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December 28, 2010

Board of Directors
Decatur County Memorial Hospital
720 Lincoln Street
Greensburg, IN 47240

We have reviewed the audit report prepared by Kerber, Eck & Braeckel, LLP, Independent Public Accountants, for the period January 1, 2009 to December 31, 2009. 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 Decatur County Memorial Hospital, as of December 31, 2009 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECATUR COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF
DECATUR COUNTY, INDIANA

Year Ended December 31, 2009

9-

24



DECATUR COUNTY MEMORIAL HOSPITAL

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DECATUR COUNTY MEMORIAL HOSPITAL

HOSPITAL OFFICIALS

Office	Official	Term
President/Treasurer	Mr. Bill Alloy	03/01/09 To 02/28/10
Vice President of Finance Co Treasurer	Mr. Michael R. Ruckel	03/01/09 To 02/28/10
Chairman of the Hospital Board	Ms. Toni Collins	03/01/09 To 02/28/10
President of the Board of County Commissioners	Mr. Jerome Buening	03/01/09 To 02/28/10



Kerber, Eck & Braeckel LLP

CPAs and
Management Consultants

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Carbondale, IL 62901-2335
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Decatur County Memorial Hospital
Decatur County, Indiana

We have audited the accompanying balance sheet of Decatur County Memorial Hospital as of December 31, 2009 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Decatur County Memorial Hospital as of December 31, 2009, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the hospital. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kerber, Eck & Braeckel LLP

Carbondale, Illinois
April 13, 2010

DECATUR COUNTY MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS

Decatur County Memorial Hospital (Hospital) located in Greensburg, Indiana was established in 1922. The Hospital is committed to improving the health of the people who live in the community. The values, standards of excellence and vision provide the framework for directing the actions of the Hospital.

This section of the Hospital's annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the fiscal year ended December 31, 2009. This MD&A should be read together with the financial statements included in this report.

OPERATING RESULTS AND FINANCIAL PERFORMANCE

During 2009, the Hospital derived most of its revenue from patient services and other related activities. Approximately 79% of the Hospital's patient revenue is dependent upon outpatient procedures as ordered by physicians. The Hospital has entered into agreements with third-party payers, including governmental programs, under which payments for healthcare services provided to patients are based upon discounts from gross charges and predetermined rates relating to a patient's diagnosis. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the gross charges for services and the actual or anticipated payment.

The Hospital derives a significant portion of its revenues caring for patients covered under government health programs, principally Medicare and Medicaid. In 2009, inpatient revenues derived from the Medicare and Medicaid programs were 62.6% of total inpatient revenues compared to 61.6% in 2008. Outpatient revenues derived from both programs were 48.2% in 2009 compared to 45.0% in 2008.

The table below presents the percentages of gross revenues for patient services, by payer, for the years ended December 31, 2009 and 2008, respectively:

	<u>2009</u>	<u>2008</u>
Medicare	39.2%	39.1%
Medicaid	11.7%	10.1%
Blue Cross	19.8%	21.3%
Other	23.4%	22.2%
Self Pay	5.9%	7.3%

FINANCIAL ANALYSIS

The Hospital's Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets along with the Statement of Cash Flows report the information about the Hospital's activities. A comparative summary of the Hospital's Balance Sheet as of December 31, 2009 and December 31, 2008 is presented below:

Assets:	<u>2009</u>	<u>2008</u>
Cash and short-term investments	\$ 14,558,109	\$ 10,404,310
Long term investments	\$ 158,333	\$ 347,219
Other designated cash and equiv	\$ 5,958,824	\$ 4,829,953
Accounts Receivable	\$ 5,884,626	\$ 7,127,472
Other Current Assets	\$ 1,079,328	\$ 1,534,273
Net property and equipment	\$ 24,295,709	\$ 24,510,913
Other assets	\$ 136,753	\$ 153,801
Liabilities and Fund Balance:		
Current and other liabilities	\$ 5,738,923	\$ 4,633,946
Long-term obligations	\$ 4,235,682	\$ 5,064,784
Net assets	\$ 42,097,077	\$ 32,209,211

