



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013 AND 2012

HENRY COUNTY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Henry County Memorial Hospital
New Castle, Indiana

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Henry County Memorial Hospital (Hospital), a component unit of Henry County, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in net position, and cash flows for the years 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 audits. We did not audit the financial statements of Henry County Hospital Foundation (The Foundation), a blended component unit, which statements reflect total assets of approximately \$37.1 million and \$33.3 million as of December 31, 2013 and 2012, respectively, and total revenues of approximately \$3.6 million and \$3.7 million, respectively, for the years then ended. Also, we did not audit the financial statements of HCMH Diversified Management Corporation (DMC), a blended component unit, which statements reflect total assets of approximately \$4.2 million as of December 31, 2013 and 2012, respectively, and total revenues of approximately \$21.3 million and \$21.9 million, respectively, for the years then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for the Foundation and DMC, is based solely on the reports of the other auditors. We conducted our audits 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Board of Trustees
Henry County Memorial Hospital
New Castle, Indiana

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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, based on our audits and the reports of other auditors, 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 2012, and the results of its operations, changes in its net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Board of Trustees
Henry County Memorial Hospital
New Castle, Indiana

REPORT ON OTHER INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statement as a whole. The Other Information listed in the table of contents is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it 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 consolidating 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, which insofar as it relates to the Foundation and DMC, is based on the report of other auditors, the Other Information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

August 28, 2014
Indianapolis, Indiana

REQUIRED SUPPLEMENTARY INFORMATION

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

Management's discussion and analysis of Henry County Memorial Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2013. Please read it in conjunction with the Hospital's financial statements, which begin on page 4. As mentioned in Note 1, the financial statements include the Hospital, as well as Henry County Hospital Foundation, Inc. and HCMH Diversified Management Corporation (DMC), collectively referred to as the Hospital.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of a Balance Sheet, a Statement of Operations and Changes in Net Position, and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

THE BALANCE SHEET AND STATEMENT OF OPERATIONS 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 Balance Sheet and the Statement of Operations and Changes in Net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position – the difference between assets and liabilities - as 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 the financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service provided to the community, as well as local economic factors to assess the overall health of the Hospital.

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net change 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?"

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheet on pages 4-5. The Hospital's net position increased by approximately \$11,900,000 or 16.9% from 2012 to 2013 and increased by approximately \$4,400,000 or 6.7% from 2011 to 2012 as you can see from Table 1.

Table 1: Assets, Deferred Outflows, Liabilities and Net position:

	2013	2012	2013-2012 Change	2011
Assets				
Current assets	\$ 43,402,719	\$ 25,759,593	\$ 17,643,126	\$ 19,885,159
Capital assets, net	32,886,921	34,554,662	(1,667,741)	35,839,053
Other investments and assets	46,821,184	42,699,952	4,121,232	42,605,651
Deferred outflows	150,124	168,316	(18,192)	186,508
Total assets and deferred outflows	<u>\$ 123,260,948</u>	<u>\$ 103,182,523</u>	<u>\$ 20,078,425</u>	<u>\$ 98,516,371</u>
Liabilities				
Current liabilities	\$ 21,366,414	\$ 12,520,902	\$ 8,845,512	\$ 11,583,546
Long term debt, net of current portion	19,078,742	19,912,384	(833,642)	20,798,430
Other long term liabilities	350,767	233,844	116,923	-0-
Total liabilities	<u>\$ 40,795,923</u>	<u>\$ 32,667,130</u>	<u>\$ 8,128,793</u>	<u>\$ 32,381,976</u>
Net position				
Invested in capital assets, net of related debt	\$ 12,580,786	\$ 13,530,640	\$ (949,854)	\$ 13,992,961
Internally designated	17,906,702	15,633,512	2,273,190	14,707,012
Held by trustee	-0-	1,256,969	(1,256,969)	-0-
By donor - expendable - for capital acquisition	1,055,003	975,196	79,807	888,934
Unrestricted	50,922,534	39,119,076	11,803,458	36,545,488
Total net position	<u>\$ 82,465,025</u>	<u>\$ 70,515,393</u>	<u>\$ 11,949,632</u>	<u>\$ 66,134,395</u>

The increase in current assets relates primarily to net income during 2013 along with the continued expansion into long-term care. Changes in long term debt related to current year principal payments. The increase in current liabilities relates to the Hospital's continued expansion into long-term care.

It should also be noted that there was increase in total net position from 2011 to 2013 of approximately \$16.3 million or 24.7% showing the stability of the Hospital and its operations.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION AND CASH FLOWS

In 2013, the Hospital's operating income increased by approximately \$7,400,000 as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2013-2012 Change	2011
Operating revenues				
Net patient service revenues	\$ 140,174,823	\$ 98,168,981	\$ 42,005,842	\$ 86,251,468
Other operating revenues	4,605,635	4,505,443	100,192	4,105,637
Total operating revenues	<u>144,780,458</u>	<u>102,674,424</u>	<u>42,106,034</u>	<u>90,357,105</u>
Operating expenses				
Salaries and benefits	49,989,013	51,017,612	(1,028,599)	50,893,556
Medical supplies and drugs	15,009,084	13,886,902	1,122,182	13,247,683
Depreciation and amortization	5,204,985	5,193,885	11,100	4,931,659
Other operating expenses	67,307,839	32,731,589	34,576,250	20,087,531
Total operating expenses	<u>137,510,921</u>	<u>102,829,988</u>	<u>34,680,933</u>	<u>89,160,429</u>
Operating income (loss)	7,269,537	(155,564)	7,425,101	1,196,676
Non-operating revenues and expenses				
Investment income (loss)	4,858,501	4,451,702	406,799	(1,638,486)
Other non-operating revenues and expenses, net	(178,406)	84,860	(263,266)	46,298
Total non-operating revenues (expenses)	<u>4,680,095</u>	<u>4,536,562</u>	<u>143,533</u>	<u>(1,592,188)</u>
Change in net position	11,949,632	4,380,998	7,568,634	(395,512)
Net position beginning of year	<u>70,515,393</u>	<u>66,134,395</u>	<u>4,380,998</u>	<u>66,529,907</u>
Net position end of year	<u>\$ 82,465,025</u>	<u>\$ 70,515,393</u>	<u>\$ 11,949,632</u>	<u>\$ 66,134,395</u>

OPERATING INCOME

Declining volumes continue to negatively impact operating income, although the addition of nineteen long-term care facilities during 2013 substantially increased net patient service revenues. These facilities are leased and managed by various management organizations, which substantially increased other operating expenses during the year.

NONOPERATING INCOME

Nonoperating income was primarily driven by an increase in investment income, with a gain of approximately \$4.9 million in 2013 and approximately \$4.5 million in 2012. This can be attributed to the improvement in market performance from 2012 to 2013.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

Table 3: Hospital Cash Flows

	2013	2012	2013 - 2012 Change	2011
Cash flows from activities				
Operating	\$ 8,916,243	\$ 4,841,631	\$ 4,074,612	\$ 5,255,571
Noncapital financing	481,802	452,345	29,457	625,198
Capital and related financing	(5,090,950)	(5,347,007)	256,057	(2,377,539)
Investing	(394,195)	5,628,068	(6,022,263)	(6,023,194)
	<u>\$ 3,912,900</u>	<u>\$ 5,575,037</u>	<u>\$ (1,662,137)</u>	<u>\$ (2,519,964)</u>

In 2013, the Hospital continued to generate strong cash flows from operations with approximately \$8,900,000 generated in 2013 and approximately \$4,800,000 generated in 2012. Cash flows used in capital and related financing activities relate primarily to the purchase of property and equipment.

CAPITAL ASSETS

During 2013, the Hospital's net capital assets have decreased by approximately \$1,700,000. This compares to an decrease of approximately \$1,300,000 for 2012. The change in capital assets is outlined in the following table:

	2013	2012	2013-2012 Change	2011
Land and improvements	\$ 4,677,163	\$ 4,677,163	\$ -0-	\$ 4,699,518
Buildings and improvements	51,043,935	50,276,632	767,303	49,539,495
Equipment	50,832,109	49,760,232	1,071,877	45,788,004
Construction in progress	97,555	30,747	66,808	2,347,048
Total capital assets	<u>106,650,762</u>	<u>104,744,774</u>	<u>1,905,988</u>	<u>102,374,065</u>
Less accumulated depreciation	<u>73,763,841</u>	<u>70,190,112</u>	<u>3,573,729</u>	<u>66,535,012</u>
Capital assets, net	<u>\$ 32,886,921</u>	<u>\$ 34,554,662</u>	<u>\$ (1,667,741)</u>	<u>\$ 35,839,053</u>

Net capital assets have decreased as depreciation has outpaced capital additions. The Hospital continually evaluates facilities and equipment to ensure that everything is upgraded as necessary.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

DEBT

The Hospital has the following debt outstanding which approximates \$20,300,000 as of December 31, 2013:

- 2009 tax-exempt revenue bonds
- 2012 tax-exempt revenue bonds
- Capital lease obligations

More detailed information about the Hospital's long-term debt is presented in the Notes to the Consolidated Financial Statements.

BAD DEBT AND CHARITY CARE

Bad debt decreased during 2013 due to better collection experience during fiscal year along with increased productivity on the Soarian accounts receivable system. Charity care has been fairly stable since 2010 due to the success of ClaimAid in helping eligible patients receive Medicaid coverage.

	<u>Bad Debt</u>	<u>Charity</u>	<u>Total</u>	<u>% Chg</u>
2010	\$8,119,921	\$3,174,101	\$11,294,022	
2011	\$9,259,576	\$3,432,942	\$12,692,518	12.38%
2012	\$10,008,823	\$3,489,418	\$13,498,241	6.35%
2013	\$8,195,281	\$3,407,242	\$11,602,523	-14.04%

STRATEGIC PLANNING –HEALTH CARE REFORM PREPARATION

In 2013, the Hospital continued to implement strategic initiatives and prepare for healthcare reform changes including the Curve 2 move from fee-for-service payment to payments based on outcomes and quality.

Physician leadership, advisement, and engagement are essential for the Hospital's future success. Physician engagement has been expanded to include a High Performance Medical Group (HPMG) in addition to the Leadership Cabinet.

The HPMG creates a forum to better engage physicians from Henry County Hospital Medical Group to help the Hospital successfully meet the challenges faced with healthcare reform and the need to better integrate inpatient and outpatient care. Physicians have been engaged and are providing good insight and feedback through discussions on various issues facing the Hospital and their practices.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

The Leadership Cabinet includes physicians from the HPMG Executive Committee and physician representatives from radiology, Emergency Department, hospitalists, cardiology, and anesthesiology. This group meets twice a year with administration and the Hospital's Board of Trustees to help determine the Hospital's strategic direction for the upcoming year.

For the second year in a row, the Hospital met Centers for Medicare & Medicaid Services (CMS) guidelines for 30-day readmissions. CMS could have penalized the Hospital up to 2% of Medicare reimbursement for failing to meet CMS standards. This could have meant a loss of up to \$400,000 for Federal Fiscal Year (FY) 2014. The Hospital was one of only 47 Indiana hospitals with no penalties for FY2014 and one of only 38 Indiana hospitals with no penalties for both FY2013 and FY2014. Under the Accountable Care Act, the maximum penalty will increase to 3% by 2015 and expand to include readmissions for other medical conditions.

The Hospital also met and exceeded the benchmark for the CMS Value Based Purchasing program for the second year in a row. The 1.25% CMS withheld from the Hospital's Medicare payments for Fiscal Year 2013 was returned and the Hospital received an additional \$30,000 because their score was higher than both the Indiana and national scores.

Computerized Provider Order Entry (CPOE) was implemented on the Women and Children's Unit. When CPOE is implemented in January 2014 in the Intensive Cardiac Care Unit and the Progressive Care Unit, all inpatient units and the Emergency Department will utilize CPOE. Ambulatory Care and Recovery Room also plan to go live with CPOE in January 2014.

In the 1st quarter of 2014, the Hospital will implement a Patient Portal which allows patients to create a comprehensive Personal Health record, request prescription refills online and receive lab, diagnostic test results and a discharge summary of their visit. Patients also will be able to send secure messages to their provider. This is an important step in engaging patients in their own healthcare, enhancing patient safety and meeting federal regulations for Stage 2 Meaningful Use.

Improving care and patient outcomes cannot be accomplished without the active engagement of patients and improved care coordination. An RN Case Manager position was added at New Castle Family & Internal Medicine to better coordinate care, increase patient engagement in their own care and reduce readmissions.

