



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

APRIL 30, 2015 AND 2014

CPAs / ADVISORS

 **blue**

COMMUNITY HOSPITAL OF BREMEN, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Community Hospital of Bremen, Inc.
Bremen, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Community Hospital of Bremen, Inc. (the Hospital) and its affiliate, which comprise the consolidated balance sheets as of April 30, 2015 and 2014, and the related consolidated statements of operations and changes in net assets, 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 conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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 Directors
Community Hospital of Bremen, Inc.
Bremen, Indiana

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of April 30, 2015 and 2014, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2015 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 22, 2015

COMMUNITY HOSPITAL OF BREMEN, INC.**CONSOLIDATED BALANCE SHEETS
APRIL 30, 2015 AND 2014**

	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,250,440	\$ 1,382,901
Investments	1,726,416	1,658,075
Patient accounts receivable, less allowance for uncollectible accounts of \$405,000 in 2015 and \$591,000 in 2014	2,826,012	2,842,911
Estimated third-party receivables	127,535	-0-
Supplies	149,552	150,980
Other current assets	450,559	740,488
Total current assets	6,530,514	6,775,355
Assets whose use is limited		
Board designated for capital improvements	179,689	327,204
Held by trustee	797,537	722,270
Donor restricted	-0-	13,000
Total assets whose use is limited	977,226	1,062,474
Property and equipment, net	15,279,119	16,173,478
Other assets	13,751	13,918
Total assets	<u>\$ 22,800,610</u>	<u>\$ 24,025,225</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 243,651	\$ 1,072,139
Accrued wages and related expenses	689,883	523,442
Other accrued liabilities	59,782	66,375
Estimated third-party settlements	-0-	281,027
Current portion of long-term debt	702,085	722,854
Total current liabilities	1,695,401	2,665,837
Long-term debt, less current portion	14,167,810	14,871,666
Total liabilities	15,863,211	17,537,503
Net assets		
Unrestricted	6,937,399	6,474,722
Temporarily restricted	-0-	13,000
Total net assets	6,937,399	6,487,722
Total liabilities and net assets	<u>\$ 22,800,610</u>	<u>\$ 24,025,225</u>

See accompanying notes to consolidated financial statements.

COMMUNITY HOSPITAL OF BREMEN, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED APRIL 30, 2015 AND 2014

	2015	2014
Unrestricted operating revenues and gains		
Net patient service revenue	\$ 17,381,696	\$ 15,773,781
Less provision for bad debts	321,716	626,232
Net patient service revenue net of provision for bad debts	17,059,980	15,147,549
Grants and other public support	63,551	76,957
Other revenue	522,665	1,310,939
Total unrestricted operating revenues and gains	17,646,196	16,535,445
Operating expenses		
Salaries and wages	6,430,886	5,918,366
Employee benefits	1,687,020	1,411,918
Physician fees	1,429,509	1,270,574
Medical and surgical supplies	1,760,432	1,608,445
Other supplies	193,731	187,687
Purchased services	2,085,907	1,798,681
Equipment rentals	861,315	768,148
Utilities	355,046	363,358
Insurance	94,922	126,360
Depreciation	1,174,106	1,212,199
Interest	621,626	665,263
HAF Program	271,690	597,259
Other	363,662	341,376
Total operating expenses	17,329,852	16,269,634
Operating income	316,344	265,811
Nonoperating revenues (expenses)		
Foundation unrestricted revenues	199,744	137,255
Net assets released from restriction	13,000	-0-
Foundation unrestricted expenses	(66,411)	(73,461)
Total nonoperating revenues (expenses)	146,333	63,794
Excess revenues over expenses	462,677	329,605
Temporarily restricted net assets		
Net assets released from restriction	(13,000)	-0-
Change in net assets	449,677	329,605
Net assets		
Beginning of year	6,487,722	6,158,117
End of year	\$ 6,937,399	\$ 6,487,722

See accompanying notes to consolidated financial statements.