CAPITAL ASSETS

During 2009 the Hospital made the following significant capital acquisitions and improvements:

- Purchased a C-Arm for radiology department at a cost of \$125,000.
- Purchased an Infinity Vision System to be utilized for cataract surgery at a cost of \$66,000.
- Purchased and replaced a Blood Culture Instrument for our laboratory at a cost of \$34,000.
- Purchased a Video Endoscopy System for surgery at a cost of \$179,000.
- Purchased a Computer Radiography System for radiology at a cost of \$129,000.
- Renovated and updated a portion of our 2nd floor at a cost of \$383,000. Our current outpatient clinics were relocated to the updated 2nd floor.

A summary of the Hospital's capital assets as of December 31, 2009 and 2008 is presented below:

	As of <u>12/31/09</u>	As of <u>12/31/08</u>
Land	\$ 905,928	\$ 905,928
Land Improvements	353,413	432,832
Buildings	25,339,085	24,815,095
Equipment	17,108,739	19,564,902
Construction in progress	<u>466,483</u>	<u>462,196</u>
Total capital assets	44,173,648	46,180,953
Less accumulated depreciation	<u>19,877,939</u>	<u>21,670,040</u>
Net capital assets	<u>\$ 24,295,709</u>	<u>\$ 24,510,913</u>

For additional information relating to capital assets of the hospital, please see the Notes to the Financial Statements.

LONG-TERM DEBT

The hospital has the following long-term debt at December 31, 2009:

<u>Description</u>	<u>Purpose</u>	
2002 Refunding Bonds	Hospital Construction	\$ 1,560,000
2002 Revenue Bonds	Hospital Construction	\$ 2,605,000
Capital Lease	MRI Equipment	\$ 92,542
Loan	Facility Renovation	\$ 82,441

The 2002 Refunding Bond issue defeased a Revenue Bond issue from 1994, which was for the purpose of adding approximately 36,000 sq ft of new space for the hospital. This included new surgery suites, new emergency room, new radiology and diagnostic areas, new patient registration area, new physical therapy area, as well as a renovated lab area. The hospital funds on a monthly basis to a restricted fund, the amount necessary for principal and interest due to the bondholders, in accordance with the bond ordinance.

The 2002 Revenue Bonds were issued for the purpose of funding additional construction to the existing hospital facility. Construction was completed in 2005 on the 30,000 sq ft addition, which included a new women's center, a new emergency room, new clinical areas, new conference areas, as well as renovation of existing hospital spaces. The hospital funds on a monthly basis to a restricted fund, the amount necessary for principal and interest due the bondholders, in accordance with the bond ordinance.

The Hospital entered in to a capital lease for the acquisition of new MRI equipment in 2006. This lease is scheduled to be paid off in 2011.

The Hospital entered in to a loan agreement for renovation costs to the existing facility, for installation of new MRI equipment. This loan is scheduled to be paid off in 2011.

For additional information on long-term debt of the hospital, please see the Notes to the Financial Statements.

FINANCIAL SUMMARY

A comparative summary of the Statement of Revenues, Expenses and Changes in Net Assets for the years ended December 31, 2009 and December 31, 2008 is presented below:

	<u>2009</u>	<u>2008</u>
Revenues:		
Net patient service revenue	\$ 41,324,342	\$ 46,890,348
Other	<u>565,375</u>	<u>638,655</u>
Total Revenues	41,889,717	47,529,003
Operating Expenses:		
Salaries and benefits	24,082,383	23,529,052
Supplies	5,659,949	7,020,518
Other	7,525,255	8,374,132
Depreciation	<u>2,326,277</u>	<u>2,320,724</u>
Total Operating Expenses	39,593,864	41,244,426
Operating income	2,295,853	6,284,577
Nonoperating income (net)	<u>604,417</u>	<u>581,919</u>
Excess of revenues over expenses	2,900,270	6,866,496
Net assets, beginning of year	39,209,211	32,413,878
Assets released from restriction	(73,720)	(127,252)
Capital grants and contributions	<u>61,316</u>	<u>56,089</u>
Net assets, end of year	<u>\$ 42,097,077</u>	<u>\$ 39,209,211</u>

Notes on Hospital's Statement of Revenues and Expenses:

- The Hospital's contractual adjustments for the year ended December 31, 2009 were 43.2% of gross patient revenue compared to 36.8% in 2008.