The Hospital is seeing aggressive inroads into its community by Indianapolis and Richmond based health systems. Both systems have either opened or are planning to open offices in New Castle to provide cardiology and potentially other services.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

The Hospital is a member of an Accountable Care Consortium (ACC) with St. Vincent Health, Community Health Systems and Suburban Health Organization hospitals. The ACC partners have a shared vision of redesigning healthcare to create a healthier community, improve healthcare quality and lower healthcare costs through contracting with payors and large employers.

The problems associated with the roll-out of the Affordable Care Act's Marketplace hindered the Hospital's ability to help enroll local residents without health insurance in a Marketplace plan. A renewed enrollment campaign is planned for 1st Quarter 2014 to publicize the benefits and encourage enrollment. The Hospital's ClaimAid staff is available to provide enrollment assistance.

In addition to working to increase volumes, the Hospital addressed the impact of declining volumes through operational initiatives including low census days for staff, managing expenses to volumes and outsourcing the Laundry Department.

Hospital volumes continued to decline in 2013 with the exception of newborn deliveries, physical therapy, home health and hospice visits. This decline was not limited to the Hospital as significant layoffs were made by the major Indianapolis health systems due to their declining hospital volumes.

Volume changes for the Hospital for 2013 and 2012 are as follows:

Service	Volume Change 2012-2013	Volume Change 2011-2012
Admissions (excluding newborns)	-14.3%	-7.3%
Emergency department visits	-8.3%	-0.3%
Outpatient registrations	-11.4%	-5.8%
Deliveries	9.9%	-5.4%
Inpatient surgeries	-14.3%	-3.7%
Outpatient surgeries	-20.1%	-0.6%
Computed tomography (CT) scans	-9.4%	-17.0%
Nuclear scans	-20.6%	-22.2%
Magnetic resonance imaging (MRI) scans	-3.8%	1.7%
Mammography procedures	-2.1%	-13.1%
Home health visits	3.5%	2.2%
Hospice visits	20.9%	31.5%
Sleep center visits	-2.3%	-7.5%
Physical therapy visits	2.7%	-2.0%

ENGAGING STAFF

An engaged staff is critical to meeting expectations of quality, patient satisfaction, efficiency and financial performance.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

The 2013 Performance Scorecard and Employee Incentive Bonus can provide staff up to a 3% bonus if all criteria are met in four categories: Finance/Growth, People, Service/Guest Satisfaction and Quality.

The operating profit goal must be met for any bonuses to be awarded. The full-time equivalent (FTE) per adjusted bed goal was not met as the Hospital was not able to respond quickly enough to declining volumes. The Service/Guest Satisfaction goals were met and showed significant improvement over the year. All but two quality goals were met. There was one reportable patient safety event. The Hospital did not meet the goal of a 5% overall readmission rate. However, this was a lofty "stretch" goal and significant progress was made.

A modified employee evaluation system began in 2013 to identify staff whose performance and behaviors needed to improve in order to remain in that position. This new evaluation system provided positive results and will continue in 2014.

Chief Executive Officer (CEO) Briefings are held by the Hospital's CEO for directors, supervisors and hourly employee representatives of all Hospital departments and Medical Group offices. Topics include decisions by the Board of Trustees, financial and volume updates and Henry County Hospital (HCH) initiatives such as healthcare reform, quality, guest satisfaction and growth.

The Hospital's Service Excellence Coordinator initiated a customer service refresher training course for current staff. All new staff also will participate in this training. An employee recognition program will begin in 2014 to recognize superior staff achievements.

HENRY COUNTY HOSPITAL MEDICAL GROUP

Physicians from the Henry County Hospital Medical Group (HCHMG) are actively engaged in working together and with the Hospital to meet healthcare reform challenges and the move to Curve 2. HCHMG serves as a forum to better engage physicians from the Group.

The HCHMG Executive Council meets quarterly and includes a physician chair and representatives from primary care and specialty physicians. They focus on many of the specialty groups' topics particularly in areas where there are overlaps with primary and specialty care and a common approach is needed. The HCHMG Primary Care Group and the HCHMG Specialty Group each meet bi-monthly and focus on operations, patient satisfaction, Clinician & Group-Consumer Assessment of Healthcare Providers and Systems (CG-CAHPS), quality, access, growth strategies and recruitment.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

It is imperative the Hospital and physician practices are equally engaged and aligned on key initiatives. A Physician Performance Scorecard and Incentive bonus plan has been created similar to the one used for Hospital employees. The Physician Scorecard includes measurements in four categories: Finance/Growth, Service/Guest Satisfaction, Quality and Alignment Initiatives such as meeting Meaningful Use Stage 2.

In 2013, there was modest growth in Relative Value Unit (RVU) volumes for the pediatrics, ob/gyn and orthopedic surgery practices within the Group. Volumes were down slightly for the walk-in care, general surgery and cardiology practices.

Due to the retirement of an internist, RVU's for family and internal medicine were down more significantly. The drop in volume for family/internal medicine also is related to the growth of HealthLink, the Hospital's employer based clinic for four Henry County employers and Henry County Hospital. Many current HealthLink patients have transferred their care to HealthLink from the Hospital's family and internal medicine practices.

Professional Research Consultants, Inc. (PRC), a national research company, conducts patient satisfaction surveys for all primary care and surgical practices including physicians, nurse practitioners and physician assistants. Processes are developed to analyze the results and work on improvement initiatives. The practices are using the CG-CAHPS survey to begin preparing for the time when physician practice patient surveys will become mandatory and potentially linked to reimbursement.

HCHMG includes providers in 14 specialties including allergy/immunology, anesthesiology, family medicine, infectious disease, internal medicine, obstetrics/gynecology, orthopedics, physiatry, pain management, general surgery, hospice, pediatrics and radiology.

Physician extenders are actively used in family medicine, obstetrics/gynecology, pediatrics, anesthesiology, walk-in care, employer clinics and orthopedics/physiatry. The Group anticipates further expanding their use in order to accommodate the expected patient increase as more people become insured under healthcare reform requirements. Health coaches are used in the two employer clinics sponsored by the Hospital to encourage patient engagement in their own healthcare and help with the move to population management. An RN Case Manager begins in 2014 at New Castle Family & Internal Medicine to extend and coordinate care for patients with diabetes and potentially other chronic conditions.

Implementation of Televox automated patient appointment reminders and Lean Education Academic Network efforts continue to improve staff efficiency.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

PROVIDER RECRUITMENT

Provider recruitment encompasses physicians, nurse practitioners, physician assistants and CRNA's. While the major effort is to fill positions in Henry County Hospital Medical Group (the Group), adding providers in specialties not provided by the Group is an important recruitment component.

In 2013 a new physician was recruited for the Group who is board certified in internal medicine, allergy/immunology and infectious disease.

Merritt Hawkins and Suburban Health Organization are assisting in recruiting new primary care providers and a pediatrician. Efforts to recruit a new internal medicine physician are proving difficult because most internal medicine residents choose to go into a subspecialty or pursue a hospitalist career.

DIVERSIFIED MANAGEMENT COMPANY

Diversified Management Corporation (DMC), the for-profit company that includes Diversified Laboratories and the surgery, orthopedics, ob/gyn and internal medicine practices, will merge with the Hospital in 2014. All providers and staff employed by DMC will become Hospital employees effective with the first pay in 2014. This decision was made due to the cost savings associated with combining the two companies into one entity under the Hospital umbrella and benefit package.

COMMUNITY HEALTH NEEDS ASSESSMENT

The Hospital conducted a Community Health Needs Assessment (CHNA) in 2013. PRC, a national research company, conducted the CHNA which included 700 telephone interviews with randomly selected Henry County residents.

After careful consideration by the Hospital's administrative team and discussions with community partners such as the Henry County Health Department and Interlocal Community Action Program (ICAP), the following areas will be addressed:

- Access to Health Services
 - Prescription Medication Affordability
 - Insurance Instability/Coverage
 - Emergency Department Utilization
- Cancer--female breast cancer death and cervical cancer screenings
- Diabetes
- Nutrition, Weight and Physical Activity
- Respiratory Diseases--deaths from pneumonia/influenza and chronic lower respiratory disease

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

- Tobacco Use--pregnant women

MARKETING AND EXPANDING SERVICES

Marketing continues to focus on enhanced brand development, marketing hospital services and physicians, community outreach and employee communications. A variety of communication vehicles and a Need A Doctor phone line are used to reach our target market areas in Henry County, northern Rush and western Wayne County. New websites for the Hospital and Henry County Hospital Medical Group will debut in March 2014.

In 2013, a Patient Liaison was hired to work with transferred patients to help ensure they are returned to the Hospital for any appropriate services needed after discharge from the tertiary facility. The Hospital anticipates this will help strengthen patient relationships and loyalty so patients will want to return to the community for all appropriate services available locally.

New services were added including hip arthroscopy which is only done at select centers. Several new urology procedures are now available locally including InterStim® Therapy for bladder control and Percutaneous Nephrolithotomy (PCNL) to surgically remove kidney stones that typically are larger than 2 centimeters in size or are hard stones.

Cardiology services were expanded to include Electrophysiology through electrophysiology consults and cardiology oversight for the device checks (ex. Pacemakers).

A Toshiba Aquilion Prime 80 slice scanner (upgradeable to a 160 slice) replaced the previous CT unit. The new CT scanner reduces radiation delivered to the patient. The patient table can hold up to 600 pounds and the gantry opening is 78 cm in diameter allowing the Hospital to care for larger patients.

The Sleep Center now offers home-based Sleep Studies in addition to studies at the Sleep Center at Forest Ridge Medical Pavilion. Home-based studies are a lower-cost alternative for patients whose insurance will not cover a study at the Sleep Center or who are concerned about their personal cost due to insurance co-pays and deductibles. Overnight Oximetry also is available for use at home. This test measures the patient's blood oxygen level throughout the night during sleep.

A new Telehealth program developed by Henry County Home Care will begin 1st Quarter 2014. The goal is to improve patients' overall health and help reduce Emergency Department visits and hospital admissions. The program will offer medication management, vital sign monitoring and a personal response system.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

NATIONAL RECOGNITION

Joint replacement care at the Hospital is in the top 10% in the nation as measured by lowest risk-adjusted complications according to Healthgrades, the nation's leading online resource that helps consumers search, compare and connect with physicians and hospitals. An extensive marketing and public relations campaign was developed to recognize this achievement.

Henry County not only performs at the highest 5-star level – it outperforms other hospitals in the nation in this condition, and as a result has been recognized with the 2014 Healthgrades Joint Replacement Excellence Award. A 5-star rating indicates that Henry County Hospital's clinical outcomes are better than expected when treating the condition or conducting the procedure being evaluated.

Other 5-star awards for Henry County Hospital include:

- Five-Star Recipient for Total Knee Replacement for 6 Years in a Row (2009-2014)
- Five-Star Recipient for Total Hip Replacement in 2014
- Five-Star Recipient for Hip Fracture Treatment for 6 Years in a Row (2009-2014)
- Five-Star Recipient for Treatment Respiratory Failure (2014)

For its analysis, Healthgrades evaluated hospital performance at over 4,500 hospitals nationwide from 2010 through 2012 including evaluating approximately 40 million Medicare patient records.

The Hospital was one of four Indiana hospitals (out of 43) recognized by the Indiana Hospital Association for decreasing Foley Catheter usage which is one of the leading causes of hospital-acquired infections. Foley catheter usage was decreased by 20% from 4th quarter 2012 to 3rd quarter 2013.

The Hospital received an "A" in the Spring 2013 Hospital Safety ScoreSM created by the Leapfrog Group. The Hospital was one of only 17 Indiana hospitals that received the "A" score. Out of 2,514 hospitals surveyed nationwide, only 780 received an "A" score.

SERVICE EXCELLENCE

For 2013, the Hospital achieved their goal to have 78% of surveyed patients rate the Hospital a 9-10 on the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) patient satisfaction surveys. This score was an improvement from 2012 when the Hospital's rating for this measure was 75.2%. Target patient satisfaction scores for Outpatient and Emergency Department surveys also exceeded the goals set for 2013 and were an improvement from 2012.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

Providing a positive patient experience always has been important to a hospital's reputation. With the advent of Value Based Purchasing (VBP), which incorporates HCAHPS patient experience of care scores into their overall ratings, inpatient experiences now directly affect financial performance either positively or negatively.

For Federal Fiscal Year 2014, that began October 1, 2013, the Hospital scored significantly higher than Indiana and national averages for their Value Based Purchasing scores which included inpatient experience of care (HCAHPS). Improving the patient experience is an ongoing and important process and competition among hospitals to have a high HCAHPS rating will continue to increase due to the financial implications of Value Based Purchasing.