COMMUNITY HOSPITAL OF BREMEN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED APRIL 30, 2015 AND 2014

	2015	2014
Operating activities		
Change in net assets	\$ 449,677	\$ 329,605
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	1,174,106	1,212,199
Provision for bad debts	321,716	626,232
Net realized and unrealized (gain) loss on investments	(44,500)	3,745
Changes in operating assets and liabilities		
Patient accounts receivable	(304,817)	(733,705)
Supplies, other current assets, and other assets	291,524	(128,501)
Accounts payable	(828,488)	367,810
Accrued wages and related expenses	166,441	(105,609)
Other accrued liabilities	(6,593)	(1,698)
Estimated third-party settlements	(408,562)	(115,116)
Net cash flows from operating activities	810,504	1,454,962
Investing activities		
Proceeds from the sale of investments	728,538	174,643
Purchase of investments	(667,131)	(189,247)
Purchase of property and equipment	(279,747)	(94,415)
Net cash flows from investing activities	(218,340)	(109,019)
Financing activities		
Payments on long-term debt	(724,625)	(617,635)
Proceeds from the issuance of long-term debt	-0-	462,796
Payments on line of credit, net	-0-	(855,487)
Net cash flows from financing activities	(724,625)	(1,010,326)
Net change in cash and cash equivalents	(132,461)	335,617
Cash and cash equivalents		
Beginning of year	1,382,901	1,047,284
End of year	\$ 1,250,440	\$ 1,382,901
Supplemental cash flows information		
Cash paid for interest	\$ 628,332	\$ 667,128

See accompanying notes to consolidated financial statements.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2015 AND 2014

1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Community Hospital of Bremen, Inc. (the Hospital) in the preparation of its consolidated financial statements are summarized below:

Organization

The Hospital, located in Bremen, Indiana, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient, and other ancillary services to the residents of Bremen and surrounding communities. Admitting physicians are primarily practitioners in the local area.

Community Hospital of Bremen Foundation, Inc. (Foundation), an affiliate of the Hospital, is a not-for-profit corporation established to support and assist the Hospital through grants and gifts as well as to provide other assistance towards the Hospital's stated exempt purpose.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Hospital and the Foundation. All material intercompany balances and transactions have been eliminated in the consolidation. Because the Foundation's sole purpose is to support the activities of the Hospital, the results of the Foundation have been consolidated with the Hospital's results. The consolidated net assets of the Hospital as of April 30, 2015 and 2014 include approximately \$1,351,000 and \$1,344,000, respectively, of net assets of the Foundation.

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Hospital considers highly liquid investments available for operating purposes with an original maturity of 90 days or less to be cash and cash equivalents for the purposes of the consolidated statements of cash flows.

Investments

The Hospital's investments consist of certificates of deposit and money market deposit funds with local financial institutions carried at cost and mutual funds carried at fair value.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2015 AND 2014

Patient Accounts Receivable

Patient service revenue and the related accounts receivable are recorded at the time services to patients are performed. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Allowance for Uncollectible Accounts

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, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, 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.

As of April 30, 2015, the Hospital's allowance for uncollectible accounts was approximately \$405,000 compared to approximately \$591,000 as of April 30, 2014. The uncollectible allowance for self-pay balances was 62% of self-pay balances and 10% of third-party payor accounts as of April 30, 2015 compared to 60% of self-pay balances and 11% of third-party payor accounts as of April 30, 2014. In addition, the Hospital's self-pay related write-offs were \$508,000 in 2015 compared to \$565,000 in 2014. The change was the result of trends experienced in the collection of amounts from patients in 2015. The Hospital did not change its charity care or uninsured discount policies during 2015 or 2014.

Patient Service Revenue

Patient service revenue and the related accounts receivable are recorded at the time services to patients are performed. A summary of the payment arrangements with major third-party payors follows:

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2015 AND 2014

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 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 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.

The purpose of the Hospital Assessment Fee (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 assets.

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 2015 and 2014, the Hospital recognized HAF Program expense of approximately \$272,000 and \$597,000, respectively, which resulted in Medicaid rate increases. The Medicaid rate increases under the HAF Program are included in patient service revenue in the consolidated statements of operations and changes in net assets.

Other Payment Arrangements

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 and discounts from established rates.

The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The year-end cost reports filed with the Medicare and Medicaid programs through April 30, 2013 have been audited by these programs and any resulting differences are reflected in the consolidated financial statements. During 2015 and 2014, the Hospital recognized an increase in net patient service revenue and net assets of approximately \$16,000 and \$42,000, respectively, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2015 AND 2014

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.

