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January 9, 2015

Board of Directors
Jasper County Hospital
1104 East Grace Street
Rensselaer, IN 47978

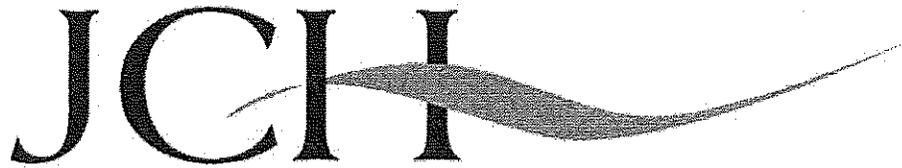
We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2013 to December 31, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants'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

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

We call your attention to the finding in the report. The report disclosed one financial statement finding. Please see the Schedule of Findings and Responses for complete details of the finding and management's planned corrective action.

A handwritten signature in blue ink that reads 'Paul D. Joyce'.

Paul D. Joyce, CPA
State Examiner



JASPER COUNTY HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013

CPAs • ADVISORS



JASPER COUNTY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Jasper County Hospital
Rensselaer, Indiana

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Board of Trustees
Jasper County Hospital
Rensselaer, Indiana

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

Opinions

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

Report on Summarized Comparative Information

We have previously audited the Hospital's 2012 consolidated financial statements and, our report dated, December 10, 2013, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative financial information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2014 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
July 29, 2014

REQUIRED SUPPLEMENTARY INFORMATION

JASPER COUNTY HOSPITAL

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

This section of Jasper County Hospital's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during the year ended December 31, 2013. This MD&A does include a discussion and analysis of the activities and results of the Hospital's Discrete Component Unit, Jasper County Hospital Foundation, Inc. (the Foundation). Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- The Hospital's total assets increased approximately \$3,499,000 or 10.4% during 2013. Total liabilities increased approximately \$2,943,000 or 14.1% during 2013.
- The Hospital's net position increased approximately \$557,000 or 4.3% in 2013.
- The Hospital reported operating income of approximately \$1,087,000 for 2013, representing an increase of approximately \$820,000 in comparison to the 2012 results.
- The Hospital added capital assets, net of retirements, of approximately \$386,000 during 2013. Net additions and disposals combined with depreciation expense resulted in net capital assets decreasing approximately \$727,000 from 2012.
- The Hospital's long-term debt decreased approximately \$493,000 from 2012 as a result of principal payments exceeding additional borrowings.
- The Hospital leases the operations of a long-term care facility. As a result of the lease agreement, the Hospital recognized approximately \$3,844,000 of additional gross patient service revenue related to long-term care.

USING THIS ANNUAL REPORT

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

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

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

JASPER COUNTY HOSPITAL

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

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

THE CONDENSED BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

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

Table 1 – Condensed Balance Sheet

The significant change in the Hospital's assets was in current assets which increased approximately \$3,585,000 in 2013 compared to 2012 as a result of an increase in cash that corresponds to an increase of approximately \$2,812,000 in accounts payable.

Net position increased by approximately \$557,000 from 2012 through 2013 due to income generated from operations.

JASPER COUNTY HOSPITAL

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

The following is a summary of the consolidated balance sheets:

	2013	2012	Change
Assets			
Current assets	\$ 13,264,494	\$ 9,679,671	\$ 3,584,823
Assets whose use is limited	2,644,258	1,988,707	655,551
Capital assets, net	20,968,345	21,694,966	(726,621)
Other assets	337,812	352,187	(14,375)
Total assets	<u>\$ 37,214,909</u>	<u>\$ 33,715,531</u>	<u>\$ 3,499,378</u>
Liabilities			
Current liabilities	\$ 8,798,051	\$ 5,362,293	\$ 3,435,758
Long-term debt	14,942,028	15,435,128	(493,100)
Total liabilities	<u>23,740,079</u>	<u>20,797,421</u>	<u>2,942,658</u>
Net position			
Net investment in capital assets	5,416,997	5,654,594	(237,597)
Restricted for debt service	1,191,609	794,207	397,402
Unrestricted	6,866,224	6,469,309	396,915
Total net position	<u>13,474,830</u>	<u>12,918,110</u>	<u>556,720</u>
Total liabilities and net position	<u>\$ 37,214,909</u>	<u>\$ 33,715,531</u>	<u>\$ 3,499,378</u>

Table 2 – Condensed Statement of Revenues, Expenses and Changes in Net Position

The Hospital's performance in 2013 was improved with a return on equity of 4.2% compared to prior year negative return of 2.3%. Total operating revenue increased approximately \$5,200,000 as a result of long-term care operations and increased utilization of laboratory and radiology outpatient services.