In April, a Service Excellence Coordinator was hired with responsibility for overseeing and assisting with the Hospital's guest, employee and provider satisfaction programs. Other responsibilities include:

- Monitoring patient satisfaction reports--Press Ganey, HCAHPS and PRC
- Assisting directors in investigating, resolving and reporting patient feedback, comments, etc.
- Assisting with our Service Recovery program
- Serving as a communication link between physicians and guests and staff and guests
- Providing Service Excellence training for staff in the Hospital and physician offices

A number of initiatives are supporting the inpatient satisfaction achievements including:

- Quality, Safety and Patient Satisfaction Rounds by senior administration
- Bedside Reporting used on the Women's Care Unit, Intensive Care Unit, and Pain Control Unit to involve patients in their plan of care, improve patient safety and provide a better hand-off for nursing. It also can improve satisfaction as patients hear what is happening in their care and have an opportunity to ask questions.
- Implementing Quiet Zones and changing staffing patterns to reduce noise levels at night and allow patients to have more time of uninterrupted sleep.

Lab and Imaging made changes to improve satisfaction based on comments from patients. Inpatient lab draw hours were changed based on patient comments expressing dissatisfaction for early lab draws. Imaging registration processes were changed to minimize errors, shorten patient wait times and decrease the number of steps/stops patients make when coming in for an imaging study(s). Changes in the Emergency Department have reduced patient wait times for patients to be seen and admitted to the Hospital.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

CENTERS FOR MEDICARE & MEDICAID SERVICES (CMS) QUALITY MEASURES

The Hospital actively monitors and works to improve the CMS Process of Care measures for heart attack, heart failure, pneumonia, surgical procedures, elective deliveries and immunizations. High scores on these measures are particularly important because in Federal Fiscal Year 2014, that began October 1, 2013, they represented 45% of the Value Based Purchasing (VBP) score.

CMS implemented 11 new Outpatient-Emergency Department Throughput Measures for reporting during the 1st quarter of 2012. These measures are not part of VBP at this time, but are being reported in order to show process improvement. The Hospital has a goal to be within the 10th percentile of national Emergency Department performance.

The Performance Improvement Committee has an aggressive goal/threshold of 99% for CMS measures. During 4th quarter 2013, Health Care Excel posted an overall quality measures report and the Hospital's score was 100% which is an increase from 98.7% as previously reported. Periodically measures fail for appropriate reasons, as the measures cannot address all situations. Our low volumes also impact our ability to always meet the aggressive goal of 99%.

As the Hospital continues to look to the future and work to maintain high scores within the VBP initiative, we will incorporate new Outcome Measure results into performance improvement philosophy and processes. These new measures include: Mortality, Medicare Spending Per Beneficiary, Agency for Healthcare Research and Quality (AHRQ) Patient Safety Indicators (PSI) 90, Hospital Acquired Conditions and Hospital Acquired Infections.

PATIENT SAFETY

The Hospital is accredited by the Healthcare Facilities Accreditation Program. Indiana has an Adverse Event Reporting program and the Hospital had one reportable event in 2013.

The Event Management System has now been in place for six years. Events continue to be reported in each category. Overall, the Hospital had a decrease in events reported of approximately 26%. There was a significant decrease in one category: Testing/Treatment Events (70% decrease). This category has seen significant decreases the past two years, mainly due to a change in reporting requirements.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

The decrease in events reported in the Testing/Treatment category is primarily due to a decrease of Soarian order entry errors. There were only eight Soarian order entry errors entered in 2013 as opposed to 94 in 2012. These errors dropped dramatically as the responsibility of order entry was moved from the floor nurses to the lab and imaging departments. This category is no longer monitored through Quality Assessment/Performance Improvement because of the decreasing trend. It will continue to be monitored in the Patient Safety Committee for any change in trend.

Empirically proven bundles are used for prevention of ventilator associated pneumonia (VAP), central line bloodstream infections and Foley catheter urinary tract infections (UTI). No ventilator associated pneumonia or central line bloodstream infections occurred in 2013. Three catheter associated urinary tract infections were reported which was a decrease from the four reported in 2012.

The Hospital continues to stress early identification of patients at high risk for nosocomial pressure ulcers in order to assure proper use of redistribution surfaces, adherence to turning policies and nutritional evaluation and education if indicated. Patients with open areas also are included in wound care assessments. In 2013, two nosocomial pressure ulcers occurred, which included one reportable event. This was a decrease from 2012 when five nosocomial pressure ulcers occurred.

There was a decrease in the number of inpatient falls--22 in 2013 compared to 31 in 2012. Although this is a 29% decrease, patient days were lower in 2013, so the actual decrease in fall rate was approximately 18%. In 2012, the fall rate was 2.75 falls/1000 patient days and in 2013 the inpatient fall rate was 2.28 falls/1000 patient days. Twenty inpatient falls occurred on the Progressive Care Unit and two occurred in the Women and Children's Unit.

Overall, all categories of patient falls saw a significant decrease in 2013 with 49 falls reported compared to 69 falls reported in 2012. Of the 49 falls reported, 24 resulted in minor injury and 25 resulted in no injury. No falls resulted in major injury. There were five falls in the Emergency Department and five falls in outpatient physical therapy.

The Hospital continues to evaluate fall assessment and fall protocols. In 2013, the Fall Committee added representatives from additional departments. The committee is now represented by Lean members, nursing staff/patient care staff from inpatient and outpatient departments, the risk manager, and the service excellence coordinator. This committee now reports through the Patient Safety Committee and meets monthly to identify trends and areas for improvement. The Committee worked closely with the representative from the Emergency Department to implement a Fall Protocol Process in the ED which will be implemented 1st Quarter 2014. A focus of the group continues to be hourly rounding, as most patients fall when needing to use the restroom.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

All hospital staff and department directors received education through a Computer Based Learning (CBL) module regarding the expectation when it comes to incident reporting and management investigations.

Through Suburban Health Organization (SHO), the Hospital participated in a Surgical Department Risk Assessment and identified areas for improvement. The Hospital continues to work with SHO and other SHO hospitals to make changes in these categories and subcategories to track and trend events more easily in order to make effective and necessary protocol changes.

Directors continue to work closely with their staff on management investigations to ensure all staff understand and follow proper procedures and protocols. Educational information regarding patient safety and error prevention is provided to medical staff, department directors, and all other staff when available. Just-in-time education is provided to staff as part of corrective action for individual incidents.

The Patient Safety Committee reviews all patient events to identify trends within particular categories or departments and to discuss any needed actions. These findings are provided to Department Directors who share this information with their staff to keep them informed and educated on efforts to improve patient safety.

Medication errors are reported through the Pharmacy and Therapeutics section of the Medical Review Committee. Nursing staff were required to complete a CBL module on hospital policies regarding high alert medication and double checks.

Clinical case review is done through Medical Staff Department meetings. Information regarding Medical Staff protocols is discussed, and recommendations are made at the Performance Improvement Committee (PI). Reports are sent from PI on to the Joint Conference Committee. This is an effective method of communicating information and involves leadership in correcting processes that are identified as needing improvement.

COMMUNITY BENEFITS

In addition to charity care provided, the Hospital provides additional community benefits. The Hospital offers health education programs including childbirth classes, diabetes classes, smoking cessation and stress management. The Hospital also participates in a number of community initiatives including community and employer health fairs. Over 500 women attended the sixth Affairs of the Heart program designed to educate women about their risk for heart disease and preventative measures they can take. Parish Nurse programs are held to encourage the growth of Parish Nursing in local churches.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

Henry County Sports Medicine provides low-cost game coverage, injury checks and performance enhancement programs for area high schools. The Hospital and its staff support area agencies such as Interlocal Community Action Program Women's Health Clinic, Henry County Wellness Council, Henry County Alliance and Henry County Healthy Communities. Other sponsorships include Relay for Life, Summit Lake Triathlon, New Castle Mini-Marathon, Red Ribbon Rush for Breast Cancer and the Turkey Trot 5K and 10K.

SCHOLARSHIPS AND TEACHING HOSPITAL

The Hospital serves as a clinical site for Ivy Tech State College's two-year RN program in New Castle and provides financial assistance to the program through the Henry County Hospital Foundation. In 2013, an Ivy Tech pharmacy technician student, a surgical technician student and four respiratory therapy students interned at the Hospital. A Butler University pharmacy student also interned at the Hospital. The Hospital also is an integral part of the Health Career Programs for high school students sponsored by New Castle Area Career Programs.

The Henry County Hospital Foundation offers a variety of scholarships for students interested in a health care career. They are available for high school seniors as well as for adults who are pursuing a new or second career in health care. In the last nine years, 193 nursing and other health care scholarships worth \$278,645 have been awarded from proceeds from the Hospital's annual Gala, donations from the Henry County Hospital Auxiliary and endowments established by Sylvira Flanagan Koons, Alice Catherine Ratcliffe, LaVaughn Bailey, Gordon Sparks, Lynn Bowers MD Patient Hero and Ralph Bunner.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide fiscal reporting to patients, county residents, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Controller at Henry County Hospital, 1000 North 16th Street, New Castle, Indiana 47362.

HENRY COUNTY HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2013 AND 2012

ASSETS AND DEFERRED OUTFLOWS

	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents	\$ 14,864,346	\$ 9,766,279
Patient accounts receivable, net of estimated allowance for uncollectible accounts of approximately \$7,600,000 in 2013 and \$7,700,000 in 2012	20,603,917	11,258,213
Supplies and other current assets	6,240,142	3,462,874
Due from related parties	522,766	213,445
Current portion of assets whose use is limited	<u>1,171,548</u>	<u>1,058,782</u>
Total current assets	43,402,719	25,759,593
Investments	22,399,837	19,429,763
Assets whose use is limited		
Internally designated	17,906,702	15,633,512
Held by trustee	-0-	1,256,969
By donor - expendable - for capital acquisition	<u>1,055,003</u>	<u>975,196</u>
	18,961,705	17,865,677
Less current portion	<u>1,171,548</u>	<u>1,058,782</u>
Total assets whose use is limited	17,790,157	16,806,895
Capital assets, net	32,886,921	34,554,662
Other assets	6,631,190	6,463,294
Total assets	<u>123,110,824</u>	<u>103,014,207</u>
Deferred outflows	150,124	168,316
Total assets and deferred outflows	<u><u>\$ 123,260,948</u></u>	<u><u>\$ 103,182,523</u></u>

See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2013 AND 2012

LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
Current liabilities		
Current portion of long-term debt	\$ 1,227,393	\$ 1,111,638
Accounts payable and accrued expenses	15,153,337	5,507,169
Accrued wages and related liabilities	3,942,322	3,943,720
Estimated third-party settlements	1,043,362	1,958,375
Total current liabilities	<u>21,366,414</u>	<u>12,520,902</u>
Other long-term liabilities	350,767	233,844
Long-term debt, net of current portion	<u>19,078,742</u>	<u>19,912,384</u>
Total liabilities	40,795,923	32,667,130
Net position		
Unrestricted	50,922,534	39,119,076
Invested in capital assets, net of related debt	12,580,786	13,530,640
Internally designated - funded depreciation	17,906,702	15,633,512
Restricted		
Held by trustee	-0-	1,256,969
By donor - expendable - for capital acquisition	1,055,003	975,196
Total net position	<u>82,465,025</u>	<u>70,515,393</u>
Total liabilities and net position	<u>\$ 123,260,948</u>	<u>\$ 103,182,523</u>

See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating revenue		
Net patient service revenue	\$ 140,174,823	\$ 98,168,981
Other revenue	4,605,635	4,505,443
Total revenue	<u>144,780,458</u>	<u>102,674,424</u>
Operating expenses		
Salaries and benefits	49,989,013	51,017,612
Medical professional fees	3,728,571	3,583,132
Purchased services	37,069,213	15,286,425
Medical supplies and drugs	15,009,084	13,886,902
Other supplies	4,058,190	1,540,805
Depreciation and amortization	5,204,985	5,193,885
Utilities	2,699,076	1,768,873
Rent	6,266,073	2,293,548
Hospital assessment fee	3,947,920	4,372,303
Other	9,538,796	3,886,503
Total expenses	<u>137,510,921</u>	<u>102,829,988</u>
Operating income (loss)	7,269,537	(155,564)
Nonoperating income (expense)		
Investment income	4,858,501	4,451,702
Interest expense	(748,846)	(546,517)
Other nonoperating	570,440	631,377
Total nonoperating income (expense)	<u>4,680,095</u>	<u>4,536,562</u>
Change in net position	11,949,632	4,380,998
Net position		
Beginning of year	70,515,393	66,134,395
End of year	<u>\$ 82,465,025</u>	<u>\$ 70,515,393</u>