A summary of patient service revenue for 2015 and 2014 follows:

	<u>2015</u>	<u>2014</u>
Gross patient service revenue		
Inpatient services	\$ 5,415,707	\$ 5,349,686
Outpatient services	<u>27,918,135</u>	<u>24,073,589</u>
Total gross patient service revenue	33,333,842	29,423,275
Less provisions for		
Contractual adjustments under third-party reimbursement programs	14,872,525	12,778,984
Charity care	<u>1,079,621</u>	<u>870,510</u>
Net patient service revenue	17,381,696	15,773,781
Less provision for bad debts	<u>321,716</u>	<u>626,232</u>
Patient service revenue	<u>\$ 17,059,980</u>	<u>\$ 15,147,549</u>

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts deemed to be charity care, they are not reported as revenue. Amounts recognized as charity care as of April 30, 2015 and 2014 are approximately \$1,080,000 and \$871,000, respectively.

Of the Hospital's total unrestricted operating expense reported, an estimated \$561,000 and \$481,000 arose from providing services to charity patients during 2015 and 2014, respectively. 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 to gross patient service revenue.

Supplies

Supplies consist mainly of pharmaceuticals and medical supplies and are valued the lower of cost or market on a first-in first-out basis.

Other Current Assets

Other current assets consist of prepaid expenses, other receivables and various other current items. These assets are classified as current as they are expected to be utilized within the next fiscal year.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2015 AND 2014

Contributions

Donations are recorded at fair value as revenue on the date the promise to give is irrevocable. Depending on the existence and nature of any donor restrictions, donations are reflected as increases in unrestricted, temporarily restricted, or permanently restricted net assets. When restrictions expire due to the passage of time or when the purpose is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Assets Whose Use is Limited

Assets whose use is limited by internal board designation for capital improvements include cash and cash equivalents and are recorded at cost.

Assets held by trustee include cash and cash equivalents from Hospital deposits for debt service payments and construction commitments in compliance with the debt agreements.

Donor restricted assets include cash and cash equivalents and are temporarily restricted by donors as to purpose.

Property and Equipment and Provision for Depreciation

Property and equipment are recorded at historical cost except for donations, which are recorded at fair market value at the date of the donation. Property and equipment include expenditures for additions and repairs that substantially increase the useful lives of existing property and equipment. Maintenance, repairs and minor renewals are expensed as incurred. Property and equipment are being depreciated over their estimated useful lives using the straight-line method.

The ranges of useful lives used in computing depreciation are as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Buildings and improvements	10-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. During 2015 and 2014, there were no gifts of long-lived assets with restrictions.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2015 AND 2014

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by external sources for a specific time period or purpose. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Restrictions that are met within the year of receipt are reflected with unrestricted net assets. As of April 30, 2014, temporarily restricted net assets related to the maternity and infant department were approximately \$13,000. As of April 30, 2015, all temporarily restricted net assets were released.

Operating Income

The consolidated statements of operations and changes in net assets include an intermediate measure of operations referred to as operating income. This intermediate measure of operations is comprised of unrestricted operating revenues and gains less operating expenses.

Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator, excess revenues over expenses. Changes in unrestricted net assets that are excluded from the performance indicator include unrealized gain and loss on investments other than trading securities and contributions of long-lived assets.

Federal and State Income Taxes

Both the Hospital and Foundation are organized as not-for-profit corporations under Section 501(c)(3) of the United States Internal Revenue Code. The exemption is on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose.

As such, the Hospital and Foundation are generally exempt from income taxes. However, the Hospital and Foundation are 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 they 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 Foundation and has concluded that as of April 30, 2015 and 2014, 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 Hospital and Foundation are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2015 AND 2014

The Hospital and Foundation filed their federal and state income tax returns for periods through April 30, 2014. 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).

Advertising Costs

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expenses were approximately \$33,000 and \$32,000 in 2015 and 2014, 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 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 the 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 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 consolidated financial statement effects of the grants must be both recognizable and measurable. During 2015 and 2014, the Hospital recognized approximately \$208,000 and \$930,000, respectively, in EHR incentive payments as other revenue in the consolidated statement of operations and changes in net assets 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. 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 program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2015 AND 2014

Reclassification

Certain items in the 2014 consolidated financial statements have been reclassified herein to conform to the current year presentation with no changes on previously reported net assets or change in net assets.

