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March 19, 2014

Board of Directors
Good Samaritan Hospital
520 South Seventh Street
Vincennes, IN 47591

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2012 to December 31, 2012. 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 Good Samaritan Hospital, as of December 31, 2012 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

Good Samaritan Hospital
A Component Unit of Knox County, Indiana

Auditor's Report and Financial Statements

December 31, 2012 and 2011

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
December 31, 2012 and 2011

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Governors
Good Samaritan Hospital
Vincennes, Indiana

We have audited the accompanying financial statements of Good Samaritan Hospital (Hospital), a component unit of Knox County, Indiana, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Good Samaritan Hospital as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

BKD, LLP

Indianapolis, Indiana
May 22, 2013

Good Samaritan Hospital

A Component Unit of Knox County, Indiana

Management's Discussion and Analysis

December 31, 2012 and 2011

Introduction

This management's discussion and analysis of the financial performance of Good Samaritan Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Total cash and investments increased in 2012 and 2011 by \$65,052,686 (67%) and \$1,532,903 (2%), respectively, as a result of continuing strong operations, as well as significant unspent bond proceeds at year end. Unrestricted cash and investments increased in 2012 by \$4,410,395 (5%) as a result of investment returns and positive operating results.
- The Hospital reported operating income in 2012 and 2011 of \$5,381,432 and \$5,882,434, respectively. The operating income in 2012 decreased by 9% over the operating income reported in 2011, and 2011 increased by 52% compared to 2010. In 2012 and 2011, the Hospital experienced significant growth in physician services.
- Net nonoperating revenues increased by \$4,712,800 in 2012 compared to 2011, primarily attributable to increased market returns on investments. In 2011, nonoperating revenues decreased by \$3,604,803 compared to 2010 as a result of decreased market returns on investments.

The total change in net position in 2012 is an increase of \$12,650,638 compared to an increase of \$8,438,840 in 2011.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital, but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's total net position—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net position increased by \$12,650,638 in 2012 over 2011 and net position increased by \$8,438,840 in 2011 over 2010, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2012	2011	2010
Assets			
Patient accounts receivable, net	\$ 22,848,202	\$ 22,816,803	\$ 21,688,663
Other current assets	171,693,872	99,529,912	76,178,988
Capital assets, net	90,805,287	78,633,420	75,372,029
Other noncurrent assets	<u>2,743,287</u>	<u>7,368,310</u>	<u>28,299,394</u>
Total assets	<u>\$ 288,090,648</u>	<u>\$ 208,348,445</u>	<u>\$ 201,539,074</u>
Liabilities			
Long-term debt	\$ 84,787,131	\$ 22,195,335	\$ 25,242,657
Other current and long-term liabilities	<u>20,305,088</u>	<u>15,805,319</u>	<u>14,387,466</u>
Total liabilities	<u>105,092,219</u>	<u>38,000,654</u>	<u>39,630,123</u>
Net Position			
Net investment in capital assets	54,624,135	56,438,085	50,129,372
Restricted expendable	12,552,118	2,632,459	2,563,680
Unrestricted	<u>115,822,176</u>	<u>111,277,247</u>	<u>109,215,899</u>
Total net position	<u>182,998,429</u>	<u>170,347,791</u>	<u>161,908,951</u>
Total liabilities and net assets	<u>\$ 288,090,648</u>	<u>\$ 208,348,445</u>	<u>\$ 201,539,074</u>

A significant change in the Hospital's position in 2012 is an increase in cash and investments of \$65,052,686 (67%) as compared to an increase in 2011 of \$1,532,903 (2%). This increase in cash and investments resulted primarily from an increase of \$60,642,291 in restricted cash, which represents unspent bond proceeds at year end from the 2012 bonds issued. The additional increase of \$4,410,395 is the result of investment returns and positive operations.

Net patient service revenues increased in 2012 by \$12,121,570 (7%) as compared to 2011, while net patient accounts receivable increased by \$31,399, for a decrease of two days of revenue in accounts receivable at December 31, 2012 versus December 31, 2011. In 2011, patient accounts receivable increased by \$1,128,140 (5%) and net patient service revenues increased in 2011 by \$18,118,396 (12%).

Operating Results and Changes in the Hospital's Net Position

In 2012, the Hospital's net position increased by \$12,650,638 (7%) compared to an increase in net position during 2011 of \$8,438,840 (5%), as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenue			
Net patient service revenue	\$ 184,395,152	\$ 172,273,582	\$ 154,155,186
Other operating revenue	7,520,232	2,726,986	2,395,328
Total operating revenue	<u>191,915,384</u>	<u>175,000,568</u>	<u>156,550,514</u>
Operating Expenses			
Salaries and wages and employee benefits	106,428,286	98,039,307	86,841,056
Purchased services and professional fees	29,533,269	29,057,951	25,579,755
Depreciation and amortization	9,582,359	10,355,263	10,297,714
Other operating expenses	40,990,038	31,665,613	29,950,503
Total operating expenses	<u>186,533,952</u>	<u>169,118,134</u>	<u>152,669,028</u>
Operating Income	<u>5,381,432</u>	<u>5,882,434</u>	<u>3,881,486</u>
Nonoperating Revenue (Expenses)			
Investment income	4,796,511	202,387	4,871,387
Noncapital grants and contributions	3,617,252	3,415,809	2,465,244
Interest expense	(1,144,557)	(1,061,790)	(1,175,422)
Total nonoperating revenue (expense)	<u>7,269,206</u>	<u>2,556,406</u>	<u>6,161,209</u>
Increase in Net Position	<u>\$ 12,650,638</u>	<u>\$ 8,438,840</u>	<u>\$ 10,042,695</u>