See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash flows from operating activities		
Cash received from patients and third party payors	\$ 125,966,186	\$ 94,068,548
Cash paid to employees for wages and benefits	(49,990,411)	(51,134,821)
Cash paid to vendors for goods and services	(71,943,224)	(42,693,794)
Other operating receipts, net	4,883,692	4,601,698
Net cash flows from operating activities	8,916,243	4,841,631
Cash flows from noncapital financing activities		
Other nonoperating	481,802	452,345
Net cash flows from noncapital financing activities	481,802	452,345
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(3,131,589)	(3,572,147)
Loss on disposal of property and equipment	39,657	315
Proceeds from sale of property and equipment	86,459	705
Interest on long-term debt	(842,590)	(697,071)
Payments for 2012 bond issuance costs	-0-	(64,139)
Proceeds from issuance of long-term debt	-0-	5,589,189
Principal payments on long-term debt	(1,242,887)	(6,603,859)
Net cash flows from capital and related financing activities	(5,090,950)	(5,347,007)
Cash flows from investing activities		
Investment income	5,040,883	4,797,962
Change in other assets, net	(195,230)	390,403
Purchases of investments in assets whose use is limited - internally designated, held by trustee, and investments	(12,250,830)	(9,800,986)
Proceeds from sale of investments in assets whose use is limited - internally designated, held by trustee and investments	7,090,789	10,326,951
Change in assets whose use is limited - restricted by donor, net	(79,807)	(86,262)
Net cash flows from investing activities	(394,195)	5,628,068
Net change in cash and cash equivalents	3,912,900	5,575,037
Cash and cash equivalents		
Beginning of year	11,243,838	5,668,801
End of year	\$ 15,156,738	\$ 11,243,838

See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	\$ 7,269,537	\$ (155,564)
Adjustment to reconcile operating income (loss) to net cash flows from operating activities		
Depreciation and amortization	5,204,985	5,139,261
Bad debts	8,195,281	10,008,823
Changes in assets and liabilities		
Patient accounts receivable	(17,540,985)	(9,749,931)
Supplies and other current assets	(2,777,268)	(1,388,836)
Accounts payable and accrued expenses	9,364,181	858,265
Accrued salaries and related liabilities	(1,398)	(117,209)
Other long-term liabilities	116,923	233,844
Estimated third-party settlements	(915,013)	12,978
Net cash flows from operating activities	<u>\$ 8,916,243</u>	<u>\$ 4,841,631</u>
 Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 14,864,346	\$ 9,766,279
In assets whose use is limited - internally designated	292,392	1,477,559
Total cash and cash equivalents	<u>\$ 15,156,738</u>	<u>\$ 11,243,838</u>
 Supplemental cash flows information		
Property acquired through capital lease obligations	\$ 525,000	\$ 192,600

See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Henry County Memorial Hospital d/b/a Henry County Hospital (the Hospital) is a county owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient healthcare.

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

On June 7, 1976, the Board of County Commissioners of Henry County, upon written request of the Henry County Hospital Board of Trustees created the Henry County Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital. The Association has no assets, no liabilities and conducts no operations.

Pursuant to the provision of long-term care, the Hospital owns the operations of twenty-one 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. 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.

During 2012 and 2013, the Hospital 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 will pay 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 quarterly incentive payments. The agreements expire at various times through December 31, 2016. 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. The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Blended Component Units

Henry County Hospital Foundation, Inc. (the Foundation) is a significant component unit of the Hospital. The Hospital appoints a voting majority of the Foundation's Board of Directors and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

The activities of the Foundation may include capital improvements, educational programs, medical related research and initial capital for experimental health services related to the principal purpose of the Hospital. The Foundation also manages investments and rental property, provides equipment, grants scholarships for health careers, conducts physician recruitment and other medical programs as directed under the terms of a contract with the Hospital. The Foundation's separate audited financial statements can be obtained by contacting the Foundation.

HCMH Diversified Management Corporation (DMC) is a significant component unit of the Hospital. The Hospital is the sole shareholder and appoints DMC's Board of Directors and is able to impose its will. Although it is legally separate from the Hospital, DMC is reported as if it were a part of the Hospital because the two Boards of Directors/Trustees are substantially the same.

DMC provides laboratory services to the patients of New Castle Family & Internal Medicine, nursing homes, employees of the Hospital, physicians and veterinarians in the surrounding area. The performance of tests on the specimens collected by DMC is purchased from the Hospital. DMC also provides pharmacy services to the surrounding communities. DMC's separate audited financial statements can be obtained by directly contacting DMC.

DMC owns New Castle Clinic, Inc., which operates a physician group practice. DMC's results within these financials include those of the Clinic for the years ended December 31, 2013 and 2012.

All intercompany accounts and transactions have been eliminated.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Supplies and Other Current Assets

Supplies and other current assets consist primarily of drugs, medical supplies, and prepaid expenses.

Enterprise Fund Accounting

The Hospital uses 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.

Cash and Cash Equivalents

Cash and cash equivalents include all cash held in checking, savings and money market accounts available for operating purposes with original maturity dates of 90 days 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.

Other Long-Term Liabilities

Other long-term liabilities consist of the deferred liability for the salary continuation plan for a key employee that is due in over one year.

Patient Accounts Receivable, Net and Net Patient Service Revenue

Patient service revenue and patient accounts receivable are recorded at the net realizable amounts based on established charges when the patient service is rendered. The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges and per diem payments. Charges for services to patients are primarily based on the patients' ability to pay.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Patient accounts receivable are reduced by an allowance for uncollectible accounts based on the Hospital's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to its service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary. For receivables associated with self-pay payments the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

During 2013, the Hospital's allowance for uncollectible accounts changed from approximately \$7,700,000 to \$7,600,000. As of December 31, 2013, the allowance for uncollectible accounts of \$7,600,000 was comprised of approximately \$7,000,000 reserved for self-pay balances and \$600,000 reserved for third-party payor balances. As of December 31, 2012, the allowance for uncollectible accounts of \$7,700,000 was comprised of \$7,200,000 reserved for self-pay balances and \$500,000 reserved for third-party payor balances.

The Hospital did not recognize a change in net position in 2013 and 2012 due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

Net revenues from Medicare and Medicaid programs accounted for approximately 27 percent and 30 percent for the year ended 2013 and 30 percent and 7 percent for the year ended 2012. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount.

Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Assets Whose Use Is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments internally designated by the Hospital Board for acquisition of property and equipment and debt service and donor restricted funds. These investments consist primarily of certificates of deposit, cash and cash equivalents, mutual funds, equities, and corporate bonds. Investment income is reported as nonoperating income in the consolidated statements of operations and changes in net position.

Capital Assets

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities, which exceed \$1,000 and meet certain useful life thresholds. Contributed capital assets are reported at their estimated fair market value at the time of their donation. Maintenance, repairs and minor renewals are expensed as incurred.

All capital assets, other than land, are depreciated using the straight-line method of depreciation using these asset lives:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	5 - 30 years
Buildings and fixed equipment	3 - 50 years
Major Movable equipment	3 - 20 years

Other Assets

Other assets consist primarily of investments in affiliates and the value of the split dollar life insurance policy on a key employee. See footnotes 10 and 14 for further information.

Grants and Contributions

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

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Restricted Resources

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

Accounting Standards

The Hospital has implemented GASB 65, *Items Previously Reported as Assets and Liabilities*, which primarily resulted in the reclassification of the deferred loss on bond refundings (the difference between the reacquisition price and net carrying amount of the old debt) from a contra-liability account component of long-term debt to a deferred outflow and the subsequent write-off of prior debt issuance costs. As a result, the 2012 financial statements have been retroactively restated to address the full implementation, including a decrease in net position of approximately \$160,000 as of January 1, 2012 and \$170,000 as of December 31, 2012, the effects of which are immaterial to the financial statements taken as whole for further disclosure.

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 note 16 to the financial statements, the Hospital adopted GASB Statement No. 61 which requires reporting condensed combining information in the notes to the financial statements for blended component units of primary governments that are business-type activities.

Hospital Assessment Fee Program

During 2012, Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by Centers for Medicare & Medicaid Services retroactive to July 1, 2011. Subsequently, the program has been extended and approved for a multi-year period. 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 as reflected in the HAF Program expense reported in the consolidated statements of operations and changes in net position.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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 and 2012, the Hospital recognized HAF Program expense of approximately \$3,950,000 and \$4,370,000 respectively, which resulted in increased Medicaid reimbursement.

Operating Revenues and Expenses

The Hospital's statement of operations 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. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Position

Net position of the Hospital is classified in various components. Net position - net investment in capital assets consists of 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. Restricted net position consists of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Internally designated net position consists of amounts internally designated by the board of directors. Unrestricted net position is the remaining net position that does not meet the definition of net invested in capital assets, internally designated, or restricted net position.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Compensated Absences

Regular employees of the Hospital earn paid days off (PDO) at rates of twenty-three days to thirty-nine days per year, based on the length of continuous employment and regular hours worked. PDO is adjusted proportionately to hours worked for employees working less than full time. No limit exists on the amount of PDO that may be accumulated. Accrued PDO is paid to employees who resign, giving a two-week notice or in the event of death. All employees may elect to be paid for PDO accumulated in excess of ten days. This option is available twice during the calendar year. The Hospital tracks the PDO accrual on a bi-weekly basis computed on the hourly rate and PDO balance per employee, and the financial statements recognize this liability. Accumulated PDO is reported as a current liability in the amount of \$1,620,616 and \$1,640,341 for 2013 and 2012, respectively.

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports.

The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2013 and 2012, the Hospital recognized approximately \$87,000 and \$2,515,000, respectively, in EHR incentive payments as grant income using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

EHR incentive income is included in other revenue in the consolidated statements of operations and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized during either 2013 or 2012.

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 of 1986 as a not-for-profit organization under Section 501(c)(3). As a governmental entity, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

The Foundation is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. The Foundation 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).

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

DMC is a for-profit organization incorporated in 1985 and the sole shareholder is the Hospital. DMC 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 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).

DMC has federal net operating loss carry forwards of approximately \$24,009,500, and a similar amount for state income taxes as of December 31, 2013, available to reduce future taxable income. Including valuation allowances, DMC has a net deferred tax asset of \$-0- for 2013 and 2012. These federal and state carry forwards begin to expire in 2023. The valuation allowance is established to reduce the deferred tax asset to the amount expected to be realized when it is more likely than not that all or some portion of the deferred tax asset will not be realized.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital, Foundation, and DMC and recognize a tax liability if these organizations have 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 these organizations, and has concluded that as of December 31, 2013 and 2012, 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. The Foundation and DMC are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care charges provided during 2013 and 2012 were approximately \$3,407,000 and \$3,489,000, respectively.

Of the Hospital's total expenses reported, an estimated \$1,920,000 and \$1,730,000, at cost, arose from providing services to charity patients during the years ended December 31, 2013 and December 31, 2012, respectively.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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 total expenses (including interest expense) divided by gross patient service revenue.

Litigation

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

Reclassifications

Certain amounts from 2012 have been reclassified in order to conform to the 2013 presentation.

Investment in Affiliate

The Hospital has an equity interest in a joint venture. This investment is recorded on the equity method of accounting in the Hospital's consolidated financial statements. The total equity interest in this joint venture was \$1,333,411 and 1,629,878 as of December 31, 2013 and 2012. This balance is included within other assets on the consolidated statement of financial position. See footnote 14 for further information.

Subsequent Events

The Hospital evaluates 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 August 28, 2014.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

2. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 24,658,968	\$ 24,880,968
Receivable from Medicare	6,053,924	4,824,086
Receivable from Medicaid	10,243,653	6,217,994
Total patient accounts receivable	<u>40,956,545</u>	<u>35,923,048</u>
Less contractual allowances	(12,718,421)	(16,937,842)
Less allowance for uncollectible amounts	(7,634,207)	(7,726,993)
Patient accounts receivable, net	<u>\$ 20,603,917</u>	<u>\$ 11,258,213</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 3,437,139	\$ 3,234,532
Payable to suppliers	15,153,337	5,507,169
Accrued employee health benefit claims	505,183	709,188
Total accounts payable and accrued expenses	<u>\$ 19,095,659</u>	<u>\$ 9,450,889</u>

3. ASSETS WHOSE USE IS LIMITED

Assets that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited at December 31 is as follows:

	<u>2013</u>	<u>2012</u>
Board designated		
Funded depreciation		
Investments	\$ 17,614,310	\$ 14,155,953
Cash and cash equivalents	292,392	1,477,559
Held by trustee		
Cash and cash equivalents	-0-	1,256,969
Donor restricted assets		
Investments	<u>1,055,003</u>	<u>975,196</u>
Total assets limited to use	<u>\$ 18,961,705</u>	<u>\$ 17,865,677</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

4. 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 Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents, mutual funds and equities.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2013 and 2012, 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.