Subsequent Events

The Hospital has 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 22, 2015.

2. INVESTMENTS

Investments consist of the following as of April 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 23,987	\$ 112,150
Certificates of deposit	650,000	643,250
Mutual funds	<u>1,052,429</u>	<u>902,675</u>
	<u>\$ 1,726,416</u>	<u>\$ 1,658,075</u>

The following is a reconciliation of investment income, included in other revenue on the consolidated statements of operations and changes in net assets for 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 29,381	\$ 24,044
Net realized and unrealized gain (loss) on investments	<u>44,500</u>	<u>(3,745)</u>
	<u>\$ 73,881</u>	<u>\$ 20,299</u>

3. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include board-designated funds for capital improvements, funds designated for debt service held by trustee and donor restricted funds. The funds are recorded at fair value include the following as of April 30:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 337,226	\$ 1,062,474
Certificates of deposit	<u>640,000</u>	<u>-0-</u>
	<u>\$ 977,226</u>	<u>\$ 1,062,474</u>

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2015 AND 2014

4. FAIR VALUE MEASUREMENTS

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

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

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 April 30, 2015 and 2014.

- *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.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2015 AND 2014

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 April 30, 2015 and 2014 are as follows:

	April 30, 2015			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Large/Mid Cap	\$ 102,991	\$ 102,991	\$ -0-	\$ -0-
Growth	188,974	188,974	-0-	-0-
Value	199,962	199,962	-0-	-0-
Small Cap	33,325	33,325	-0-	-0-
Emerging Market	76,825	76,825	-0-	-0-
Fixed income	365,552	365,552	-0-	-0-
Foreign	84,800	84,800	-0-	-0-
Total mutual funds	1,052,429	\$ 1,052,429	\$ -0-	\$ -0-
Cash and cash equivalents	23,987			
Certificates of deposit	650,000			
Total investments	\$ 1,726,416			
	April 30, 2014			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Large/Mid Cap	\$ 59,242	\$ 59,242	\$ -0-	\$ -0-
Growth	155,880	155,880	-0-	-0-
Value	170,415	170,415	-0-	-0-
Emerging Market	53,220	53,220	-0-	-0-
Fixed Income	311,246	311,246	-0-	-0-
Index	152,672	152,672	-0-	-0-
Total mutual funds	902,675	\$ 902,675	\$ -0-	\$ -0-
Cash and cash equivalents	112,150			
Certificates of deposit	643,250			
Total investments	\$ 1,658,075			

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2015 and 2014.

Realized gain and loss are reported in the consolidated statements of operations and changes in net assets as a component of investment income which is included in other revenue. The market value of investments exceeded the cost by approximately \$65,000 and \$23,000 as of April 30, 2015 and 2014, respectively. The unrealized gain or loss is included in earnings for the period attributable to the change in unrealized gain or loss relating to assets held as of April 30, 2015 and 2014 and is reported in the consolidated statements of operations and changes in net assets as a component of investment income which is included in other revenue. During 2015, the Hospital recognized a net realized and unrealized gain of approximately \$45,000 compared to a net realized and unrealized loss of approximately \$4,000 in 2014.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2015 AND 2014

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.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of April 30:

	2015	2014
Land and land improvements	\$ 440,039	\$ 440,039
Buildings and improvements	17,763,051	17,740,106
Equipment	7,212,053	6,878,215
Construction in progress	55,770	132,806
	<u>25,470,913</u>	<u>25,191,166</u>
Less accumulated depreciation	<u>10,191,794</u>	<u>9,017,688</u>
	<u>\$ 15,279,119</u>	<u>\$ 16,173,478</u>

There were no significant commitments related to property and equipment as of April 30, 2015 and 2014.