Expenses increased approximately \$4,381,000 between 2012 and 2013. Salaries, wages and benefits remained consistent between years. Supplies expense increased \$1,576,000 due to an increase in pharmaceutical prices as well as volume. Depreciation and amortization expense increased approximately \$181,000 from 2012. Professional fees and contract services increased approximately \$3,197,000 from 2012 as a result of long-term care operations.

Nonoperating revenue (expense) remained relatively consistent from 2012 to 2013.

JASPER COUNTY HOSPITAL

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

The following is a summary of the consolidated statement of revenues, expenses and changes in net position:

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Operating revenue			
Net patient service revenue	\$ 40,569,903	\$ 35,864,002	\$ 4,705,901
Other operating revenue	2,017,210	1,522,667	494,543
Total operating revenue	<u>42,587,113</u>	<u>37,386,669</u>	5,200,444
Operating expenses			
Salaries and benefits	20,353,161	20,311,826	41,335
Professional fees and contract services	7,081,965	3,884,559	3,197,406
Supplies	5,768,029	4,192,428	1,575,601
Depreciation and amortization	1,243,946	1,063,144	180,802
Other	7,053,266	7,667,534	(614,268)
Total operating expenses	<u>41,500,367</u>	<u>37,119,491</u>	4,380,876
Operating income	1,086,746	267,178	819,568
Nonoperating revenue (expense), net	<u>(530,026)</u>	<u>(573,477)</u>	43,451
Change in net position	556,720	(306,299)	863,019
Net position			
Beginning of year	12,918,110	13,224,409	(306,299)
End of year	<u>\$ 13,474,830</u>	<u>\$ 12,918,110</u>	<u>\$ 556,720</u>

Table 3 – Condensed Statement of Cash Flows

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

Total cash and cash equivalents increased approximately \$3,007,000 during 2013. This is an increase of approximately \$3,988,000 from 2012 where approximately \$981,000 of cash and cash equivalents was used. Operating activities generated cash and cash equivalents of approximately \$4,835,000 during 2013 mainly from the timing of accounts payable. Capital and related financing used cash and cash equivalents of \$1,654,000 during 2013 mainly as the result of expenditures for debt service, net of additional long-term debt borrowings. Investing activities used cash and a cash equivalent of approximately \$174,000 as a result of the Foundation's investing activities.

JASPER COUNTY HOSPITAL

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

The following is a summary of cash flows for 2013 and 2012:

Cash flows	2013	2012	Change
From operating activities	\$ 4,834,895	\$ 613,850	\$ 4,221,045
From capital and related financing activities	(1,654,139)	(1,588,033)	(66,106)
From investing activities	(173,660)	(6,744)	(166,916)
Change in cash and cash equivalents	<u>\$ 3,007,096</u>	<u>\$ (980,927)</u>	<u>\$ 3,988,023</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During 2013, the Hospital invested approximately \$386,000 in capital assets net of asset disposals. Accumulated depreciation increased \$1,113,000 net of disposals. Capital assets are comprised of the following as of December 31, 2013 and 2012:

	2013	2012	Change
Land	\$ 53,965	\$ 53,965	\$ -0-
Land improvements	1,859,740	1,859,740	-0-
Buildings and improvements	22,511,009	22,436,670	74,339
Equipment	8,306,797	7,994,975	311,822
Total capital assets	32,731,511	32,345,350	386,161
Less accumulated depreciation	11,763,166	10,650,384	1,112,782
Capital assets, net	<u>\$ 20,968,345</u>	<u>\$ 21,694,966</u>	<u>\$ (726,621)</u>

Long-Term Debt and Capital Leases

The Hospital has debt outstanding with the United States Department of Agriculture and capital lease obligations. Overall, debt and capital leases decreased approximately \$489,000 from 2012 and 2013. More detailed information about the Hospital's long-term debt and capital leases is presented in the notes to the consolidated financial statements.