December 31, 2013					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 35,695,158	\$ 35,695,158	\$ -0-	\$ -0-	\$ -0-
Equities	5,340,345	5,340,345	-0-	-0-	-0-
Money market funds	326,039	326,039	-0-	-0-	-0-
	\$ 41,361,542	\$ 41,361,542	\$ -0-	\$ -0-	\$ -0-

December 31, 2012					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 31,416,762	\$ 31,416,762	\$ -0-	\$ -0-	\$ -0-
Equities	4,174,241	4,174,241	-0-	-0-	-0-
Money market funds	1,704,437	1,704,437	-0-	-0-	-0-
	\$ 37,295,440	\$ 37,295,440	\$ -0-	\$ -0-	\$ -0-

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.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Concentration of credit risk - The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, 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 investments.

Deposits and investments consist of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Carrying amount		
Deposits	\$ 14,864,346	\$ 9,766,279
Investments	41,361,542	37,295,440
	<u>\$ 56,225,888</u>	<u>\$ 47,061,719</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 14,864,346	\$ 9,766,279
Investments	22,399,837	19,429,763
Internally designated	17,906,702	15,633,512
Held by trustee	-0-	1,256,969
By donor - expendable - for capital acquisition	1,055,003	975,196
	<u>\$ 56,225,888</u>	<u>\$ 47,061,719</u>

Investment income (loss) for 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Unrealized gains	\$ 3,381,027	\$ 1,252,558
Realized gains	515,041	2,441,784
Interest and dividends	962,433	757,360
Total investment income	<u>\$ 4,858,501</u>	<u>\$ 4,451,702</u>

5. 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.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

- 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.

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 and 2012:

- *Equity securities*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *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 net asset value (NAV) and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.
- *Money market funds*: Generally transact 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 the securities held in the fund.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 are as follows:

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & assets whose use is limited				
Mutual funds:				
Fixed income funds	\$ 4,257,049	\$ 4,257,049	\$ -0-	\$ -0-
Growth funds	14,723,592	14,723,592	-0-	-0-
Large blend funds	4,142,204	4,142,204	-0-	-0-
Index funds	5,516,311	5,516,311	-0-	-0-
International funds	7,056,002	7,056,002	-0-	-0-
Money market funds	326,039	-0-	326,039	-0-
Equities:				
Capital goods	204,485	204,485	-0-	-0-
Consumer	446,561	446,561	-0-	-0-
Energy	563,216	563,216	-0-	-0-
Financial	1,149,750	1,149,750	-0-	-0-
Healthcare	620,475	620,475	-0-	-0-
International	636,060	636,060	-0-	-0-
Materials	191,331	191,331	-0-	-0-
Utilities	13,244	13,244	-0-	-0-
Technology	893,404	893,404	-0-	-0-
Services	621,819	621,819	-0-	-0-
Total	\$ 41,361,542	\$ 41,035,503	\$ 326,039	\$ -0-

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 are as follows:

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & assets whose use is limited				
Mutual funds:				
Fixed income funds	\$ 4,205,443	\$ 4,205,443	\$ -0-	\$ -0-
Growth funds	10,461,928	10,461,928	-0-	-0-
Large blend funds	3,219,705	3,219,705	-0-	-0-
Index funds	5,921,773	5,921,773	-0-	-0-
International funds	7,607,913	7,607,913	-0-	-0-
Money market funds	1,704,437	-0-	1,704,437	-0-
Equities:				
Capital goods	162,708	162,708	-0-	-0-
Consumer	425,220	425,220	-0-	-0-
Energy	610,136	610,136	-0-	-0-
Financial	850,486	850,486	-0-	-0-
Healthcare	476,221	476,221	-0-	-0-
International	471,148	471,148	-0-	-0-
Materials	48,359	48,359	-0-	-0-
Utilities	3,460	3,460	-0-	-0-
Technology	582,500	582,500	-0-	-0-
Services	544,003	544,003	-0-	-0-
	<u>\$ 37,295,440</u>	<u>\$ 35,591,003</u>	<u>\$ 1,704,437</u>	<u>\$ -0-</u>

The Hospital's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no significant transfers between levels during 2013 and 2012.

The market value of investments exceeded the cost by approximately \$4,300,000 and \$900,000 as of December 31, 2013 and 2012, respectively. The unrealized gains are included in earnings for the period attributable to the change in unrealized gains relating to assets held as of December 31, 2013 and 2012. During 2013 and 2012, the Hospital recognized unrealized gains of approximately \$3,400,000 and \$1,300,000, respectively, which is included in the consolidated statements of operations and changes in net position as a component of investment income.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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

Long-term debt. The fair value of the Hospital's variable rate debt is based on current traded value. The carrying value of loans payable and capital lease obligations approximates fair value based on the variable nature of its primary debt and current fixed rates available to similar entities with similar credit ratings.

6. CAPITAL ASSETS

A summary of capital assets, including assets under capital leases, as of December 31, 2013 and 2012, follows:

	Balance December 31, 2012	Additions	Retirements	Transfers	Balance December 31, 2013
Land	\$ 2,448,234	\$ -0-	\$ -0-	\$ -0-	\$ 2,448,234
Land improvements	2,228,929	-0-	-0-	-0-	2,228,929
Buildings and improvements	50,276,632	658,313	-0-	108,990	51,043,935
Fixed equipment	15,255,024	894,424	(1,006,907)	-0-	15,142,541
Major equipment	34,505,208	1,834,337	(649,977)	-0-	35,689,568
Construction in progress	30,747	269,515	(93,717)	(108,990)	97,555
Total capital assets	<u>104,744,774</u>	<u>3,656,589</u>	<u>(1,750,601)</u>	<u>-0-</u>	<u>106,650,762</u>
Less accumulated depreciation:					
Land improvements	(2,062,973)	(57,514)	-0-	-0-	(2,120,487)
Buildings and improvements	(30,634,129)	(1,972,252)	-0-	-0-	(32,606,381)
Fixed equipment	(14,086,127)	(732,174)	1,626,360	-0-	(13,191,941)
Major equipment	(23,406,883)	(2,438,149)	-0-	-0-	(25,845,032)
Total accumulated depreciation	<u>(70,190,112)</u>	<u>(5,200,089)</u>	<u>1,626,360</u>	<u>-0-</u>	<u>(73,763,841)</u>
Capital assets, net	<u>\$ 34,554,662</u>	<u>\$ (1,543,500)</u>	<u>\$ (124,241)</u>	<u>\$ -0-</u>	<u>\$ 32,886,921</u>

	Balance December 31, 2011	Additions	Retirements	Transfers	Balance December 31, 2012
Land	\$ 2,448,234	\$ -0-	\$ -0-	\$ -0-	\$ 2,448,234
Land improvements	2,251,284	-0-	(22,355)	-0-	2,228,929
Buildings and improvements	49,539,495	775,329	(188,951)	150,759	50,276,632
Fixed equipment	15,910,214	143,421	(798,611)	-0-	15,255,024
Major equipment	29,877,790	267,595	(384,121)	4,743,944	34,505,208
Construction in progress	2,347,048	2,578,402	-0-	(4,894,703)	30,747
Total capital assets	<u>102,374,065</u>	<u>3,764,747</u>	<u>(1,394,038)</u>	<u>-0-</u>	<u>104,744,774</u>
Less accumulated depreciation:					
Land improvements	(2,015,689)	(69,639)	22,355	-0-	(2,062,973)
Buildings and improvements	(28,890,217)	(1,932,863)	188,951	-0-	(30,634,129)
Fixed equipment	(14,158,847)	(724,871)	797,591	-0-	(14,086,127)
Major equipment	(21,470,259)	(2,320,745)	384,121	-0-	(23,406,883)
Total accumulated depreciation	<u>(66,535,012)</u>	<u>(5,048,118)</u>	<u>1,393,018</u>	<u>-0-</u>	<u>(70,190,112)</u>
Capital assets, net	<u>\$ 35,839,053</u>	<u>\$ (1,283,371)</u>	<u>\$ (1,020)</u>	<u>\$ -0-</u>	<u>\$ 34,554,662</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

7. LONG-TERM DEBT

In January 2012, the Hospital borrowed approximately \$5,600,000 from the Indiana Financing Authority (the Authority), the Health Facility Revenue Bonds Series 2012 (Series 2012 Bonds) to fund future capital projects. The Series 2012 Bonds bear interest at rates as determined by daily, weekly, flexible, semiannual, or fixed modes. The Series 2012 Bonds are secured by an interest in the gross revenues of the Hospital.

The Hospital and Authority then entered into an agreement with a Regions bank (Regions) whereby Regions purchased from the Authority all of the Series 2012 Bonds in a private placement. The agreement provided that Regions would hold the Series 2012 Bonds during the Initial Mode Period which runs through March 2017. During the Initial Mode Period, the Series 2012 Bonds would bear interest at the Initial Rate Mode (59.5% of Libor plus 232 or 247 basis points depending on the cash to debt ratio but in no event less than 2.45%) for 60 months with principal and interest payments determined using a 20-year amortization schedule. At the end of the Initial Mode Period, the Series 2012 bonds may be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another term period with Regions. The Series 2012 Bonds could be converted to another interest rate mode to accommodate market conditions at that time. If the Series 2012 Bonds could not be remarketed at the end of the Initial Mode Period, the Hospital would be subject to payment of the remaining principal of approximately \$4,400,000 at the end of the Initial Mode Period. The Series 2012 bonds had an interest rate of 2.45% at December 31, 2013 and December 31, 2012, respectively, and are collateralized by Hospital revenues.

Annual bond payments for the 2012 bonds commenced on January 1, 2013 and continue through January 1, 2032 ranging from \$356,394 to \$357,442 with a variable interest rate.

In December 2009, the Hospital issued, through the Indiana Financing Authority, the Health Facility Revenue Bonds Series 2009 (Series 2009). The Hospital then entered into an agreement with a local financial institution where the financial institution purchased the Series 2009 in a private placement. The private placement agreement expires on January 1, 2017. At the end of the agreement, the Series 2009 bonds may be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another term period with the current financial institution. The Series 2009 bonds had an interest rate of 2.45% at December 31, 2013 and December 31, 2012, respectively, and are collateralized by Hospital revenues.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Annual bond payments for the 2009 bonds commenced on January 1, 2011 and continue through January 1, 2030 ranging from \$551,600 to \$993,408 with a variable interest rate.

The bond agreement states that the interest rate for the 2009 bonds will be calculated using LIBOR, plus an applicable margin component calculated on the cash to debt ratio of the borrower. In no event shall the resulting variable rate be less than 2.45%. The bond is secured by Hospital revenues.

DMC financed various equipment purchases with 4-7% installment loans payable in monthly or annual installments with maturity dates ranging from 2010 to 2012. These loans are secured by equipment and were fully paid off during 2012.

The Hospital has capital lease obligations, at varying rates of imputed interest of 2.73% to 8.51%, collateralized by leased equipment with costs of \$2,114,948 and \$1,589,948 as of December 31, 2013 and 2012, respectively. Accumulated depreciation on capital leases was \$811,875 and \$551,276 at December 31, 2013 and 2012, respectively.

A summary of long-term debt borrowings, payments and balances at and for the years ended December 31 follows:

	Balance December 31, 2012	Additional borrowings	Payments	Balance December 31, 2013	Current portion	Long-term portion
Demand Revenue Bonds, Series 2009	\$ 14,595,937	\$ -0-	\$ 563,465	\$ 14,032,472	\$ 586,342	\$ 13,446,130
Demand Revenue Bonds, Series 2012	5,589,189	-0-	219,510	5,369,679	224,881	5,144,798
Capital leases	838,896	525,000	459,912	903,984	416,170	487,814
	<u>\$ 21,024,022</u>	<u>\$ 525,000</u>	<u>\$ 1,242,887</u>	<u>\$ 20,306,135</u>	<u>\$ 1,227,393</u>	<u>\$ 19,078,742</u>

	Balance December 31, 2011	Additional borrowings	Payments	Balance December 31, 2012	Current portion	Long-term portion
Demand Revenue Bonds, Series 2009	\$ 20,875,546	\$ -0-	\$ 6,279,609	\$ 14,595,937	\$ 563,269	\$ 14,032,668
Demand Revenue Bonds, Series 2012	-0-	5,589,189	-0-	5,589,189	219,460	5,369,729
Installment loans payable	3,936	-0-	3,936	-0-	-0-	-0-
Capital leases	966,610	192,600	320,314	838,896	328,909	509,987
	<u>\$ 21,846,092</u>	<u>\$ 5,781,789</u>	<u>\$ 6,603,859</u>	<u>\$ 21,024,022</u>	<u>\$ 1,111,638</u>	<u>\$ 19,912,384</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

The Hospital is also required to meet certain financial and affirmative covenants. One of these covenants requires that the Hospital maintain a minimum of \$6.5 million in cash and investments with the Lender. The Hospital believes it is in compliance with all covenants as of December 31, 2013 and 2012.