FUTURE OUTLOOK AND 2010 BUSINESS PLAN

Management believes the hospital industry will continue to be under significant pressure to continue to control costs and maintain reasonable rates while providing higher quality services. One of the Hospital's main challenges as a small rural hospital is to compete in the surrounding market for qualified and caring personnel. The Hospital must continue to look at opportunities for increasing staff efficiency and productivity while maintaining staff and enhancing patient care.

The hospital will continue to strive to reduce costs, and to increase the quality of patient services, with the ultimate goal to be able to continue to fund the hospital's mission.

As always, the hospital continuously strives to provide quality patient care. Plans and decisions made for the hospital in 2010 will always be made in the best interests of the patient.

DECATUR COUNTY MEMORIAL HOSPITAL

STATEMENT OF NET ASSETS

December 31, 2009

Assets

Current assets	
Cash and cash equivalents	\$ 8,622,291
Short-term investments	5,935,818
Patient accounts receivable, net of estimated uncollectibles of \$3,226,000	5,884,626
Supplies and other current assets	<u>1,079,328</u>
Total current assets	21,522,063
Noncurrent cash and investments	
Internally designated for capital improvements	4,400,742
Held by trustee for debt service	445,590
Other long-term investments	158,333
Restricted by bond agreements, contributors and grantors	<u>1,112,492</u>
	6,117,157
Capital assets	
Land and construction work in progress	1,372,411
Depreciable capital assets, net of accumulated depreciation	<u>22,923,298</u>
Total capital assets, net of accumulated depreciation	24,295,709
Other assets	<u>136,753</u>
Total assets	<u>\$ 52,071,682</u>
Current liabilities	
Current maturities of long-term debt	\$ 848,115
Accounts payable and accrued expenses	4,070,512
Estimated third-party settlements	719,828
Other current liabilities	<u>100,468</u>
Total current liabilities	5,738,923
Long-term debt, net of current maturities	<u>4,235,682</u>
Total liabilities	9,974,605
Net assets	
Invested in capital assets, net of related debt	19,211,912
Restricted	
For debt service	1,426,664
Expendable for capital acquisitions	58,449
Expendable for specific operating activities	72,870
Unrestricted	<u>21,327,182</u>
Total net assets	<u>42,097,077</u>
Total liabilities and net assets	<u>\$ 52,071,682</u>

The accompanying notes are an integral part of these statements.

DECATUR COUNTY MEMORIAL HOSPITAL

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended December 31, 2009

Operating revenues	
Net patient service revenue (net of provision for bad debts of \$3,985,335)	\$ 41,324,342
Other	<u>565,375</u>
Total operating revenues	41,889,717
Operating expenses	
Salaries and benefits	24,082,383
Medical supplies and drugs	4,594,219
Insurance	356,570
Other supplies	1,065,730
Depreciation and amortization	2,326,277
Other expenses	<u>7,168,685</u>
Total operating expenses	<u>39,593,864</u>
Operating income	2,295,853
Nonoperating revenues (expenses)	
Investment income	468,686
Interest expense	(248,413)
Noncapital grants and contributions	181,796
Other nonoperating gains and losses	<u>202,348</u>
Total nonoperating revenues (expenses)	<u>604,417</u>
Excess of revenues over expenses	
before capital grants and contributions	2,900,270
Capital grants and contributions	61,316
Capital contributions released from restriction	<u>(73,720)</u>
Increase in net assets	2,887,866
Net assets at beginning of year	<u>39,209,211</u>
Net assets at end of year	<u>\$ 42,097,077</u>

The accompanying notes are an integral part of these statements.

