\$ 31,314,032	\$ 7,317,222	77%	\$ 36,153,924	20%

The schedule of funding progress below presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
11/1/2010	\$ 21,898,927	\$ 28,837,043	\$ 6,938,116	76%	\$ 37,813,590	18%
11/1/2011	\$ 23,030,319	\$ 30,298,422	\$ 7,268,103	76%	\$ 36,220,786	20%
11/1/2012	\$ 23,996,810	\$ 31,314,032	\$ 7,317,222	77%	\$ 36,153,924	20%

### Defined Contribution Pension Plans

The Hospital and HSC maintain defined contribution plans administered by Lincoln Financial Group. These plans provide retirement benefits to plan members and beneficiaries. Reports for these plans are available by contacting the Hospital's human resources department.

The contribution requirements of members of the plans are established and can be amended by written agreement. Eligible employees are not required to contribute to these plans. The Hospital and HSC can elect discretionary contributions to the plans as determined by the Board of Trustees. The Hospital and HSC did not elect discretionary contributions for 2013. Therefore, no expense was recognized in 2013 for these plans.

## 13. COMMITMENTS AND CONTINGENCIES

### Operating Leases

The Hospital has entered into various operating leases expiring through 2018 having initial or remaining noncancelable terms exceeding one year for rental of office space. Rental expenditures for these leases were approximately \$660,000 for 2013.

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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The following is a schedule of annual future minimum rental payments.

Year Ending December 31,	Amount
2014	\$ 556,000
2015	456,000
2016	402,000
2017	307,000
2018	4,000
	<u>\$ 1,725,000</u>

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$16,111,000 for 2013. Annual rent expense through 2014 will approximate \$15,000,000 under these leases.

### 14. BLENDED COMPONENT UNIT

The Hospital's consolidated financial statements include the accounts of HSC, its blended component. Below is condensed financial information of HSC as of and for the year ended December 31, 2013.

#### **Balance sheet**

##### Assets

Current assets	\$ 2,719,195
Capital assets	5,780,219
Other assets	265,631
Total assets	<u>\$ 8,765,045</u>

##### Liabilities

Accounts payable and accrued expenses	\$ 8,765,045
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##### Net position

Net investment in capital assets	5,780,219
Unrestricted	<u>(5,780,219)</u>
Total net position	-0-
Total liabilities and net position	<u>\$ 8,765,045</u>

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### Statement of revenues, expenses and changes in net position

Operating revenues (patient and other)	\$ 15,147,651
Operating expenses	
Depreciation and amortization	477,309
Other expenses	19,037,849
Total expenses	<u>19,515,158</u>
Operating loss	(4,367,507)
Nonoperating revenues, net	20,911
Transfers	4,346,596
Change in net position	<u>\$ -0-</u>

### Statement of cash flows

Net cash flows from:	
Operating activities	\$ (3,846,386)
Capital and related financing activities	3,776,687
Investing activities	20,911
Total	<u>(48,788)</u>
Cash and cash equivalents:	
Beginning of year	<u>397,046</u>
End of year	<u>\$ 348,258</u>

## 15. UPCOMING GASB PRONOUNCEMENTS

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future consolidated financial statements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

# DEARBORN COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013, will be effective for government combinations and disposals of government operations occurring in financial reporting periods for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations (mergers, acquisitions, and transfers of operations) and disposals of government operations. The disclosures required by this Statement will enable financial statement users to evaluate the nature and financial effects of those transactions.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013, will be effective for financial reporting periods beginning after June 15, 2013. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. Additional disclosures will be required by both governments that extend and receive financial guarantees.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68 making it effective for periods beginning after June 15, 2014. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