Scheduled principal repayments on long-term debt following December 31, 2013 are as follows:

<u>Years Ending December 31,</u>	<u>Long-term debt</u>		<u>Capital leases</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 811,223	\$ 475,242	\$ 416,170	\$ 35,498
2015	840,937	455,478	278,326	20,019
2016	871,889	434,875	201,039	8,234
2017	903,876	413,513	8,449	1,185
2018	868,503	379,190	-0-	-0-
2019-2023	6,047,490	1,569,115	-0-	-0-
2024-2028	4,881,941	946,926	-0-	-0-
2029-2032	4,176,292	228,107	-0-	-0-
	<u>\$ 19,402,151</u>	<u>\$ 4,902,446</u>	<u>\$ 903,984</u>	<u>\$ 64,936</u>

8. NET PATIENT SERVICE REVENUE

Patient service revenue for 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Inpatient services	\$ 60,042,873	\$ 60,983,689
Outpatient services	133,204,815	136,403,470
Long term care	52,130,624	10,721,047
Gross patient service revenue	<u>245,378,312</u>	<u>208,108,206</u>
Contractual allowances	93,600,966	96,440,984
Bad debts	8,195,281	10,008,823
Charity care	3,407,242	3,489,418
Deductions from revenue	<u>105,203,489</u>	<u>109,939,225</u>
Net patient service revenue	<u>\$ 140,174,823</u>	<u>\$ 98,168,981</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

The Board of Directors approves the fee schedule, which is administered with the expectation that clients are to pay for services at a rate commensurate with their ability to pay. No clients will be refused services because of their inability to pay. Essentially, the Hospital's policies define charity services as those services for which a discounted obligation for payment is anticipated. In assessing a client's inability to pay, the Hospital uses an ability-to-pay schedule based on income and dependents. The Hospital also adjusts charges based on contractual agreements with third-party payors. The Hospital maintains records to identify and monitor the level of charges foregone for services furnished under charity care policy and contractual adjustments. The Hospital has agreements with third-party payors including Medicare, Medicaid and the State of Indiana and other commercial insurance carriers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Payments for inpatient acute care services are made based upon the patient's diagnosis, irrespective of cost. The diagnosis upon which payment is based is subject to review by Medicare representatives. Outpatient claims are reimbursed under Ambulatory Payment Classifications, which are based on the patient's made for the estimated effect of review and audits by the Program. Medicare reimbursements are subject to audit by Medicare. Provisions have been made for the estimated effect of review and audits by the Program.

Medicaid

Reimbursement for Medicaid services are paid at prospectively determined rates per discharge or per occasion of service.

Other

Payment agreements with certain commercial insurance carriers and other payors provide for payment using prospectively determined daily rates and discounts from established charges.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations, as well as significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

9. PENSION PLANS

Plan Description

The Hospital has a defined contribution pension plan as authorized by Indiana Code 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 the financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital is required to contribute at the Board approved rate.

The Hospital amended its pension plan in July of 2010. Under the old plan, for employees hired before July 1, 2003, the Hospital contributed 7% on the first \$9,998 of covered wages and 12.7% on the amount over \$9,998. For employees hired on or after July 1, 2003, their pension rate was 6% on all earnings. Under the new plan, the Hospital contributes 4% of an eligible employee's wages and matches 50% of an employee's contribution to the plan up to 2% of their wages. Hospital contributions to the plan for 2013 and 2012 were approximately \$1,013,000 and \$1,272,000, respectively.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

10. SPLIT-DOLLAR LIFE INSURANCE POLICY

The Hospital has a Split-Dollar Life Insurance Agreement for a key employee that is recorded at contract value in Other Assets at approximately \$2,209,000 and \$2,136,000 as of December 31, 2013 and 2012, respectively. The Hospital is the sole and absolute owner of the related Life Insurance Policy. The Agreement was used to fund a supplemental retirement benefit plan. In the event the employee remains employed by the Hospital at least until reaching sixty five years of age, or as is otherwise provided in the Agreement, beginning with the Retirement Date, the Hospital will pay an annual benefit, as is stipulated in the Agreement until the death of the employee. An annual expense is recorded for the death benefit and the salary continuation components of the agreement.

11. EMPLOYEE HEALTH PLAN

The Hospital participates in a self-funded health plan covering substantially all employees. Covered services include medical benefits. The plan has annual reinsurance coverage starting at a specific level of \$300,000 per individual with a specific lifetime maximum reimbursement per covered person of \$1,700,000 and no aggregate limit. The financial statements include an estimated provision for claims that have been incurred but not reported. Total health claims expense was approximately \$4,172,000 and \$4,627,000 for the years ended December 31, 2013 and 2012, respectively.

12. NET POSITION RESTRICTED BY DONOR

Net position restricted by donor of \$1,055,003 and \$975,196 at December 31, 2013 and 2012, respectively; consist of donor-restricted funds held by the Foundation primarily for Hospital construction projects.

13. MALPRACTICE INSURANCE

Malpractice Insurance

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act requires the Hospital to maintain medical malpractice liability insurance on a per occurrence basis and in the annual aggregate for amounts below the thresholds of the Act. The Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

The Hospital is a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund the Hospital's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage.

14. INVESTMENT IN AFFILIATE

During 2011, the Hospital entered into an operating agreement with St. Vincent Health, Inc. to form Henry County Hospital St. Vincent Health Catheterization Lab Services, LLC (Cath Lab). The Hospital contributed \$1,800,000 to obtain a 50% equity interest in the new company whose purpose is to operate a cardiac catheterization laboratory within the Hospital. The agreement will continue until the Company is dissolved. The investment is accounted for by the equity method.

As a result of this joint venture, the Hospital recognized a loss during 2013 and 2012 of approximately \$296,000 and \$164,000, respectively, related to changes in equity of the Cath Lab. The loss is included within other operating revenue in the consolidated statements of operations and changes in net position.

15. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, who are primarily local residents and are insured under third-party payor agreements. The mix of receivables and gross patient service revenues from patients and third-party payors for 2013 and 2012 was as follows:

	Receivables		Revenues	
	2013	2012	2013	2012
Self pay	28%	23%	6%	6%
Medicare and Medicaid	40%	31%	61%	62%
Other commercial	32%	46%	33%	32%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

16. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its Blended Component Units, DMC and the Foundation. The following is a summary of the financial position of DMC and the Foundation as of December 31, 2013, and a summary of the related statements of operations, changes in net position, and cash flows for the year then ended:

	DMC	Foundation	Total
Assets:			
Cash and cash equivalents	\$ 494,840	\$ 1,140,543	\$ 1,635,383
Patient accounts receivable, net	2,648,175	-0-	2,648,175
Supplies and other current assets	825,768	163,316	989,084
Due from related parties	92,952	-0-	92,952
Total current assets	4,061,735	1,303,859	5,365,594
Investments	-0-	22,399,837	22,399,837
Assets whose use is limited - by donor	-0-	1,055,003	1,055,003
Capital assets, net	103,106	12,109,633	12,212,739
Other assets	38,837	218,273	257,110
Total assets	\$ 4,203,678	\$ 37,086,605	\$ 41,290,283
Liabilities:			
Current portion of long-term debt	\$ -0-	\$ 55,845	\$ 55,845
Accounts payable and accrued expenses	1,240,045	164,200	1,404,245
Due to related parties	27,397,049	700,563	28,097,612
Total current liabilities	28,637,094	920,608	29,557,702
Long-term debt, net of current portion	-0-	1,407,758	1,407,758
Total liabilities	28,637,094	2,328,366	30,965,460
Net position			
Unrestricted net position	(24,536,522)	23,057,206	(1,479,316)
Invested in capital assets, net of related debt	103,106	10,646,030	10,749,136
Restricted by donor for capital acquisition	-0-	1,055,003	1,055,003
Total net position	(24,433,416)	34,758,239	10,324,823
Total liabilities and net position	\$ 4,203,678	\$ 37,086,605	\$ 41,290,283

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

	DMC	Foundation	Total
Operating revenues			
Net patient service revenue	\$ 21,291,689	\$ 1,045,510	\$ 22,337,199
Other revenue	-0-	2,603,900	2,603,900
Total operating revenues	21,291,689	3,649,410	24,941,099
Operating expenses			
Salaries and benefits	11,609,663	334,336	11,943,999
Medical professional fees	2,108,002	-0-	2,108,002
Purchased services	3,985,192	247,241	4,232,433
Medical supplies and drugs	7,731,222	-0-	7,731,222
Other supplies	-0-	11,763	11,763
Depreciation and amortization	38,745	581,742	620,487
Utilities	117,313	239,069	356,382
Rent	383,620	-0-	383,620
Other	576,263	1,109,179	1,685,442
Total operating expenses	26,550,020	2,523,330	29,073,350
Gain (loss) from operations	(5,258,331)	1,126,080	(4,132,251)
Non-operating income (expense)			
Investment income	309	2,560,853	2,561,162
Interest expense	(46,873)	(34,380)	(81,253)
Other nonoperating	88,638	220,727	309,365
Total nonoperating income (expense)	42,074	2,747,200	2,789,274
Change in net position	(5,216,257)	3,873,280	(1,342,977)
Net position - beginning of year	(19,217,159)	30,884,959	11,667,800
Net position - end of year	\$ (24,433,416)	\$ 34,758,239	\$ 10,324,823
Cash flows from activities			
Operating	\$ (238,722)	\$ 1,717,157	\$ 1,478,435
Noncapital financing	-0-	220,727	220,727
Capital and related financing	(46,873)	(819,732)	(866,605)
Investing	61,613	(420,903)	(359,290)
Net change in cash and cash equivalents	(223,982)	697,249	473,267
Cash - beginning of year	718,822	443,294	1,162,116
Cash - end of year	\$ 494,840	\$ 1,140,543	\$ 1,635,383

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

The following is a summary of the financial position of DMC and the Foundation as of December 31, 2012, and a summary of the related statements of operations, changes in net position, and cash flows for the year then ended:

	DMC	Foundation	Total
Assets:			
Cash and cash equivalents	\$ 718,822	\$ 443,294	\$ 1,162,116
Patient accounts receivable, net	2,409,918	-0-	2,409,918
Supplies and other current assets	772,235	163,004	935,239
Due from related parties	96,956	-0-	96,956
Total current assets	3,997,931	606,298	4,604,229
Investments	-0-	19,429,763	19,429,763
Assets whose use is limited - by donor	-0-	975,196	975,196
Capital assets, net	141,851	11,952,108	12,093,959
Other assets	38,837	293,169	332,006
Total assets	\$ 4,178,619	\$ 33,256,534	\$ 37,435,153
Liabilities:			
Current portion of long-term debt	\$ -0-	\$ 52,856	\$ 52,856
Accounts payable and accrued expenses	1,909,750	176,252	2,086,002
Due to related parties	21,486,028	678,864	22,164,892
Total current liabilities	23,395,778	907,972	24,303,750
Long-term debt, net of current portion	-0-	1,463,603	1,463,603
Total liabilities	23,395,778	2,371,575	25,767,353
Net position			
Unrestricted net position	(19,359,010)	19,474,114	115,104
Invested in capital assets, net of related debt	141,851	10,435,649	10,577,500
Restricted by donor for capital acquisition	-0-	975,196	975,196
Total net position	(19,217,159)	30,884,959	11,667,800
Total liabilities and net position	\$ 4,178,619	\$ 33,256,534	\$ 37,435,153

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

	DMC	Foundation	Total
Operating revenues			
Net patient service revenue	\$ 21,949,962	\$ 1,053,075	\$ 23,003,037
Other revenue	-0-	2,608,500	2,608,500
Total operating revenues	<u>21,949,962</u>	<u>3,661,575</u>	<u>25,611,537</u>
Operating expenses			
Salaries and benefits	13,454,446	335,175	13,789,621
Medical professional fees	2,138,091	-0-	2,138,091
Purchased services	3,690,589	114,372	3,804,961
Medical supplies and drugs	7,639,973	-0-	7,639,973
Other supplies	-0-	18,029	18,029
Depreciation and amortization	68,502	525,397	593,899
Utilities	114,251	215,483	329,734
Rent	405,628	-0-	405,628
Other	646,039	1,166,473	1,812,512
Total operating expenses	<u>28,157,519</u>	<u>2,374,929</u>	<u>30,532,448</u>
Gain (loss) from operations	(6,207,557)	1,286,646	(4,920,911)
Non-operating income (expense)			
Investment income	28,593	2,506,405	2,534,998
Interest expense	(46,872)	(44,385)	(91,257)
Other nonoperating	195,706	76,291	271,997
Total nonoperating income (expense)	<u>177,427</u>	<u>2,538,311</u>	<u>2,715,738</u>
Change in net position	(6,030,130)	3,824,957	(2,205,173)
Net position - beginning of year	(13,187,029)	27,060,002	13,872,973
Net position - end of year	<u>\$ (19,217,159)</u>	<u>\$ 30,884,959</u>	<u>\$ 11,667,800</u>
Cash flows from activities			
Operating	\$ (798,997)	\$ 2,460,407	\$ 1,661,410
Noncapital financing	16,674	76,291	92,965
Capital and related financing	(115,102)	(6,552,558)	(6,667,660)
Investing	224,299	3,952,302	4,176,601
Net change in cash and cash equivalents	<u>(673,126)</u>	<u>(63,558)</u>	<u>(736,684)</u>
Cash - beginning of year	1,391,948	506,852	1,898,800
Cash - end of year	<u>\$ 718,822</u>	<u>\$ 443,294</u>	<u>\$ 1,162,116</u>