DECATUR COUNTY MEMORIAL HOSPITAL

STATEMENT OF CASH FLOWS

Year Ended December 31

	<u>2009</u>
Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 42,567,188
Payments to suppliers and contractors	(5,612,290)
Payments to employees	(24,082,383)
Other receipts and payments, net	<u>(5,272,995)</u>
Net cash provided by operating activities	7,599,520
Cash flows from noncapital financing activities:	
Noncapital grants and contributions	181,796
Net assets released from restriction	(73,720)
Other	<u>202,347</u>
Net cash provided by noncapital financing activities	310,424
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(2,111,074)
Capital grants and contributions	61,317
Principal paid on long-term debt	(483,491)
Principal portion of capital lease contracts	(503,185)
Interest paid on long-term debt	<u>(248,413)</u>
Net cash used in capital and related financing activities	(3,284,847)
Cash flows from investing activities:	
Investment income	468,686
Cash invested in long-term investments	<u>(5,596,976)</u>
Net cash used in investing activities	<u>(5,128,290)</u>
Net decrease in cash and cash equivalents	(503,193)
Cash and cash equivalents at beginning of year	<u>14,934,267</u>
Cash and cash equivalents at end of year	<u><u>14,431,074</u></u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	8,622,291
Cash and cash equivalents in noncurrent cash and investments	<u>5,808,783</u>
Total cash and cash equivalents	<u>\$ 14,431,074</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 2,295,853
Adjustments to reconcile operating income to net cash flows used in operating activities:	
Depreciation and amortization	2,326,277
Provision for bad debts	3,985,335
Changes in:	
Patient accounts receivable	(2,742,489)
Supplies and other current assets	(155,227)
Other assets	17,048
Accounts payable and accrued expenses	559,456
Other current liabilities	(16,733)
Estimated third-party payor settlements	<u>1,330,000</u>
Net cash provided by operating activities	<u>\$ 7,599,520</u>

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE A – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

Decatur County Memorial Hospital (Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Decatur 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 Decatur County.

On December 27, 1993, the Board of County Commissioners of Decatur County, upon written request of the Hospital Board of Trustees, created the Decatur County Memorial Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

The accompanying financial statements present the activities of the Hospital and its significant component units. The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Blended component units, although legally separate entities, are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government. 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 basic financial statements to emphasize that it is legally separate from the Hospital.

Blended Component Units. The Decatur County Memorial Hospital Foundation is a significant blended component unit of the Hospital. It would be misleading to exclude the Foundation from the Hospital's financial statements because of its relationship with the Hospital. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

Enterprise Fund Accounting. The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

2. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE A – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Short-term investments are investments with remaining maturities of up to ninety days and investments in mutual funds for use in current operations.

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investments in affiliated companies are reported using the equity method of accounting, or at cost, as applicable.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the statement of revenues, expenses, and changes in net assets.

3. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE A – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land improvements	\$ 500	Straight-line	5 to 25 years
Buildings and improvements	500	Straight-line	5 to 40 years
Fixed equipment	500	Straight-line	5 to 25 years
Major moveable equipment	500	Straight-line	3 to 25 years
Vehicles	500	Straight-line	4 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Hospital during the current year was \$248,413.

5. Net Assets

Net assets of the Hospital are classified in three components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowing used to finance the purchase or construction of those assets.

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note G.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

6. Grants and Contributions

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

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE A – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. If a donor has not provided specific instructions, state law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds.

8. Restricted Resources

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

9. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets 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. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

10. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid days off, to a maximum of thirty days.

Paid days off are accrued when incurred and reported as a liability.

11. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disaster.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disaster are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

12. Income Taxes

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes.

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE A – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The Foundation adopted the provisions of ASC Topic 740-10-25, “*Income Taxes Recognition*”. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while other positions taken or the amount of the position taken would not be sustained. Examples of tax positions common to charitable systems include the entity taking a position of tax-exempt status without corresponding proof from federal and state taxing authorities and there is material net income generated by the entity or private inurement that could cause revocation of the exempt status. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination.

Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the “more-likely-than-not” recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion that exceeds the amount measured as described above is reflected as a liability for uncertain tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. There were no uncertain tax benefits identified and recorded as a liability upon the adoption of ASC Topic 740-10-25 or at December 31, 2009.

Tax returns filed by the Foundation are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Tax returns filed by the Foundation are no longer subject to examination for the years ended December 31, 2005 and prior.