JASPER COUNTY HOSPITAL

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

ECONOMIC OUTLOOK

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services.

The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant cost factor affecting the Hospital is the increases in labor costs due to the increasing competition for quality health care workers. Uncompensated care is also a significant factor on the Hospital's margin.

CONTACTING HOSPITAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's financial condition. If you have any questions about this report, you may contact the Hospital's Administrative offices at 1104 East Grace Street, Rensselaer, Indiana 47978

JASPER COUNTY HOSPITAL

CONSOLIDATED BALANCE SHEET DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012)

	ASSETS			
	2013		2012	
	Hospital	Foundation	Total reporting entity	Total reporting entity
Current assets				
Cash and cash equivalents	\$ 3,428,013	\$ 768,729	\$ 4,196,742	\$ 1,845,197
Investments	-	929,376	929,376	623,577
Patient accounts receivable, net of estimated uncollectible allowance of \$1,800,000	5,683,679	-	5,683,679	5,325,592
Inventory and other current assets	2,454,697	-	2,454,697	1,885,305
Total current assets	11,566,389	1,698,105	13,264,494	9,679,671
Assets whose use is limited				
Internally designated	1,452,649	-	1,452,649	1,194,500
Restricted for debt service	1,191,609	-	1,191,609	794,207
Total assets whose use is limited	2,644,258	-	2,644,258	1,988,707
Capital assets				
Land	53,965	-	53,965	53,965
Depreciable capital assets	32,677,546	-	32,677,546	32,291,385
Total capital assets	32,731,511	-	32,731,511	32,345,350
Less accumulated depreciation	11,763,166	-	11,763,166	10,650,384
Capital assets, net	20,968,345	-	20,968,345	21,694,966
Other assets	337,812	-	337,812	352,187
Total assets	\$ 35,516,804	\$ 1,698,105	\$ 37,214,909	\$ 33,715,531
LIABILITIES AND NET POSITION				
Current liabilities				
Current portion of capital leases	\$ 373,363	\$ -	\$ 373,363	\$ 372,408
Current portion of long-term debt	235,957	-	235,957	232,836
Accounts payable and accrued expenses	4,615,790	-	4,615,790	1,803,901
Accrued salaries and related liabilities	2,130,214	-	2,130,214	2,053,148
Estimated third-party settlements	1,442,727	-	1,442,727	900,000
Total current liabilities	8,798,051	-	8,798,051	5,362,293
Long-term liabilities				
Capital leases	684,839	-	684,839	997,939
Long-term debt	14,257,189	-	14,257,189	14,437,189
Total long-term liabilities	14,942,028	-	14,942,028	15,435,128
Total liabilities	23,740,079	-	23,740,079	20,797,421
Net position				
Net investment in capital assets	5,416,997	-	5,416,997	5,654,594
Restricted for debt service	1,191,609	-	1,191,609	794,207
Unrestricted	5,168,119	1,698,105	6,866,224	6,469,309
Total net position	11,776,725	1,698,105	13,474,830	12,918,110
Total liabilities and net position	\$ 35,516,804	\$ 1,698,105	\$ 37,214,909	\$ 33,715,531

See accompanying notes to consolidated financial statements.

JASPER COUNTY HOSPITAL

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012)

	2013		2012	
	Hospital	Foundation	Total reporting entity	Total reporting entity
Operating revenue				
Net patient service revenue	\$ 40,569,903	\$ -0-	\$ 40,569,903	\$ 35,864,002
Other operating revenue	1,278,469	738,741	2,017,210	1,522,667
Total operating revenue	41,848,372	738,741	42,587,113	37,386,669
Operating expenses				
Salaries and benefits	20,353,161	-0-	20,353,161	20,311,826
Professional fees and contract services	7,081,965	-0-	7,081,965	3,884,559
Supplies	5,768,029	-0-	5,768,029	4,192,428
Facility and equipment leases	2,654,522	-0-	2,654,522	2,573,934
Insurance	509,035	-0-	509,035	584,105
HAF Program	1,670,130	-0-	1,670,130	1,917,612
Depreciation and amortization	1,243,946	-0-	1,243,946	1,063,144
Other	2,165,649	53,930	2,219,579	2,591,883
Total operating expenses	41,446,437	53,930	41,500,367	37,119,491
Operating income	401,935	684,811	1,086,746	267,178
Nonoperating revenue (expense)				
Investment income	3,211	94,216	97,427	62,136
Interest expense	(662,165)	-0-	(662,165)	(651,305)
Other	34,712	-0-	34,712	15,692
Total nonoperating revenue (expense)	(624,242)	94,216	(530,026)	(573,477)
Change in net position	(222,307)	779,027	556,720	(306,299)
Net position				
Beginning of year	11,999,032	919,078	12,918,110	13,224,409
End of year	<u>\$ 11,776,725</u>	<u>\$ 1,698,105</u>	<u>\$ 13,474,830</u>	<u>\$ 12,918,110</u>