SUPPLEMENTARY INFORMATION

HENRY COUNTY HOSPITAL

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2013

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 13,228,963	\$ 1,140,543	\$ 494,840	\$ -0-	\$ 14,864,346
Patient accounts receivable, net	17,955,742	-0-	2,648,175	-0-	20,603,917
Supplies and other current assets	5,325,362	163,316	825,768	(74,304)	6,240,142
Due from related parties	27,263,967	-0-	92,952	(26,834,153)	522,766
Current portion of assets whose use is limited	1,171,548	-0-	-0-	-0-	1,171,548
Total current assets	64,945,582	1,303,859	4,061,735	(26,908,457)	43,402,719
Investments	-0-	22,399,837	-0-	-0-	22,399,837
Assets whose use is limited					
Internally designated	17,906,702	-0-	-0-	-0-	17,906,702
By donor - expendable - for capital acquisition	-0-	1,055,003	-0-	-0-	1,055,003
	17,906,702	1,055,003	-0-	-0-	18,961,705
Less current portion	1,171,548	-0-	-0-	-0-	1,171,548
Total assets whose use is limited	16,735,154	1,055,003	-0-	-0-	17,790,157
Capital assets, net	20,674,182	12,109,633	103,106	-0-	32,886,921
Other assets	7,805,493	218,273	38,837	(1,431,413)	6,631,190
Total assets	110,160,411	37,086,605	4,203,678	(28,339,870)	123,110,824
Deferred outflows	150,124	-0-	-0-	-0-	150,124
Total assets and deferred outflows	\$ 110,310,535	\$ 37,086,605	\$ 4,203,678	\$ (28,339,870)	\$ 123,260,948

See Report of Independent Auditors on Page 1 through 3.

HENRY COUNTY HOSPITAL

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2013

LIABILITIES AND NET POSITION	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 1,171,548	\$ 55,845	\$ -0-	\$ -0-	\$ 1,227,393
Accounts payable and accrued expenses	13,991,350	164,200	1,240,045	(242,258)	15,153,337
Accrued wages and related liabilities	3,942,322	-0-	-0-	-0-	3,942,322
Estimated third-party settlements	1,043,362	-0-	-0-	-0-	1,043,362
Due to related parties	-0-	700,563	27,397,049	(28,097,612)	-0-
Total current liabilities	20,148,582	920,608	28,637,094	(28,339,870)	21,366,414
Other long-term liabilities	350,767	-0-	-0-	-0-	350,767
Long-term debt, net of current portion	17,670,984	1,407,758	-0-	-0-	19,078,742
Total liabilities	38,170,333	2,328,366	28,637,094	(28,339,870)	40,795,923
Net position					
Unrestricted	52,401,850	23,057,206	(24,536,522)	-0-	50,922,534
Invested in capital assets, net of related debt	1,831,650	10,646,030	103,106	-0-	12,580,786
Internally designated - funded depreciation	17,906,702	-0-	-0-	-0-	17,906,702
Restricted					
By donor - expendable - for capital acquisition	-0-	1,055,003	-0-	-0-	1,055,003
Total net position	72,140,202	34,758,239	(24,433,416)	-0-	82,465,025
Total liabilities and net position	\$ 110,310,535	\$ 37,086,605	\$ 4,203,678	\$ (28,339,870)	\$ 123,260,948

See Report of Independent Auditors on Page 1 through 3.

HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2013

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 121,678,489	\$ 1,045,510	\$ 21,291,689	\$ (3,840,865)	\$ 140,174,823
Other revenue	3,983,567	2,603,900	-0-	(1,981,832)	4,605,635
Total revenue	125,662,056	3,649,410	21,291,689	(5,822,697)	144,780,458
Operating expenses					
Salaries and benefits	38,681,045	334,336	11,609,663	(636,031)	49,989,013
Medical professional fees	1,620,569	-0-	2,108,002	-0-	3,728,571
Purchased services	32,979,294	247,241	3,985,192	(142,514)	37,069,213
Medical supplies and drugs	9,446,852	-0-	7,731,222	(2,168,990)	15,009,084
Other supplies	4,046,427	11,763	-0-	-0-	4,058,190
Depreciation and amortization	4,584,498	581,742	38,745	-0-	5,204,985
Utilities	2,342,694	239,069	117,313	-0-	2,699,076
Rent	7,706,378	-0-	383,620	(1,823,925)	6,266,073
Hospital assessment fee	3,947,920	-0-	-0-	-0-	3,947,920
Other	8,904,591	1,109,179	576,263	(1,051,237)	9,538,796
Total expenses	114,260,268	2,523,330	26,550,020	(5,822,697)	137,510,921
Operating income (loss)	11,401,788	1,126,080	(5,258,331)	-0-	7,269,537
Nonoperating income (expense)					
Investment income	2,344,211	2,560,853	309	(46,872)	4,858,501
Interest expense	(714,465)	(34,380)	(46,873)	46,872	(748,846)
Other nonoperating	261,075	220,727	88,638	-0-	570,440
Total nonoperating income (expense)	1,890,821	2,747,200	42,074	-0-	4,680,095
Change in net position	13,292,609	3,873,280	(5,216,257)	-0-	11,949,632
Net position beginning of year	58,847,593	30,884,959	(19,217,159)	-0-	70,515,393
Net position end of year	<u>\$ 72,140,202</u>	<u>\$ 34,758,239</u>	<u>\$ (24,433,416)</u>	<u>\$ -0-</u>	<u>\$ 82,465,025</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2013

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 107,708,109	\$ 1,045,510	\$ 21,053,432	\$ (3,840,865)	\$ 125,966,186
Cash paid to employees for wages and benefits	(38,682,443)	(334,336)	(11,609,663)	636,031	(49,990,411)
Cash paid to vendors for goods and services	(65,571,425)	(1,597,917)	(9,682,491)	4,908,609	(71,943,224)
Other operating receipts, net	3,983,567	2,603,900	-0-	(1,703,775)	4,883,692
Net cash flows from operating activities	7,437,808	1,717,157	(238,722)	-0-	8,916,243
Cash flows from noncapital financing activities					
Other nonoperating	261,075	220,727	-0-	-0-	481,802
Net cash flows from noncapital financing activities	261,075	220,727	-0-	-0-	481,802
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(2,397,218)	(734,371)	-0-	-0-	(3,131,589)
Loss on disposal of property and equipment	39,657	-0-	-0-	-0-	39,657
Proceeds from sale of equipment	84,584	1,875	-0-	-0-	86,459
Interest on long-term debt	(714,465)	(34,380)	(46,873)	(46,872)	(842,590)
Principal payments on long-term debt, net	(1,190,031)	(52,856)	-0-	-0-	(1,242,887)
Net cash flows from capital and related financing activities	(4,177,473)	(819,732)	(46,873)	(46,872)	(5,090,950)
Cash flows from investing activities					
Investment income and other non-operating	2,344,211	2,560,853	88,947	46,872	5,040,883
Change in other assets, net	(242,792)	74,896	(27,334)	-0-	(195,230)
Purchases of investments in assets whose use is limited - internally designated, held by Trustee, and investments	(5,067,753)	(7,183,077)	-0-	-0-	(12,250,830)
Proceeds from sale of investments in assets whose use is limited - internally designated, held by Trustee, and investments	2,884,557	4,206,232	-0-	-0-	7,090,789
Change in assets whose use is limited - restricted by donor, net	-0-	(79,807)	-0-	-0-	(79,807)
Net cash flows from investing activities	(81,777)	(420,903)	61,613	46,872	(394,195)
Net change in cash and cash equivalents	3,439,633	697,249	(223,982)	-0-	3,912,900
Cash and cash equivalents					
Beginning of year	10,081,722	443,294	718,822	-0-	11,243,838
End of year	<u>\$ 13,521,355</u>	<u>\$ 1,140,543</u>	<u>\$ 494,840</u>	<u>\$ -0-</u>	<u>\$ 15,156,738</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2013

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 11,401,788	\$ 1,126,080	\$ (5,258,331)	\$ -0-	\$ 7,269,537
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	4,584,498	581,742	38,745	-0-	5,204,985
Bad debts	6,939,616	-0-	1,255,665	-0-	8,195,281
Changes in assets and liabilities:					
Patient accounts receivable	(16,047,063)	-0-	(1,493,922)	-0-	(17,540,985)
Supplies and other current assets	(2,739,730)	(312)	(53,533)	16,307	(2,777,268)
Accounts payable and accrued expenses	10,346,244	(12,052)	(675,647)	(294,364)	9,364,181
Accrued salaries and related liabilities	(1,398)	-0-	-0-	-0-	(1,398)
Other long-term liabilities	116,923	-0-	-0-	-0-	116,923
Due from (to) related parties	(6,248,057)	21,699	5,948,301	278,057	-0-
Estimated third-party settlements	(915,013)	-0-	-0-	-0-	(915,013)
Net cash flows from operating activities	<u>\$ 7,437,808</u>	<u>\$ 1,717,157</u>	<u>\$ (238,722)</u>	<u>\$ -0-</u>	<u>\$ 8,916,243</u>
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 13,228,963	\$ 1,140,543	\$ 494,840	\$ -0-	\$ 14,864,346
In assets whose use is limited - internally designated	292,392	-0-	-0-	-0-	292,392
Total cash and cash equivalents	<u>\$ 13,521,355</u>	<u>\$ 1,140,543</u>	<u>\$ 494,840</u>	<u>\$ -0-</u>	<u>\$ 15,156,738</u>

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HENRY COUNTY HOSPITAL

SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2013 AND 2012

	Hospital 2013	NCFIM 2013	NCP 2013	Total 2013	Total 2012	Change
Operating revenue						
Net patient service revenue	\$ 117,360,726	2,526,066	1,791,697	\$ 121,678,489	\$ 78,091,074	\$ 43,587,415
Other revenue	3,627,935	214,858	140,774	3,983,567	4,965,581	(982,014)
Total revenue	120,988,661	2,740,924	1,932,471	125,662,056	83,056,655	42,605,401
Operating expenses						
Salaries and benefits	32,092,047	4,506,183	2,082,815	38,681,045	37,980,227	700,818
Medical professional fees	1,576,987	43,582	-	1,620,569	1,445,041	175,528
Purchased services	32,902,524	25,060	51,710	32,979,294	11,635,393	21,343,901
Medical supplies and drugs	9,091,113	118,714	237,025	9,446,852	8,454,679	992,173
Other supplies	4,031,598	14,668	161	4,046,427	1,522,776	2,523,651
Depreciation and amortization	4,507,061	77,271	166	4,584,498	4,599,986	(15,488)
Utilities	2,312,943	14,322	15,429	2,342,694	1,439,139	903,555
Rent	7,032,111	600,335	73,932	7,706,378	3,708,505	3,997,873
Hospital assessment fee	3,947,920	-	-	3,947,920	4,372,303	(424,383)
Other	8,799,738	57,500	47,353	8,904,591	3,133,259	5,771,332
Total expenses	106,294,042	5,457,635	2,508,591	114,260,268	78,291,308	35,968,960
Operating income	14,694,619	(2,716,711)	(576,120)	11,401,788	4,765,347	6,636,441
Nonoperating income (expense)						
Investment income	2,344,189	-	22	2,344,211	1,991,981	352,230
Interest expense	(714,465)	-	-	(714,465)	(530,537)	(183,928)
Other nonoperating	90,842	119,233	51,000	261,075	359,380	(98,305)
Total nonoperating income (expense)	1,720,566	119,233	51,022	1,890,821	1,820,824	69,997
 Change in net position	\$ 16,415,185	\$ (2,597,478)	\$ (525,098)	\$ 13,292,609	\$ 6,586,171	\$ 6,706,438