The Hospital is a county owned facility that is considered a component unit of Decatur County and is exempt from filing tax returns with the Internal Revenue Service.

13. Subsequent Events

Effective June 15, 2009, the Hospital adopted, FASB ASC 855, *Subsequent Event* (precodification FASB SFAS No. 165, *Subsequent Events*). FASB ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FASB ASC 855 defines the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure, the circumstances under which an organization shall recognize events occurring after the balance sheet date and the disclosures that an organization shall make about those events or transactions. FASB ASC 855 defines two types of subsequent events. The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (i.e., nonrecognized event).

Management evaluated all events and transactions that occurred after December 31, 2009 through April 13, 2010 the date we issued these financial statements.

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE B – DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by either the Federal Depository Insurance Fund (FDIC) or the Public Deposit Insurance Fund (PDIF). Any deposit accounts issued or offered by a qualifying financial institution are included.

The Hospital's investments are categorized below to give an indication of the level of risk assumed by the Hospital at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department of agent but not in the Hospital's name.

	<u>Category</u>			<u>Reported Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Corporate debt instruments	\$ 150,042	\$ -	\$ -	\$ 150,042	\$ 150,042
Corporate equity instruments	5,935,818	-	-	5,935,818	5,935,818
Certificate of deposits	<u>158,333</u>	<u>-</u>	<u>-</u>	<u>158,333</u>	<u>158,333</u>
Totals	<u>\$ 6,244,193</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,244,193</u>	<u>\$ 6,244,193</u>
Total investments				<u>\$ 6,244,193</u>	<u>\$ 6,244,193</u>

NOTE C – ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 8,220,199
Receivable from Medicare	2,510,491
Receivable from Medicaid	<u>676,765</u>

Total patient accounts receivable 11,407,455

Less allowance for uncollectible amounts 5,522,829

Patient accounts receivable, net \$ 5,884,626

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 2,268,796
Payable to suppliers	<u>1,801,716</u>

Total accounts payable and accrued expenses \$ 4,070,512

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE D – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 905,928	\$ -	\$ -	\$ 905,928
Construction in progress	<u>462,196</u>	<u>671,053</u>	<u>666,766</u>	<u>466,483</u>
Total capital assets, not being depreciated	<u>1,368,124</u>	<u>671,053</u>	<u>666,766</u>	<u>1,372,411</u>
Capital assets, being depreciated:				
Land improvements	432,832	72,617	152,036	353,413
Buildings	24,815,095	523,990	-	25,339,085
Fixed equipment	2,094,595	256,572	18,435	2,332,732
Major moveable equipment	17,436,243	1,264,666	3,958,966	14,741,943
Vehicles	<u>34,064</u>	<u>-</u>	<u>-</u>	<u>34,064</u>
Totals	<u>44,812,829</u>	<u>2,117,845</u>	<u>4,129,437</u>	<u>42,801,237</u>
Less accumulated depreciation for:				
Land improvements	365,009	16,912	150,666	231,255
Buildings	7,015,549	676,094	-	7,691,643
Fixed equipment	1,432,700	80,688	18,435	1,494,953
Major moveable equipment	12,822,717	1,513,589	3,910,283	10,426,023
Vehicles	<u>34,065</u>	<u>-</u>	<u>-</u>	<u>34,065</u>
Totals	<u>21,670,040</u>	<u>2,287,283</u>	<u>4,079,384</u>	<u>19,877,939</u>
Total capital assets, being depreciated, net	<u>23,142,789</u>	<u>(169,438)</u>	<u>50,053</u>	<u>22,923,298</u>
Total primary government capital assets, net	<u>\$ 24,510,913</u>	<u>\$ 501,615</u>	<u>\$ 716,819</u>	<u>\$ 24,295,709</u>

At December 31, 2009, construction in process consisted primarily of expenses related to building improvements and a phone system. The estimated cost to complete the project is approximately \$175,000.