See accompanying notes to consolidated financial statements.

JASPER COUNTY HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEARS ENDED DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012)

	2013		2012	
	Hospital	Foundation	Total reporting entity	Total reporting entity
Operating activities				
Cash received from patients and third-party payors	\$ 39,084,413	\$ -0-	\$ 39,084,413	\$ 34,140,114
Cash paid to employees for salaries and benefits	(20,276,095)	-0-	(20,276,095)	(20,875,660)
Cash paid to vendors for goods and services	(15,936,703)	(53,930)	(15,990,633)	(14,173,271)
Other operating receipts, net	1,278,469	738,741	2,017,210	1,522,667
Net cash from operating activities	4,150,084	684,811	4,834,895	613,850
Capital and related financing activities				
Acquisition and construction of capital assets	(435,174)	-0-	(435,174)	(1,722,350)
Proceeds from issuance of debt	318,763	-0-	318,763	1,942,129
Interest paid on debt	(662,165)	-0-	(662,165)	(651,305)
Principal payments on debt	(875,563)	-0-	(875,563)	(1,156,507)
Net cash from capital and related financing activities	(1,654,139)	-0-	(1,654,139)	(1,588,033)
Investing activities				
Purchase of investments	-0-	(326,955)	(326,955)	(84,572)
Investment and other nonoperating revenue (expense)	59,079	94,216	153,295	77,828
Net cash from investing activities	59,079	(232,739)	(173,660)	(6,744)
Change in cash and cash equivalents	2,555,024	452,072	3,007,096	(980,927)
Cash and cash equivalents				
Beginning of year	3,517,247	316,657	3,833,904	4,814,831
End of year	<u>\$ 6,072,271</u>	<u>\$ 768,729</u>	<u>\$ 6,841,000</u>	<u>\$ 3,833,904</u>
Reconciliation of cash and cash equivalents to the balance sheet				
Cash and cash equivalents				
In current assets	\$ 3,428,013	\$ 768,729	\$ 4,196,742	\$ 1,845,197
In noncurrent cash	2,644,258	-0-	2,644,258	1,988,707
Total cash and cash equivalents	<u>\$ 6,072,271</u>	<u>\$ 768,729</u>	<u>\$ 6,841,000</u>	<u>\$ 3,833,904</u>

See accompanying notes to consolidated financial statements.

JASPER COUNTY HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEARS ENDED DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012)

	2013		Total reporting entity	2012 Total reporting entity
	Hospital	Foundation		
Reconciliation of operating income				
to net cash from operating activities				
Operating income	\$ 401,935	\$ 684,811	\$ 1,086,746	\$ 267,178
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization	1,243,946	-0-	1,243,946	1,063,144
Bad debts	4,051,289	-0-	4,051,289	3,481,440
Changes in assets and liabilities				
Patient accounts receivable	(4,409,376)	-0-	(4,409,376)	(3,987,716)
Inventory and other current assets	(569,392)	-0-	(569,392)	(601,589)
Accounts payable and accrued expenses	2,811,889	-0-	2,811,889	255,227
Accrued salaries and related liabilities	77,066	-0-	77,066	(563,834)
Estimated third-party settlements	542,727	-0-	542,727	700,000
Net cash flows from operating activities	<u>\$ 4,150,084</u>	<u>\$ 684,811</u>	<u>\$ 4,834,895</u>	<u>\$ 613,850</u>
Supplementary disclosure of cash flows information				
Capital assets acquired through capital leases	\$ 67,776	\$ -0-	\$ 67,776	\$ 1,909,977

See accompanying notes to consolidated financial statements.