Operating Income

The first component of the overall change in the Hospital's net position is its operating income—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported operating income. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Knox County and the surrounding area. The Hospital implements strong cost controls to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating income for 2012 decreased by \$501,002 (9%) as compared to 2011. Operating income for 2011 increased by \$2,000,948 (52%) as compared to 2010. The primary components of the fluctuation in operating income are:

- An increase in salaries, wages and benefits for the Hospital's employees of \$8,388,979 (9%) in 2012 compared to an increase in 2011 of \$11,198,251 (13%).
- An increase in purchased services and professional fees of \$475,318 (2%) in 2012 compared to an increase of \$3,478,196 (14%) in 2011.
- An increase in other operating expenses of \$9,324,425 (29%) in 2012, primarily for Indiana's new Medicaid provider assessment program as discussed in the attached notes to the financial statements.
- These increases in expenses were offset by an increase in net patient service revenue of \$12,121,750 (7%) for 2012 and \$18,118,396 (12%) for 2011.

Net patient service revenue increased because the Hospital expanded services by employing a large number of physicians beginning in 2010 and continuing throughout 2012. Additionally, during 2012, Indiana implemented a new supplemental payment mechanism for the Medicaid program. This change resulted in additional patient revenue of approximately \$11.8 million. This increase was partially offset by the additional provider assessment fee of \$9.4 million paid beginning in 2012, which is reflected as an operating expense as noted above.

Other operating revenue increased by \$4,793,246 (176%) from \$2,726,986 in 2011 to \$7,520,232 in 2012. This increase is primarily the result of Medicare and Medicaid meaningful use electronic health records funds of \$3,347,936 earned and recognized during 2012.

Employee salaries and wages and benefits increased in 2012 and 2011 in connection with the Hospital's retention and recruitment efforts. These efforts result primarily from the shortage of physicians, nurses and other health care professionals in the United States. Also, the Hospital recruited and hired a significant number of physicians during 2012 and 2011.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Expenditures for medical supplies and prescription drugs are a major component of the Hospital's costs. In 2012, medical supplies and prescription drug costs totaled \$26,583,774 (14%) of total operating expenses. In 2011, they totaled \$27,148,338 (16%) of total operating expenses, a decrease of \$564,564 (2%) over 2011.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment, contribution and grant income along with interest expense, all of which remained relatively constant in 2012 as compared to 2011 and 2010, except investment income. The Hospital recognized an increase in its investment return in 2012 compared to 2011, resulting primarily from improved overall return rates in the market. Total investment return for 2012 was a positive return of \$4,796,511 compared to a positive return in 2011 of \$202,387. Contribution and grant income in 2012 was \$3,617,252 compared to \$3,415,809 in 2011.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2012 and 2011, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2012 and 2011, the Hospital had \$90,805,287 and \$78,633,420, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2012 and 2011, the Hospital purchased new capital assets costing \$21,712,141 and \$13,134,672, respectively. A significant portion of the 2012 capital asset additions were for the master facility plan and the significant Hospital expansion in process at December 31, 2012.

Debt

At December 31, 2012 and 2011, the Hospital had \$84,787,131 and \$22,195,335, respectively, in revenue bonds, notes payable and capital lease obligations outstanding. During 2012, the Hospital issued lease revenue refunding bonds in the amount of \$83,395,000. These bonds were used to refund the previously outstanding 2002 and 2004 revenue bonds as well as to provide proceeds for the Hospital's significant campus expansion. Except for new capital leases of \$82,666 initiated 2011, the Hospital issued no new debt in 2011. The Hospital's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Hospital's debt ratings in the past three years. The ratings have remained positive in the range of A to AA during this period of time. During 2012, in conjunction with the 2012 bonds issued, the Hospital received a rating of A3 from Moody's Investor Services.