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE E – LEASES

Capital Leases

The Hospital leases equipment under a capital lease with an interest rate of 4.7%. Future minimum lease payments and present values of the net minimum lease payments under the capital lease at of year end are as follows:

2010	\$ 224,683
2011	<u>93,701</u>
Total minimum lease payments	318,384
Less amount representing interest	<u>10,894</u>
Present value of net minimum lease payments	<u>\$ 307,490</u>

NOTE F – LONG-TERM LIABILITIES

Revenue Bonds

The Hospital issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at December 31, 2009 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
2002 refunding bonds	3.8% to 5.0%	\$ 1,835,000
2002 revenue bonds, building addition	3.75% to 5.0%	<u>2,857,000</u>
Total		<u>\$ 4,692,000</u>

Revenue bonds debt service requirements to maturity are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>
2010	527,500	206,499
2011	547,500	185,604
2012	567,500	163,143
2013	592,500	145,141
2014	617,500	109,884
2015-2016	972,500	126,677
2017-2019	<u>867,500</u>	<u>65,796</u>
Total	<u>\$ 4,692,500</u>	<u>\$ 1,002,744</u>

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE F – LONG-TERM LIABILITIES – CONTINUED

Advance Refunding

In prior years the Hospital defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Hospital's financial statements. The following outstanding bonds, at December 31, 2009, were considered defeased:

	<u>Amount</u>
Hospital	<u>\$ 1,735,000</u>

Note Payable

During 2006 the Hospital authorized a \$500,000 note payable to a bank to finance the expansion of the Hospital's MRI Suite. The Note bears an interest rate of 4.5% per annum, payable in monthly installments of \$9,337 through 2011.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Revenue					
Hospital association	\$ 5,195,000	\$ -	\$ 502,500	\$ 4,692,500	\$ 527,500
Less deferred amount on refunding	<u>123,310</u>	<u>-</u>	<u>19,009</u>	<u>104,301</u>	<u>-</u>
Total bonds payable	5,071,690	-	483,491	4,588,199	527,500
Loan from bank	289,063		100,955	188,108	105,667
Capital lease	<u>709,720</u>	<u>-</u>	<u>402,230</u>	<u>307,490</u>	<u>214,948</u>
Total long-term liabilities	<u>\$ 6,070,473</u>	<u>\$ -</u>	<u>\$ 986,676</u>	<u>\$ 5,083,797</u>	<u>\$ 848,115</u>

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE G – RESTRICTED NET ASSETS

Restricted, expendable net assets are available for the following purposes:

	<u>2009</u>
Debt service:	
Debt Service Fund	\$ 981,073
Funds held by Trustee	445,591
Capital acquisitions:	
Foundation	58,449
Specific operating activities:	
Federal Grant Funds	37,537
Colsher Trust	31,185
Foundation	<u>4,148</u>
 Total expendable, restricted net assets	 <u>\$ 1,557,983</u>

NOTE H – CHARITY CARE

Charges excluded from revenue under the Hospital's charity care policy were \$ 1,581,038 for 2009.

NOTE I – INTERNALLY DESIGNATED ASSETS

Noncurrent cash and investments internally designated include the following:

Designated Funds – Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

	<u>2009</u>
Internally designated Board designation:	
Cash and cash equivalents	<u>\$ 4,400,742</u>

NOTE J – GENERAL OBLIGATION BONDS PAID BY COUNTY

The 2002 Revenue Bonds included in the Balance Sheet of the Hospital are half of the total bond issue. Decatur County assumed liability for a total amount of \$4,000,000 for Hospital Construction. The bonds and interest thereon are being paid by tax levy revenues and are not an obligation of the Hospital. At December 31, 2009, bonds outstanding totaled \$2,857,500.

NOTE K – MEDICAL BENEFITS TO EMPLOYEES, RETIREES AND DEPENDENTS

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. The risk financing fund is accounted for in the General Fund where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$100,000 per year, per covered person. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE L – CONTINGENT LIABILITIES

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 material adverse effect on the Hospital's future financial position or results from operations.

NOTE M – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurement

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes fair value measurement standards in financial statements prepared according to Generally Accepted Accounting Principles. FASB ASC 820 establishes a principles-based framework for measuring fair value of both assets and liabilities and clarifies the definition of fair value. The definition of fair value is clarified by FASB ASC 820 to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 established a three-level hierarchy for fair value measurements based upon the inputs to the valuation of an asset or liability.