6. LONG-TERM DEBT

The following is the summary of long-term debt as of April 30:

	2015	2014
Loan payable to Lake City Bank dated August 4, 2004, semi-annual payments of principal and interest at variable rate (3.50% as of April 30, 2015), due January 1, 2025, secured by real property.	\$ 3,487,487	\$ 3,836,321
Loan payable to United States Department of Agriculture dated April 25, 2005, semi-annual payments of principal and interest, interest at fixed rate of 4.25%, due April 15, 2045, secured by real property.	10,782,813	10,960,102
Loan payable to Lake City Bank dated February 28, 2013, monthly payments of principal and interest at a fixed rate of 4.10%, due February 28, 2018, secured by general assets.	266,158	352,864
Loan payable to Lake City Bank dated March 14, 2014, monthly payments of principal and interest at a fixed rate of 4.24%, due March 14, 2019, secured by general assets.	333,437	409,970
Other various notes	-0-	35,263
	<u>14,869,895</u>	<u>15,594,520</u>
Less current portion	<u>702,085</u>	<u>722,854</u>
	<u>\$ 14,167,810</u>	<u>\$ 14,871,666</u>

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2015 AND 2014

Annual maturities of long-term debt for the years succeeding April 30, 2015 are as follows:

Year Ending April 30,	
2016	\$ 702,085
2017	717,149
2018	716,375
2019	639,423
2020	565,208
Thereafter	<u>11,529,655</u>
	<u>\$ 14,869,895</u>

The Hospital's loan with Lake City Bank, dated August 4, 2004, bears interest at a variable rate equal to the prime rate, minus .50%, adjusted annually with a floor of 3.50% and a ceiling of 8.50%. The variable rate was 3.50% as of April 30, 2015 and 2014. The outstanding balance on the loan as of April 30, 2015 and 2014 was approximately \$3,488,000 and \$3,836,000, respectively. The loan is secured by the real property with a net book value of approximately \$13,974,000 and \$14,414,000 as of April 30, 2015 and 2014, respectively. Additionally, the loan is guaranteed up to 90% by the United States Department of Agriculture (USDA).

The Hospital obtained a direct construction loan, dated April 25, 2005, from the USDA in the amount of \$12 million. As of April 30, 2015 and 2014, the outstanding balance on the loan was approximately \$10,783,000 and \$10,960,000, respectively. The loan bears interest at a fixed of 4.25% to be repaid over 40 years. The loan is secured by the real property with a net book value of approximately \$13,974,000 and \$14,414,000 as of April 30, 2015 and 2014, respectively.

During 2013, the Hospital obtained a loan with Lake City Bank for the construction of a Magnetic Resonance Imaging housing unit. The loan bears interest at a fixed rate of 4.10% and is due in February of 2018. The outstanding balance on the loan as of April 30, 2015 and 2014 was approximately \$266,000 and \$353,000, respectively. The loan is secured by all inventory, accounts, equipment and general intangibles of the Hospital with a net book value of approximately \$312,000 and \$374,000 as of April 30, 2015 and 2014.

During 2014, the Hospital obtained a loan with Lake City Bank to assist with financing of an EHR system. The loan bears interest at a fixed rate of 4.24% and is due in March 14, 2019. The outstanding balance on the loan as of April 30, 2015 and 2014 was approximately \$333,000 and \$410,000, respectively. The loan is secured by all inventory, accounts, equipment and general intangibles of the Hospital with a net book value of approximately \$4,970,000 and \$5,800,000 as of April 30, 2015 and April 30, 2014, respectively.

The above loan agreements require the Hospital to comply with certain restrictive covenants including maintenance of minimum debt service coverage. As of April 30, 2015, the management of the Hospital believed it was in compliance with the restrictive loan covenants.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2015 AND 2014

The Hospital has a line of credit available with a local financial institution with maximum amount of \$1,000,000. The line of credit is at a variable rate of interest based on the financial institution's base rate, adjusted on the same day change basis with a floor of 3.0% and a ceiling of 6.5%. The variable rate was 3.0% as of April 30, 2015. There were no outstanding amounts on the line of credit as of April 30, 2015 and 2014. The line of credit is secured by all inventory, accounts, equipment and general intangibles with a net book value of approximately \$1,000,000 as of April 30, 2015 and 2014. In May 2015, the amount available on the line of credit was reduced by \$200,000. The remaining \$800,000 on the line of credit is available through October 2018.