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HENRY COUNTY HOSPITAL

SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2012 AND 2011

	Hospital 2012	NCFIM 2012	NCP 2012	Total 2012	Total 2011	Change
Operating revenue						
Net patient service revenue	\$ 73,925,385	\$ 2,614,091	\$ 1,551,598	\$ 78,091,074	\$ 65,429,481	\$ 12,661,593
Other revenue	4,752,159	72,754	140,668	4,965,581	3,256,064	1,709,517
Total revenue	78,677,544	2,686,845	1,692,266	83,056,655	68,685,545	14,371,110
Operating expenses						
Salaries and benefits	32,051,418	3,768,686	2,160,123	37,980,227	38,084,185	(103,958)
Medical professional fees	1,417,200	27,841	-0-	1,445,041	1,601,259	(156,218)
Purchased services	11,582,184	12,862	40,347	11,635,393	5,492,145	6,143,248
Medical supplies and drugs	8,166,503	90,977	197,199	8,454,679	7,995,657	459,022
Other supplies	1,496,851	22,337	3,588	1,522,776	949,012	573,764
Depreciation and amortization	4,505,647	94,339	-0-	4,599,986	4,215,727	384,259
Utilities	1,398,895	20,419	19,825	1,439,139	1,260,448	178,691
Rent	3,044,860	589,713	73,932	3,708,505	2,282,729	1,425,776
Hospital assessment fee	4,372,303	-0-	-0-	4,372,303	-0-	4,372,303
Other	3,013,017	61,868	58,374	3,133,259	2,758,822	374,437
Total expenses	71,048,878	4,689,042	2,553,388	78,291,308	64,639,984	13,651,324
Operating income (loss)	7,628,666	(2,002,197)	(861,122)	4,765,347	4,045,561	719,786
Nonoperating income (expense)						
Investment income (loss)	1,991,906	-0-	75	1,991,981	(342,999)	2,334,980
Interest expense	(530,537)	-0-	-0-	(530,537)	(452,752)	(77,785)
Other nonoperating	(22,692)	233,826	148,246	359,380	62,745	296,635
Total nonoperating income (expense)	1,438,677	233,826	148,321	1,820,824	(733,006)	2,553,830
Change in net position	\$ 9,067,343	\$ (1,768,371)	\$ (712,801)	\$ 6,586,171	\$ 3,312,555	\$ 3,273,616

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HENRY COUNTY HOSPITAL

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2012

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 8,604,163	\$ 443,294	\$ 718,822	\$ -0-	\$ 9,766,279
Patient accounts receivable, net	8,848,295	-0-	2,409,918	-0-	11,258,213
Supplies and other current assets	2,585,632	163,004	772,235	(57,997)	3,462,874
Due from related parties	21,015,910	-0-	96,956	(20,899,421)	213,445
Current portion of assets whose use is limited	1,058,782	-0-	-0-	-0-	1,058,782
Total current assets	<u>42,112,782</u>	<u>606,298</u>	<u>3,997,931</u>	<u>(20,957,418)</u>	<u>25,759,593</u>
Investments	-0-	19,429,763	-0-	-0-	19,429,763
Assets whose use is limited					
Internally designated	15,633,512	-0-	-0-	-0-	15,633,512
Held by trustee	1,256,969	-0-	-0-	-0-	1,256,969
By donor - expendable - for capital acquisition	-0-	975,196	-0-	-0-	975,196
	<u>16,890,481</u>	<u>975,196</u>	<u>-0-</u>	<u>-0-</u>	<u>17,865,677</u>
Less current portion	1,058,782	-0-	-0-	-0-	1,058,782
Total assets whose use is limited	<u>15,831,699</u>	<u>975,196</u>	<u>-0-</u>	<u>-0-</u>	<u>16,806,895</u>
Capital assets, net	22,460,703	11,952,108	141,851	-0-	34,554,662
Other assets	7,562,701	293,169	38,837	(1,431,413)	6,463,294
Total assets	<u>87,967,885</u>	<u>33,256,534</u>	<u>4,178,619</u>	<u>(22,388,831)</u>	<u>103,014,207</u>
Deferred outflows	168,316	-0-	-0-	-0-	168,316
Total assets and deferred outflows	<u>\$ 88,136,201</u>	<u>\$ 33,256,534</u>	<u>\$ 4,178,619</u>	<u>\$ (22,388,831)</u>	<u>\$ 103,182,523</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2012

LIABILITIES AND NET POSITION	<u>Hospital</u>	<u>Foundation</u>	<u>Diversified Management Corporation</u>	<u>Eliminations</u>	<u>Total</u>
Current liabilities					
Current portion of long-term debt	\$ 1,058,782	\$ 52,856	\$ -0-	\$ -0-	\$ 1,111,638
Accounts payable and accrued expenses	3,645,106	176,252	1,909,750	(223,939)	5,507,169
Accrued wages and related liabilities	3,943,720	-0-	-0-	-0-	3,943,720
Estimated third-party settlements	1,958,375	-0-	-0-	-0-	1,958,375
Due to related parties	-0-	678,864	21,486,028	(22,164,892)	-0-
Total current liabilities	<u>10,605,983</u>	<u>907,972</u>	<u>23,395,778</u>	<u>(22,388,831)</u>	<u>12,520,902</u>
Other long-term liabilities	233,844	-0-	-0-		233,844
Long-term debt, net of current portion	18,448,781	1,463,603	-0-	-0-	19,912,384
Total liabilities	<u>29,288,608</u>	<u>2,371,575</u>	<u>23,395,778</u>	<u>(22,388,831)</u>	<u>32,667,130</u>
Net position					
Unrestricted	39,003,972	19,474,114	(19,359,010)	-0-	39,119,076
Invested in capital assets, net of related debt	2,953,140	10,435,649	141,851	-0-	13,530,640
Internally designated - funded depreciation	15,633,512	-0-	-0-	-0-	15,633,512
Restricted					
Held by trustee	1,256,969	-0-	-0-	-0-	1,256,969
By donor - expendable - for capital acquisition	-0-	975,196	-0-	-0-	975,196
Total net position	<u>58,847,593</u>	<u>30,884,959</u>	<u>(19,217,159)</u>	<u>-0-</u>	<u>70,515,393</u>
Total liabilities and net position	<u>\$ 88,136,201</u>	<u>\$ 33,256,534</u>	<u>\$ 4,178,619</u>	<u>\$ (22,388,831)</u>	<u>\$ 103,182,523</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2012

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 78,091,074	\$ 1,053,075	\$ 21,949,962	\$ (2,925,130)	\$ 98,168,981
Other revenue	4,965,581	2,608,500	-0-	(3,068,638)	4,505,443
Total revenue	<u>83,056,655</u>	<u>3,661,575</u>	<u>21,949,962</u>	<u>(5,993,768)</u>	<u>102,674,424</u>
Operating expenses					
Salaries and benefits	37,980,227	335,175	13,454,446	(752,236)	51,017,612
Medical professional fees	1,445,041	-0-	2,138,091	-0-	3,583,132
Purchased services	11,635,393	114,372	3,690,589	(153,929)	15,286,425
Medical supplies and drugs	8,454,679	-0-	7,639,973	(2,207,750)	13,886,902
Other supplies	1,522,776	18,029	-0-	-0-	1,540,805
Depreciation and amortization	4,599,986	525,397	68,502	-0-	5,193,885
Utilities	1,439,139	215,483	114,251	-0-	1,768,873
Rent	3,708,505	-0-	405,628	(1,820,585)	2,293,548
Hospital assessment fee	4,372,303	-0-	-0-	-0-	4,372,303
Other	3,133,259	1,166,473	646,039	(1,059,268)	3,886,503
Total expenses	<u>78,291,308</u>	<u>2,374,929</u>	<u>28,157,519</u>	<u>(5,993,768)</u>	<u>102,829,988</u>
Operating income (loss)	4,765,347	1,286,646	(6,207,557)	-0-	(155,564)
Nonoperating income (expense)					
Investment income	1,991,981	2,506,405	28,593	(75,277)	4,451,702
Interest expense	(530,537)	(44,385)	(46,872)	75,277	(546,517)
Other nonoperating	359,380	76,291	195,706	-0-	631,377
Total nonoperating income (expense)	<u>1,820,824</u>	<u>2,538,311</u>	<u>177,427</u>	<u>-0-</u>	<u>4,536,562</u>
Change in net position	6,586,171	3,824,957	(6,030,130)	-0-	4,380,998
Net position beginning of year	52,261,422	27,060,002	(13,187,029)	-0-	66,134,395
Net position end of year	<u>\$ 58,847,593</u>	<u>\$ 30,884,959</u>	<u>\$ (19,217,159)</u>	<u>\$ -0-</u>	<u>\$ 70,515,393</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2012

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 74,104,964	\$ 1,053,075	\$ 21,835,639	\$ (2,925,130)	\$ 94,068,548
Cash paid to employees for wages and benefits	(38,097,436)	(335,175)	(13,454,446)	752,236	(51,134,821)
Cash paid to vendors for goods and services	(37,792,888)	(865,993)	(9,180,190)	5,145,277	(42,693,794)
Other operating receipts, net	4,965,581	2,608,500	-0-	(2,972,383)	4,601,698
Net cash flows from operating activities	3,180,221	2,460,407	(798,997)	-0-	4,841,631
Cash flows from noncapital financing activities					
Other nonoperating	359,380	76,291	16,674	-0-	452,345
Net cash flows from noncapital financing activities	359,380	76,291	16,674	-0-	452,345
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(2,789,662)	(718,191)	(64,294)	-0-	(3,572,147)
Loss (gain) on disposal of property and equipment	315	-0-	-0-	-0-	315
Proceeds from sale of equipment	705	-0-	-0-	-0-	705
Interest on long-term debt	(530,537)	(44,385)	(46,872)	(75,277)	(697,071)
Payment for 2012 bond issuance costs	(64,139)	-0-	-0-	-0-	(64,139)
Proceeds from issuance of long-term debt	5,589,189	-0-	-0-	-0-	5,589,189
Principal payments on long-term debt, net	(809,941)	(5,789,982)	(3,936)	-0-	(6,603,859)
Net cash flows from capital and related financing activities	1,395,930	(6,552,558)	(115,102)	(75,277)	(5,347,007)
Cash flows from investing activities					
Investment income and other non-operating	1,991,981	2,506,405	224,299	75,277	4,797,962
Change in other assets, net	295,511	94,892	-0-	-0-	390,403
Purchases of investments in assets whose use is limited - internally designated, held by Trustee, and investments	(7,870,437)	(1,930,549)	-0-	-0-	(9,800,986)
Proceeds from sale of investments in assets whose use is limited - internally designated, held by Trustee, and investments	6,959,135	3,367,816	-0-	-0-	10,326,951
Change in assets whose use is limited - restricted by donor, net	-0-	(86,262)	-0-	-0-	(86,262)
Net cash flows from investing activities	1,376,190	3,952,302	224,299	75,277	5,628,068
Net change in cash and cash equivalents	6,311,721	(63,558)	(673,126)	-0-	5,575,037
Cash and cash equivalents					
Beginning of year	3,770,001	506,852	1,391,948	-0-	5,668,801
End of year	<u>\$ 10,081,722</u>	<u>\$ 443,294</u>	<u>\$ 718,822</u>	<u>\$ -0-</u>	<u>\$ 11,243,838</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2012

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 4,765,347	\$ 1,286,646	\$ (6,207,557)	\$ -0-	\$ (155,564)
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	4,545,362	525,397	68,502	-0-	5,139,261
Bad debts	9,140,135	-0-	868,688	-0-	10,008,823
Changes in assets and liabilities:					
Patient accounts receivable	(8,766,920)	-0-	(983,011)	-0-	(9,749,931)
Supplies and other current assets	(1,374,192)	80,959	(78,025)	(17,578)	(1,388,836)
Accounts payable and accrued expenses	824,061	(15,755)	128,636	(78,677)	858,265
Accrued salaries and related liabilities	(117,209)	-0-	-0-	-0-	(117,209)
Other long-term liabilities	233,844	-0-	-0-	-0-	233,844
Due from (to) related parties	(6,083,185)	583,160	5,403,770	96,255	-0-
Estimated third-party settlements	12,978	-0-	-0-	-0-	12,978
Net cash flows from operating activities	\$ 3,180,221	\$ 2,460,407	\$ (798,997)	\$ -0-	\$ 4,841,631
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 8,604,163	\$ 443,294	\$ 718,822	\$ -0-	\$ 9,766,279
In assets whose use is limited - internally designated	1,477,559	-0-	-0-	-0-	1,477,559
Total cash and cash equivalents	\$ 10,081,722	\$ 443,294	\$ 718,822	\$ -0-	\$ 11,243,838

See Report of Independent Auditors on Pages 1 through 3.