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques which significant inputs are observable in the market.

Level 3 – Valuation is derived from model-based techniques in which at least one significant input is unobservable and based on the Company's own estimates about the assumptions that market participants would use to value the asset or liability.

Input levels by investment category of the Hospital's financial instruments at September 30, 2009 are as follows:

<u>Investment Category</u>	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Cash & Cash Equivalents	\$14,431,074	\$14,431,074	-	-
Mutual Funds	5,935,818	5,935,818	-	-
Certificates of deposit (repurchase agreements)	<u>308,374</u>	<u>-</u>	<u>308,374</u>	<u>-</u>
	<u>\$ 20,675,266</u>	<u>\$20,366,892</u>	<u>\$ 308,374</u>	<u>-</u>

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

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE M – FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and Cash Equivalents

The carrying amount reported in the statement of net assets for cash and cash equivalents approximates its fair value.

Investments

Fair values, which are the amounts reported in the statement of net assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the statement of net assets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the statement of net assets for estimated third-party payor settlements approximates its fair value.

NOTE N – PENSION PLAN

Plan Description

The Hospital has a defined benefit pension plan administered by AIG VALIC as authorized by IC 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

VALIC Financial Advisors, Inc.
630 W. Carmel Dr., Suite 140
Carmel, IN 46032

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital is required to contribute at an actuarially determined rate. The current rate is 3% of annual covered payroll. Employer contributions to the plan were \$576,121 for 2009.

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE O – NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from the established rate structure. A summary of the payment arrangements with major third party payors follows:

Medicare

Effective December 1, 2005, the Hospital was granted status as a Critical Access Hospital (CAH) under the Medicare program. As a CAH, the Hospital receives cost reimbursement for the majority of Medicare patient care services. The Hospital is reimbursed for services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Prior to December 1, 2005, inpatient acute care services rendered to Medicare program beneficiaries were paid at prospectively determined rates per discharge. These rates varied according to a patient classification system that was based on clinical, diagnostic and other factors. Certain outpatient service costs related to Medicare beneficiaries were paid based on a cost reimbursement methodology and prospectively determined rates. The Hospital was reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient services are reimbursed based upon defined allowable rates.

The Hospital has also 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.

A significant portion of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital recorded the following contractual allowances during 2009:

Gross patient service revenue	\$ 79,743,285
Contractual allowances	<u>(34,433,608)</u>
Net patient service revenue	<u>\$ 45,309,677</u>

The Hospital has recorded \$1,816,000 of revenue during the year from payments received from the Indiana State's Health Care for the Indigent program. The program requires payments to certain hospitals to account for the disproportionate number of low income patients served. Funding for the program comes from Federal (Medicare) and State (Medicaid) appropriations as well as intergovernmental transfers. Transfers to the program by the Hospital were approximately \$468,000 in 2009. The program has been extended through 2010. It is uncertain whether the program will be re-enacted or not significantly modified.

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE P – DEFERRED COMPENSATION PLAN

The Hospital has also adopted a discretionary 457(f) deferred compensation plan for one of its officers. The benefit provided under the plan is conditional and determined solely by the Hospital Board of Trustees upon annual review. The benefit becomes vested upon the future performance of substantial services and subject to substantial risk of forfeiture.

At December 31, 2009 the value of the plan benefit was approximately \$90,000. The deferred compensation plan is unfunded.