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

1. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

Discrete Component Units

Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the consolidated financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Jasper County Foundation, Inc. (the Foundation) is considered a discrete component unit for reporting purposes. All significant transactions between the Hospital and the Foundation have been eliminated for financial reporting purposes. The financial statements of the Foundation may be obtained from the Treasurer's office at 1104 East Grace Street, Rensselaer, Indiana 47978.

Long-Term Care Services

The Hospital owns the operations of a long-term care facility through an arrangement with a manager (the Manager) of the long-term care facility. The facility provides inpatient and therapy services. Generally, gross revenues from the operations of the facility are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

The Hospital entered into a lease agreement with the long-term care facility, referred to as the Lessor, to lease the facility managed by the Manager. Concurrently, the Hospital entered into an agreement with the Manager to manage the above leased facility.

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

As part of the agreement, the Hospital pays the Manager a management fee to manage the facility on behalf of the Hospital in accordance with the terms of the agreement. The agreements expire in October of 2014. The terms of the 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. While the management and related agreements are in effect, the performance of all activities of the Manager shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facility.

Use of Estimates

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

Enterprise Fund Accounting

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

Accounting Standards

In 2013, the Hospital adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The adoption of these GASB statements did not have an impact on previously reported net position or change in net position.

Cash and Cash Equivalents

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

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

Investments

Investments consist of mutual funds held by the Foundation. Investments are stated at fair value in the consolidated financial statements. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenues (expenses) in the consolidated statement of revenues, expenses and changes in net position.

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2010 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2011 through 2013 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2013, the Hospital recognized an increase of approximately \$95,000 in net patient service revenue in the consolidated statement of revenues, expenses and changes in net position due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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

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

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

Inventory and Other Current Assets

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory consists of medical supplies and pharmaceuticals. Other current assets consist of other receivables and various other current items related to long-term care operations. These assets are classified as current as they are expected to be utilized during 2014

Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes such as funded depreciation and investments restricted for debt service. These investments consist of cash and cash equivalents. Investment income is reported as nonoperating revenue in the consolidated statement of revenues, expenses and changes in net position.

Capital Assets

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

The capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) is \$2,500 per item. Depreciation is calculated on the straight-line method over the estimated useful lives of capital assets which range from 5-40 years. A mid-year convention is used for calculating depreciation of capital assets. For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Other Assets

Other assets consist of goodwill resulting from an acquisition of a health care entity in 1997. Goodwill is amortized over 40 years. The original cost of the goodwill was approximately \$575,000. Accumulated amortization of approximately \$237,000 has been recorded for a net carry value of approximately \$338,000 as of December 31, 2013. The Hospital expects to recognize amortization expense of approximately \$14,000 annually over the remaining life of the goodwill.

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

Costs of Borrowing

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

Net Position

The net position of the Hospital is classified into three components. Net investment in capital assets represents capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is the assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. Unrestricted net position is the remaining assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Consolidated Statements of Revenues, Expenses and Changes in Net Position

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

Grants and Contributions

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

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

Charity Care

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

Of the Hospital's total expenses reported within the consolidated statement of revenue and expenses, an estimated \$39,000 arose from providing services to charity patients. 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 to gross patient service revenue.

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 30).

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. For Critical Access Hospitals, the payment calculation is based upon the net book value of the qualifying assets multiplied by the Medicare utilization using Medicare to total inpatient days plus 20%, not to exceed 100%. The total days are multiplied by a factor of total charges excluding charity care to total charges. Critical Access Hospitals can be reimbursed over a four year period for additional qualifying assets not claimed in the first year. The transitional factor ranges from 100% in first payment year and decreases by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income, under the ratable recognition method, when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific contract requirements. In addition, the consolidated financial statement effects of the revenue must be both recognizable and measurable. During 2013, the Hospital recognized approximately \$422,000 in EHR incentive payments as grant income. EHR incentive revenue is included in other operating revenue in the consolidated statement of revenues, expenses and changes in net position.

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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.

Advertising and Community Relations

The Hospital expenses advertising and community relations costs as they are incurred. Total advertising and community relations expense for 2013 was approximately \$54,000.

Compensated Absences

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

Income Taxes

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

The Foundation is a tax-exempt organization under Internal Revenue Code 501(c)(3). 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.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and Foundation 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 the Hospital and the Foundation and has concluded that as of December 31, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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). The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Risk Management

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

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

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is July 29, 2014.