7. RETIREMENT PLAN

The Hospital has a defined contribution pension plan, which covers all eligible employees. The Hospital's contribution is limited to matching the employee's contribution up to 3% of each participant's annual salary. At various times during 2015 and 2014, the Hospital temporarily suspended and subsequently reinstated the matching contribution. Pension expense was approximately \$32,000 and \$8,000 for 2015 and 2014, respectively.

8. CONCENTRATIONS OF CREDIT RISK

Hospital is located in Bremen, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. Percentages of patient accounts receivable and patient service revenue were as follows as of and for the years ended April 30, 2015 and 2014:

	<u>Receivables</u>		<u>Revenue</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Medicare	33%	39%	35%	32%
Self pay	14%	13%	8%	9%
Commercial	29%	30%	33%	35%
Blue Cross	20%	14%	17%	16%
Medicaid	4%	4%	7%	8%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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.

9. COMMITMENTS AND CONTINGENCIES

Estimated Malpractice Costs

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for malpractice, general liability, and employee medical claims. The Hospital is insured against medical malpractice claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2015 AND 2014

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.

Litigation

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

10. SELF FUNDED HEALTH INSURANCE

The Hospital is self-funded for medical and related health benefits provided to employees and their families. A third-party administrator has been retained to process and present all benefit claims to the Hospital for payment. A stop/loss policy through commercial insurance covers individual claims in excess of \$30,000 per individual per policy year with an aggregate limit of approximately \$1,000,000 per individual.

Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Self-funded health insurance and related expenses were \$1,142,000 and \$925,000 in 2015 and 2014, respectively.

11. FUNCTIONAL EXPENSES

The Hospital is an acute care hospital providing inpatient, outpatient and other ancillary services to the residents within its geographical region. Expenses related to providing these services for 2015 and 2014 approximate the following:

	2015	2014
Health care services	\$ 14,083,145	\$ 13,230,553
Administrative and general	3,246,707	3,039,081
	17,329,852	16,269,634
Fundraising	66,411	73,461
Total expenses	<u>\$ 17,396,263</u>	<u>\$ 16,343,095</u>

Certain costs have been allocated among the health care services, administrative and general and fundraising categories based on the actual direct expenditures and cost allocations based upon time spent by the Hospital's personnel. Although the methods used were appropriate, alternative methods may provide different results.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2015 AND 2014

12. OPERATING LEASES

The Hospital has various non-cancelable lease agreements for medical and office equipment through 2020. Equipment rent expense was approximately \$861,000 and \$768,000 for 2015 and 2014, respectively. Minimum required lease payments are as follows:

Year Ending April 30,	
2016	\$ 758,500
2017	571,500
2018	320,000
2019	140,000
2020	47,000
	<u>\$ 1,837,000</u>

SUPPLEMENTARY INFORMATION

COMMUNITY HOSPITAL OF BREMEN, INC.

**CONSOLIDATING BALANCE SHEET
APRIL 30, 2015**

ASSETS	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Current assets				
Cash and cash equivalents	\$ 967,096	\$ 283,344	\$ -0-	\$ 1,250,440
Investments	650,000	1,076,416	-0-	1,726,416
Patient accounts receivable, net	2,826,012	-0-	-0-	2,826,012
Estimated third party receivables	127,535	-0-	-0-	127,535
Supplies	149,552	-0-	-0-	149,552
Other current assets	450,559	-0-	-0-	450,559
Total current assets	<u>5,170,754</u>	<u>1,359,760</u>	<u>-0-</u>	<u>6,530,514</u>
Assets whose use is limited				
Board designated for capital improvements	179,689	-0-	-0-	179,689
Trustee held	797,537	-0-	-0-	797,537
Total assets whose use is limited	<u>977,226</u>	<u>-0-</u>	<u>-0-</u>	<u>977,226</u>
Property and equipment, net	15,279,119	-0-	-0-	15,279,119
Other assets	-0-	13,751	-0-	13,751
Total assets	<u>\$ 21,427,099</u>	<u>\$ 1,373,511</u>	<u>\$ -0-</u>	<u>\$ 22,800,610</u>
 LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 220,665	\$ 22,986	\$ -0-	\$ 243,651
Accrued wages and related expenses	689,883	-0-	-0-	689,883
Other accrued liabilities	59,782	-0-	-0-	59,782
Current portion long-term debt	702,085	-0-	-0-	702,085
Total current liabilities	<u>1,672,415</u>	<u>22,986</u>	<u>-0-</u>	<u>1,695,401</u>
Long-term debt, less current portion	14,167,810	-0-	-0-	14,167,810
Total liabilities	<u>15,840,225</u>	<u>22,986</u>	<u>-0-</u>	<u>15,863,211</u>
Net assets				
Unrestricted	5,586,874	1,350,525	-0-	6,937,399
Total liabilities and net assets	<u>\$ 21,427,099</u>	<u>\$ 1,373,511</u>	<u>\$ -0-</u>	<u>\$ 22,800,610</u>