DECATUR COUNTY MEMORIAL HOSPITAL

COMBINING STATEMENT OF NET ASSETS

December 31, 2009

	<u>Hospital</u>	<u>Foundation</u>	<u>Total Reporting Entity</u>
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 8,252,642	\$ 369,649	\$ 8,622,291
Short-term investments	5,935,818	-	5,935,818
Patient accounts receivable	5,884,626	-	5,884,626
Supplies and other current assets	<u>1,079,328</u>	<u>-</u>	<u>1,079,328</u>
Total current assets	21,152,414	369,649	21,522,063
Noncurrent cash and investments:			
Internally designated for capital improvements	4,400,742	-	4,400,742
Held by trustee for debt service and construction	445,590	-	445,590
Other long-term investments	158,333	-	158,333
Restricted by bond agreements, contributors and grantors	<u>1,049,795</u>	<u>62,697</u>	<u>1,112,492</u>
	6,054,460	62,697	6,117,157
Capital assets:			
Land and construction work in progress	1,372,411	-	1,372,411
Depreciable capital assets, net of accumulated depreciation	<u>22,923,298</u>	<u>-</u>	<u>22,923,298</u>
Total capital assets, net of accumulated depreciation	24,295,709	-	24,295,709
Other assets	<u>136,753</u>	<u>-</u>	<u>136,753</u>
Total assets	<u>\$ 51,639,336</u>	<u>\$ 432,346</u>	<u>\$ 52,071,682</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Current maturities of long-term debt	\$ 848,115	\$ -	\$ 848,115
Accounts payable and accrued expenses	4,070,512	-	4,070,512
Estimated third-party settlements	719,828	-	719,828
Other current liabilities	<u>97,345</u>	<u>3,123</u>	<u>100,468</u>
Total current liabilities	5,735,800	3,123	5,738,923
Long-term debt, net of current maturities	<u>4,235,682</u>	<u>-</u>	<u>4,235,682</u>
Total liabilities	9,971,482	3,123	9,974,605
Net assets:			
Invested in capital assets, net of related debt	19,211,912	-	19,211,912
Restricted:			
For debt service	1,426,664	-	1,426,664
Expendable for capital acquisitions	-	58,449	58,449
Expendable for specific operating activities	68,722	4,148	72,870
Unrestricted	<u>20,960,556</u>	<u>366,626</u>	<u>21,327,182</u>
Total net assets	<u>41,667,854</u>	<u>429,223</u>	<u>42,097,077</u>
Total liabilities and net assets	<u>\$ 51,639,336</u>	<u>\$ 432,346</u>	<u>\$ 52,071,682</u>

DECATUR COUNTY MEMORIAL HOSPITAL

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended December 31, 2009

	<u>Primary Hospital</u>	<u>Foundation</u>	<u>Total Reporting Entity</u>
Operating revenues:			
Net patient service revenue	\$41,324,342	-	\$41,324,342
Other	<u>565,375</u>	<u>-</u>	<u>565,375</u>
Total operating revenues	41,889,717	-	41,889,717
Operating expenses:			
Salaries and benefits	24,082,383	-	24,082,383
Medical supplies and drugs	4,594,219	-	4,594,219
Insurance	356,570	-	356,570
Other supplies	1,065,730	-	1,065,730
Depreciation and amortization	2,326,277	-	2,326,277
Other expenses	<u>7,168,685</u>	<u>-</u>	<u>7,168,685</u>
Total operating expenses	<u>39,593,864</u>	<u>-</u>	<u>39,593,864</u>
Operating Income	2,295,853	-	2,295,853
Nonoperating revenues (expenses)			
Investment income	405,239	63,447	468,686
Interest expense	(248,413)	-	(248,413)
Noncapital grants and contributions	88,326	93,470	181,796
Other	<u>277,644</u>	<u>(75,296)</u>	<u>202,348</u>
Total nonoperating revenues (expenses)	<u>522,796</u>	<u>81,621</u>	<u>604,417</u>
Excess of revenues over expenses before capital grants and contributions	2,818,649	81,621	2,900,270
Capital grants and contributions	58,341	2,975	61,316
Capital contributions released from restriction	<u>(70,645)</u>	<u>(3,075)</u>	<u>(73,720)</u>
Increase in net assets	2,806,345	81,521	2,887,866
Net assets, beginning of year	<u>38,861,509</u>	<u>347,702</u>	<u>39,209,211</u>
Net assets, end of year	<u>\$41,667,854</u>	<u>\$ 429,223</u>	<u>\$42,097,077</u>

DECATUR COUNTY MEMORIAL HOSPITAL

AUDIT RESULTS AND COMMENTS

None

DECATUR COUNTY MEMORIAL HOSPITAL

EXIT CONFERENCE

The contents of this report were discussed on February 16, 2010, with Mr. Michael R. Ruckel, Vice President of Finance. Mr. Ruckel concurred with our audit report.

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