2. INVESTMENTS

Investments consist of mutual funds report at fair value of approximately \$929,000 as of December 31, 2013.

3. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited consist of cash and cash equivalent and are designated as follows:

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

Restricted for debt service - Hospital funds deposited with a trustee and limited as to use in accordance with the requirements of a trust indenture for debt service.

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

4. DEPOSITS AND INVESTMENTS

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

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

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

	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Mutual funds	<u>\$ 929,376</u>	<u>\$ 929,376</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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 U.S. Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Concentration of credit risk – The Hospital 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.

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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

Carrying amount	
Deposits	\$ 6,841,000
Investments	929,376
	<u>\$ 7,770,376</u>
Included in the balance sheet captions	
Cash and cash equivalents	\$ 4,196,742
Investments	929,376
Internally designated	1,452,649
Restricted for debt service	1,191,609
	<u>\$ 7,770,376</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.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

- *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 and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

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

	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Mid cap	\$ 78,918	\$ 78,918	\$ -0-	\$ -0-
Large cap	301,111	301,111	-0-	-0-
Small cap	32,109	32,109	-0-	-0-
International and global	190,441	190,441	-0-	-0-
Fixed income	326,797	326,797	-0-	-0-
Total investments	\$ 929,376	\$ 929,376	\$ -0-	\$ -0-

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2013.

Realized gains (losses) are included in earnings are reported in the consolidated statement of revenues, expenses and changes in net position as a component of investment income. There were no realized gains (losses) recorded in 2013. Gains of approximately \$112,000 included in earnings for 2013 are attributable to the change in unrealized gains relating to assets held as of December 31, 2013 and are reported in the consolidated statement of revenues, expenses and changes in net position as a component of investment income.

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

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

6. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital consisted of the following amounts as of December 31, 2013:

Patient accounts receivable	
Receivable from patients and insurance carriers	\$ 6,364,723
Receivable from Medicare	2,182,191
Receivable from Medicaid	545,548
Receivable from long-term care services	439,726
Total patient accounts receivable	9,532,188
Less allowances for contractual agreements and uncollectible amounts	3,848,509
Patient accounts receivable, net	\$ 5,683,679
Accounts payable and accrued salaries	
Payable to employees and related liabilities	\$ 2,130,214
Payable to suppliers and others	4,615,790
Total accounts payable and accrued salaries	\$ 6,746,004

7. CAPITAL ASSETS

Capital asset activity for 2013 is as follows:

	Balance December 31, 2012	Additions	Retirements	Transfers	Balance December 31, 2013
Land	\$ 53,965	\$ -0-	\$ -0-	\$ -0-	\$ 53,965
Land improvements	1,859,740	-0-	-0-	-0-	1,859,740
Buildings and improvements	22,436,670	100,027	(25,688)	-0-	22,511,009
Equipment	7,994,975	402,923	(91,101)	-0-	8,306,797
Total	32,345,350	502,950	(116,789)	-0-	32,731,511
Accumulated depreciation	10,650,384	1,229,571	(116,789)	-0-	11,763,166
Net capital assets	\$21,694,966	\$ (726,621)	\$ -0-	\$ -0-	\$20,968,345

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

8. LONG-TERM DEBT

During 2010, the Hospital entered into a long-term debt arrangement with the United States Department of Agriculture (USDA) in order to finance a construction/renovation project primarily related to the Hospital's main building. The construction/renovation project was completed during 2012. The USDA loan matures in 2050, is due in semi-annual installments of approximately \$386,000 with fixed interest rate of 4.125%, secured by Hospital revenues.

The Hospital also has capital lease obligations with interest rates ranging from 4% to 10% executed for property and equipment and are due at various times through 2019. Amounts are due in monthly installments ranging from approximately \$2,000 to \$12,000, including interest and are collateralized by equipment with net book values of approximately \$1,318,000 as of December 31, 2013.

Notes payable, due in March 2014, bear interest at 6.3% and are unsecured.