See report of independent auditors on pages 1 and 2.

COMMUNITY HOSPITAL OF BREMEN, INC.

**CONSOLIDATING BALANCE SHEET
APRIL 30, 2014**

ASSETS	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Current assets				
Cash and cash equivalents	\$ 1,029,299	\$ 353,602	\$ -0-	\$ 1,382,901
Investments	643,250	1,014,825	-0-	1,658,075
Patient accounts receivable, net	2,842,911	-0-	-0-	2,842,911
Supplies	150,980	-0-	-0-	150,980
Other current assets	785,368	-0-	(44,880)	740,488
Total current assets	5,451,808	1,368,427	(44,880)	6,775,355
Assets whose use is limited				
Board designated for capital improvements	327,204	-0-	-0-	327,204
Trustee held	722,270	-0-	-0-	722,270
Donor restricted	-0-	13,000	-0-	13,000
Total assets whose use is limited	1,049,474	13,000	-0-	1,062,474
Property and equipment, net	16,173,478	-0-	-0-	16,173,478
Other assets	-0-	13,918	-0-	13,918
Total assets	<u>\$ 22,674,760</u>	<u>\$ 1,395,345</u>	<u>\$ (44,880)</u>	<u>\$ 24,025,225</u>
 LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 1,065,647	\$ 51,372	\$ (44,880)	\$ 1,072,139
Accrued wages and related expenses	523,442	-0-	-0-	523,442
Other accrued liabilities	66,375	-0-	-0-	66,375
Estimated third-party settlements	281,027	-0-	-0-	281,027
Current portion long-term debt	722,854	-0-	-0-	722,854
Total current liabilities	2,659,345	51,372	(44,880)	2,665,837
Long-term debt, less current portion	14,871,666	-0-	-0-	14,871,666
Total liabilities	17,531,011	51,372	(44,880)	17,537,503
Net assets				
Unrestricted	5,143,749	1,330,973	-0-	6,474,722
Temporarily restricted	-0-	13,000	-0-	13,000
Total net assets	5,143,749	1,343,973	-0-	6,487,722
Total liabilities and net assets	<u>\$ 22,674,760</u>	<u>\$ 1,395,345</u>	<u>\$ (44,880)</u>	<u>\$ 24,025,225</u>

See report of independent auditors on pages 1 and 2.

COMMUNITY HOSPITAL OF BREMEN, INC.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED APRIL 30, 2015