**SUPPLEMENTARY INFORMATION**

# DEARBORN COUNTY HOSPITAL

## CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2013

ASSETS	Hospital	HSC	Eliminations	Total
<b>Current assets</b>				
Cash and cash equivalents	\$ 29,406,313	\$ 348,258	\$ -0-	\$ 29,754,571
Patient accounts receivable, net	31,371,748	2,133,896	-0-	33,505,644
Inventory	1,223,228	-0-	-0-	1,223,228
Current portion of assets whose use is limited	28,000,000	-0-	-0-	28,000,000
Other current assets	25,165,476	237,041	(13,229,593)	12,172,924
<b>Total current assets</b>	<b>115,166,765</b>	<b>2,719,195</b>	<b>(13,229,593)</b>	<b>104,656,367</b>
<b>Assets whose use is limited</b>				
Internally designated, net of current portion	21,189,579	-0-	-0-	21,189,579
<b>Capital assets</b>				
Land	75,208	846,674	-0-	921,882
Depreciable capital assets	108,905,404	8,069,587	-0-	116,974,991
Construction in progress	837,216	-0-	-0-	837,216
	109,817,828	8,916,261	-0-	118,734,089
Less accumulated depreciation	70,525,534	3,136,042	-0-	73,661,576
<b>Capital assets, net</b>	<b>39,292,294</b>	<b>5,780,219</b>	<b>-0-</b>	<b>45,072,513</b>
<b>Other assets</b>				
	8,299,793	265,631	(8,169,793)	395,631
<b>Total assets</b>	<b>\$ 183,948,431</b>	<b>\$ 8,765,045</b>	<b>\$ (21,399,386)</b>	<b>\$ 171,314,090</b>
<b>LIABILITIES AND NET POSITION</b>				
<b>Current liabilities</b>				
Current portion of capital leases	\$ 23,806	\$ -0-	\$ -0-	\$ 23,806
Current portion of long-term debt	500,000	-0-	-0-	500,000
Accounts payable	39,510,849	8,208,232	(21,399,386)	26,319,695
Accrued salaries, wages, and related liabilities	4,972,094	556,813	-0-	5,528,907
Estimated third-party payor settlements	5,510,404	-0-	-0-	5,510,404
Revenue bonds payable (see Debt note)	27,500,000	-0-	-0-	27,500,000
<b>Total current liabilities</b>	<b>78,017,153</b>	<b>8,765,045</b>	<b>(21,399,386)</b>	<b>65,382,812</b>
<b>Net position</b>				
Net investment in capital assets	11,268,488	5,780,219	-0-	17,048,707
Unrestricted	94,662,790	(5,780,219)	-0-	88,882,571
<b>Total net position</b>	<b>105,931,278</b>	<b>-0-</b>	<b>-0-</b>	<b>105,931,278</b>
<b>Total liabilities and net position</b>	<b>\$ 183,948,431</b>	<b>\$ 8,765,045</b>	<b>\$ (21,399,386)</b>	<b>\$ 171,314,090</b>

See report of independent auditors on pages 1 through 3.

# DEARBORN COUNTY HOSPITAL

## CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2013

	Hospital	HSC	Eliminations	Total
<b>Operating revenues</b>				
Net patient service revenue	\$ 232,940,524	\$ 14,854,122	\$ -0-	\$ 247,794,646
Other operating revenue	7,852,217	293,529	-0-	8,145,746
Total operating revenues	240,792,741	15,147,651	-0-	255,940,392
<b>Operating expenses</b>				
Salaries and wages	32,493,663	13,229,150	-0-	45,722,813
Employee benefits	11,815,284	2,435,317	-0-	14,250,601
Professional fees and contract services	96,267,676	400,920	-0-	96,668,596
Supplies	24,710,402	1,111,261	-0-	25,821,663
Insurance	2,374,477	372,991	-0-	2,747,468
Facility and equipment leases	16,557,339	829,789	-0-	17,387,128
Repairs and maintenance	4,632,541	135,008	-0-	4,767,549
Utilities	4,954,245	250,767	-0-	5,205,012
HAF Program	5,336,921	-0-	-0-	5,336,921
Depreciation and amortization	5,313,836	477,309	-0-	5,791,145
Other	21,199,426	272,646	-0-	21,472,072
Total operating expenses	225,655,810	19,515,158	-0-	245,170,968
Operating income (loss)	15,136,931	(4,367,507)	-0-	10,769,424
<b>Nonoperating revenues (expenses)</b>				
Investment income	4,412,027	20,911	-0-	4,432,938
Interest expense	(383,263)	-0-	-0-	(383,263)
Gain on disposal of capital assets	55,166	-0-	-0-	55,166
Total nonoperating revenues (expenses)	4,083,930	20,911	-0-	4,104,841
<b>Transfers</b>	(4,346,596)	4,346,596	-0-	-0-
Change in net position	14,874,265	-0-	-0-	14,874,265
<b>Net position</b>				
Beginning of year	91,057,013	-0-	-0-	91,057,013
End of year	\$ 105,931,278	\$ -0-	\$ -0-	\$ 105,931,278

See report of independent auditors on pages 1 through 3.