A schedule of changes in the Hospital's long-term debt for 2013 follows:

	Balance December 31, 2012	Additions	Payments	Balance December 31, 2013	Current portion
USDA loan payable	\$14,605,189	\$ -0-	\$ (170,000)	\$14,435,189	\$ 178,000
Notes payable	64,836	318,763	(325,642)	57,957	57,957
Capital leases	1,370,347	67,776	(379,921)	1,058,202	373,363
Total long-term debt	<u>\$ 16,040,372</u>	<u>\$ 386,539</u>	<u>\$ (875,563)</u>	<u>\$ 15,551,348</u>	<u>\$ 609,320</u>

Scheduled principal and interest payments on long-term debt are as follows:

Year Ending December 31,	Principal			Total Principal	Interest	Total
	USDA	Notes Payable	Capital Leases			
2014	\$ 178,000	\$ 57,957	\$ 373,363	\$ 609,320	\$ 645,253	\$ 1,254,573
2015	186,000	-0-	437,668	623,668	616,207	1,239,875
2016	192,000	-0-	223,863	415,863	585,708	1,001,571
2017	200,000	-0-	8,734	208,734	571,563	780,297
2018	210,000	-0-	7,779	217,779	562,780	780,559
2019-2023	1,184,000	-0-	6,795	1,190,795	2,672,443	3,863,238
2024-2028	1,455,000	-0-	-0-	1,455,000	2,403,883	3,858,883
2029-2033	1,781,000	-0-	-0-	1,781,000	2,074,604	3,855,604
2034-2038	2,185,000	-0-	-0-	2,185,000	1,671,179	3,856,179
2039-2043	2,679,000	-0-	-0-	2,679,000	1,176,406	3,855,406
2044-2048	3,287,000	-0-	-0-	3,287,000	568,459	3,855,459
2049-2050	898,189	-0-	-0-	898,189	32,702	930,891
	<u>\$ 14,435,189</u>	<u>\$ 57,957</u>	<u>\$ 1,058,202</u>	<u>\$ 15,551,348</u>	<u>\$ 13,581,189</u>	<u>\$ 29,132,537</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

The cost and accumulated depreciation of assets under capital leases included in property and equipment as of December 31, 2013 are as follows:

Equipment	\$ 1,799,998
Accumulated depreciation	481,784
	<u>\$ 1,318,214</u>

9. OPERATING LEASES

The Hospital has multiple operating leases expiring at various times through 2018. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating expense as incurred. Total facility and equipment lease expense, including cancelable and non-cancelable leases, for 2013 was approximately \$2,655,000. Minimum lease payments for non-cancellable leases for the years ending subsequent to December 31, 2013 are as follows:

Year Ending December 31,	
2014	\$ 453,631
2015	435,248
2016	235,435
2017	8,438
2018	15,466
	<u>\$ 1,148,218</u>

10. PATIENT SERVICE REVENUE

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

Medicare

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

Medicaid and the Hospital Assessment Fee Program

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

During 2012, Hospital Assessment Fee (HAF) Program was approved by Centers for Medicare & Medicaid Services (CMS). The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. The HAF Program was approved for extension in March 2014 by CMS for the period July 1, 2013 through June 30, 2017.

During 2013, the Hospital recognized HAF Program expense of approximately \$1,670,000. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the consolidated statement of revenues, expenses and changes in net position.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$121,000 during 2013. These programs are administered by the State of Indiana, but rely on Federal funding.

Other Payors

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

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

Net patient service revenue for 2013 consists of the following:

Inpatient services	\$ 12,940,479
Outpatient services	42,282,901
Long-term care services	3,843,678
Gross patient service revenue	<u>59,067,058</u>
Contractual allowances	14,389,355
Bad debts	4,051,289
Charity care	56,511
Deductions from revenue	<u>18,497,155</u>
Net patient service revenue	<u>\$ 40,569,903</u>

11. EMPLOYEE HEALTH PLAN

The Hospital is self-insured for employee health claims. The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees. An excess policy through commercial insurance generally covers individual claims in excess of \$80,000 per year with an overall aggregate of approximately \$3,200,000.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNR).

Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors. Health insurance expense for 2013 was approximately \$2,655,000.