	Hospital	Foundation	Eliminations	Total
Unrestricted operating revenue and gains				
Net patient service revenue	\$ 17,381,696	\$ -0-	\$ -0-	\$ 17,381,696
Less provision for bad debts	321,716	-0-	-0-	321,716
Net patient service revenue net of provision for bad debts	17,059,980	-0-	-0-	17,059,980
Grants and other public support	63,551	-0-	-0-	63,551
Other revenue	534,665	-0-	(12,000)	522,665
Total unrestricted operating revenue and gains	17,658,196	-0-	(12,000)	17,646,196
Operating expenses				
Salaries and wages	6,430,886	-0-	-0-	6,430,886
Employee benefits	1,687,020	-0-	-0-	1,687,020
Physician fees	1,429,509	-0-	-0-	1,429,509
Medical and surgical supplies	1,760,432	-0-	-0-	1,760,432
Other supplies	193,731	-0-	-0-	193,731
Purchased services	2,085,907	-0-	-0-	2,085,907
Equipment rentals	861,315	-0-	-0-	861,315
Utilities	355,046	-0-	-0-	355,046
Insurance	94,922	-0-	-0-	94,922
Depreciation	1,174,106	-0-	-0-	1,174,106
Interest	621,626	-0-	-0-	621,626
HAF Program	271,690	-0-	-0-	271,690
Other	363,662	-0-	-0-	363,662
Total operating expenses	17,329,852	-0-	-0-	17,329,852
Operating income	328,344	-0-	(12,000)	316,344
Nonoperating revenues (expenses)				
Foundation revenues	-0-	199,744	-0-	199,744
Net assets released from restriction	-0-	13,000	-0-	13,000
Foundation expenses	-0-	(193,192)	126,781	(66,411)
Total nonoperating revenues (expenses)	-0-	19,552	126,781	146,333
Excess revenues over expenses	328,344	19,552	114,781	462,677
Other changes in unrestricted net assets				
Contributions from Foundation	114,781	-0-	(114,781)	-0-
Change in unrestricted net assets	443,125	19,552	-0-	462,677
Temporarily restricted net assets				
Net assets released from restriction	-0-	(13,000)	-0-	(13,000)
Change in net assets	443,125	6,552	-0-	449,677
Net assets				
Beginning of year	5,143,749	1,343,973	-0-	6,487,722
End of year	\$ 5,586,874	\$ 1,350,525	\$ -0-	\$ 6,937,399

See report of independent auditors on pages 1 and 2.

COMMUNITY HOSPITAL OF BREMEN, INC.

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2014**

	Hospital	Foundation	Eliminations	Total
Unrestricted operating revenue and gains				
Net patient service revenue	\$ 15,773,781	\$ -0-	\$ -0-	\$ 15,773,781
Less provision for bad debts	626,232	-0-	-0-	626,232
Net patient service revenue net of provision for bad debts	15,147,549	-0-	-0-	15,147,549
Grants and other public support	76,957	-0-	-0-	76,957
Other revenue	1,312,739	-0-	(1,800)	1,310,939
Total unrestricted operating revenue and gains	16,537,245	-0-	(1,800)	16,535,445
Operating expenses				
Salaries and wages	5,879,725	-0-	38,641	5,918,366
Employee benefits	1,408,096	-0-	3,822	1,411,918
Physician fees	1,270,574	-0-	-0-	1,270,574
Medical and surgical supplies	1,608,445	-0-	-0-	1,608,445
Other supplies	187,087	-0-	600	187,687
Purchased services	1,798,681	-0-	-0-	1,798,681
Equipment rentals	768,148	-0-	-0-	768,148
Utilities	363,358	-0-	-0-	363,358
Insurance	126,360	-0-	-0-	126,360
Depreciation	1,212,199	-0-	-0-	1,212,199
Interest	665,263	-0-	-0-	665,263
HAF program	597,259	-0-	-0-	597,259
Other	341,376	-0-	-0-	341,376
Total operating expenses	16,226,571	-0-	43,063	16,269,634
Operating income	310,674	-0-	(44,863)	265,811
Nonoperating revenues (expenses)				
Foundation revenues	-0-	137,255	-0-	137,255
Foundation expenses	-0-	(141,790)	68,329	(73,461)
Total nonoperating revenues (expenses)	-0-	(4,535)	68,329	63,794
Excess revenues over (under) expenses	310,674	(4,535)	23,466	329,605
Other changes in unrestricted net assets				
Contributions from Foundation	23,466	-0-	(23,466)	-0-
Change in unrestricted net assets	334,140	(4,535)	-0-	329,605
Net assets				
Beginning of year	4,809,609	1,348,508	-0-	6,158,117
End of year	\$ 5,143,749	\$ 1,343,973	\$ -0-	\$ 6,487,722

See report of independent auditors on pages 1 and 2.



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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 Directors
Community Hospital of Bremen, Inc.
Bremen, Indiana

Report on the Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Community Hospital of Bremen, Inc. (the Hospital), which comprise the consolidated balance sheet as of April 30, 2015, and the related consolidated statements of operations and changes in net assets, 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 22, 2015.

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.

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. A significant deficiency is a deficiency, or a 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Community Hospital of Bremen, Inc.
Bremen, Indiana

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 consolidated 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*.

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 22, 2015