Changes in IBNR for 2013 are as follows:

Unpaid claims, beginning of year	\$ 317,502
Incurred claims and changes in estimates	2,655,201
Claim payments	<u>(2,662,266)</u>
Unpaid claims, end of year	<u>\$ 310,437</u>

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

12. RISK MANAGEMENT

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

13. CONCENTRATIONS OF CREDIT RISK

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

	<u>Receivables</u>	<u>Revenue</u>
Medicare	24%	39%
Medicaid	6%	21%
Blue Cross	8%	15%
Commercial and other payors	24%	15%
Self-pay payors	38%	10%
	<u>100%</u>	<u>100%</u>

14. PENSION PLAN

Plan Description

The Hospital has a defined contribution pension plan for employees that meet certain eligibility requirements. The Plan provides retirement benefits to plan members. The Plan was established by written agreement between the Board of Trustees and the Plan administrator. Reports of the plan are available by contacting the Hospital's accounting department.

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

Funding Policy

The contribution requirements of Plan members are established by the written agreement between the Board of Trustees and the Plan administrator. Plan members are not required to contribute to the Plan. The current employer contribution rate is 2.5% of an eligible employee's first \$50,000 in wages and 5.0% on all wages above \$50,000 up to the maximum allowed by the Internal Revenue Service. Pension expense for 2013 was approximately \$326,000.

15. COMMITMENTS AND CONTINGENCIES

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

16. UPCOMING GASB PRONOUNCEMENTS

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

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

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

JASPER COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

17. MANAGEMENT'S CONSIDERATION OF GOING CONCERN

Since 2011, the Hospital's total net position decreased approximately \$1,437,000. The majority of this decrease occurred in 2011 and 2012 (\$1,688,000 and \$306,000, respectively), while 2013 net position increased \$557,000. Over the past three years, management implemented several initiatives to mitigate these financial conditions. These initiatives include implementation of programs to increase overall utilization including long-term care, revenue enhancement strategies, development of medical staff and reduction and control of certain expenditures as deemed appropriate. The ability of the Hospital to continue as a going concern is dependent on the plan's success. The consolidated financial statements do not include any adjustments that might be necessary if the Hospital is unable to continue as a going concern.



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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Jasper County Hospital
Rensselaer, Indiana

Report on Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources, issued by the Indiana State Board of Accounts, the consolidated financial statements of Jasper County Hospital (the Hospital), a component unit of Jasper County, Indiana, and its discretely presented component unit, which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2013-01 to be a material weakness.

Board of Trustees
Jasper County Hospital
Rensselaer, Indiana

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Hospital's Response to Findings

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Blue & Co., LLC

Indianapolis, Indiana
July 29, 2014

JASPER COUNTY HOSPITAL

SCHEDULE OF FINDINGS AND RESPONSES YEAR ENDED DECEMBER 31, 2013

FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS:

2013-01 – Material weakness related to segregation of duties:

Criteria – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – With limited personnel resources in the Hospital's accounting department, maintaining segregation of duties in key accounting functions is restricted in assessing and reviewing key financial statement accounts.

Context – A strong internal control environment requires adequate review and oversight of processes and procedures in the Hospital's key transaction cycles.

Effect - Potential material misstatements in the consolidated financial statements due to error or fraud could occur and not be prevented or detected and corrected in a timely manner.

Cause – The cause of this deficiency relates to limited personnel resources to provide oversight, review and approval of processes in the Hospital's key transaction cycles.

Recommendation: We recommend management review available personnel resources in conjunction with the procedures in the Hospital's key transaction cycles to strengthen and improve segregation of duties to promote cross training and additional compensating controls.

Views of Responsible Officials and Planned Corrective Actions: The Hospital agrees with the finding 2013-01 and is assessing the resources available in the accounting department to strengthen segregation of duties.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS:

2012-01 – Material weakness related to the valuation of patient accounts receivable

Condition: The 2011 consolidated financial statements were restated to reflect a correction in the Hospital's recorded net realizable value of patient accounts receivable.

Recommendation: We recommended management implement procedures to review the accuracy and overall valuation of patient accounts receivable on a timely basis.

Current status: Condition was resolved.

2012-02 – Material weakness related to segregation of duties:

Condition – With limited personnel resources in the Hospital's accounting department, maintaining segregation of duties in key accounting functions is restricted in assessing and reviewing key financial statement accounts.

Recommendation: We recommend management review available personnel resources in conjunction with the procedures in the Hospital's key transaction cycles to strengthen and improve segregation of duties to promote cross training and additional compensating controls.

Current status: See item 2013-01.