Other Economic Factors

Economic stability has remained strong in Knox County as it ranks 2nd in the state of Indiana for lowest unemployment. Farbest Foods is building a 227,000 sq. ft. \$75 million dollar processing plant that will employ 360 people initially with potentially adding many more employees by starting a second shift. In addition to the processing plant, Farbest is building a \$20 million dollar milling facility that will add 30 jobs and require 40 new turkey farms to be opened, which all should be operational by January 2014.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital's CFO by telephoning (812) 885-3891.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana

Balance Sheets
December 31, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash and cash equivalents	\$ 53,016,758	\$ 37,691,152
Short-term investments	45,327,570	51,271,609
Restricted cash - current	63,274,750	2,632,459
Patient accounts receivable, net of allowance; 2012 - \$14,999,600; 2011 - \$13,776,000	22,848,202	22,816,803
Other receivables	2,276,081	920,450
Supplies	1,577,715	1,843,029
Prepaid expenses and other	6,220,998	5,171,213
Total current assets	194,542,074	122,346,715
 Noncurrent Investments	 50,000	 5,021,172
 Capital Assets, net	 90,805,287	 78,633,420
Other Assets		
Deferred financing costs	1,272,755	692,529
Other	1,420,532	1,654,609
	2,693,287	2,347,138
Total assets	\$ 288,090,648	\$ 208,348,445

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 1,384,282	\$ 2,698,931
Accounts payable	5,142,524	2,607,707
Accrued expenses	12,379,121	11,066,290
Accrued interest	1,033,622	292,013
Estimated amounts due to third-party payers	406,518	403,590
Estimated self-insurance costs	1,343,303	1,435,719
Total current liabilities	21,689,370	18,504,250
 Long-Term Debt	 83,402,849	 19,496,404
Total liabilities	105,092,219	38,000,654
 Net Position		
Net investment in capital assets	54,624,135	56,438,085
Restricted - debt service	12,552,118	2,632,459
Unrestricted	115,822,176	111,277,247
Total net position	182,998,429	170,347,791
Total liabilities and net position	\$ 288,090,648	\$ 208,348,445

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$17,414,110; 2011 - \$14,894,277	\$ 184,395,152	\$ 172,273,582
Other	7,520,232	2,726,986
Total operating revenue	191,915,384	175,000,568
Operating Expenses		
Salaries and wages	83,023,855	75,390,223
Employee benefits	23,404,431	22,649,084
Purchased services and professional fees	29,533,269	29,057,951
Supplies	26,583,774	27,148,338
Utilities	2,627,440	2,496,793
Other expenses	2,387,686	2,020,482
Depreciation and amortization	9,582,359	10,355,263
Provider hospital assessment fee	9,391,138	-
Total operating expenses	186,533,952	169,118,134
Operating Income	5,381,432	5,882,434
Nonoperating Revenue (Expense)		
Investment return	4,796,511	202,387
Interest expense	(1,144,557)	(1,061,790)
Noncapital contribution and grant income	3,617,252	3,415,809
Total nonoperating revenue	7,269,206	2,556,406
Excess of Revenues Over Expenses and Change in Net Position	12,650,638	8,438,840
Net Position, Beginning of Year	170,347,791	161,908,951
Net Position, End of Year	\$ 182,998,429	\$ 170,347,791

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	\$ 183,008,122	\$ 171,640,269
Payments to suppliers and contractors	(68,934,457)	(60,096,855)
Payments to employees	(107,662,026)	(99,153,769)
Other receipts	7,520,232	2,726,986
Net cash provided by operating activities	13,931,871	15,116,631
Noncapital Financing Activity - grants and gifts	3,617,252	3,415,809
Capital and Related Financing Activities		
Proceeds from issuance of long-term obligations	86,399,425	-
Principal paid on long-term obligations	(22,260,947)	(3,129,988)
Interest paid on long-term obligations	(2,463,961)	(1,049,522)
Payment of deferred financing costs	(1,286,887)	-
Purchase of capital assets	(17,680,578)	(13,052,006)
Net cash provided by (used in) capital and related financing activities	42,707,052	(17,231,516)
Investing Activities		
Interest and dividends	1,437,542	1,721,617
Proceeds from disposition of investments	69,235,910	49,981,765
Purchase of investments	(54,961,730)	(30,302,814)
Net cash provided by investing activities	15,711,722	21,400,568
Increase in Cash and Cash Equivalents	75,967,897	22,701,492
Cash and Cash Equivalents, Beginning of Year	40,323,611	17,622,119
Cash and Cash Equivalents, End of Year	\$ 116,291,508	\$ 40,323,611
Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided by Operating Activities		
Operating income	\$ 5,381,432	\$ 5,882,434
Depreciation and amortization	9,582,359	10,355,263
Loss on disposal of capital assets	197,141	56,392
Provision for uncollectible accounts	17,414,110	14,894,277
Changes in operating assets and liabilities		
Patient and other accounts receivable	(18,801,140)	(15,527,590)
Supplies	265,314	(651,921)
Prepaid expenses and other assets	(1,894,955)	(1,433,542)
Estimated amounts due to third-party payers	2,928	188,962
Accounts payable and accrued expenses	1,784,682	1,352,356
Net cash provided by operating activities	\$ 13,931,871	\$ 15,116,631
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ -	\$ 82,666
Capital asset acquisitions included in accounts payable	1,970,550	-

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2012 and 2011

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Good Samaritan Hospital (Hospital) is an acute care hospital located in Vincennes, Indiana. The Hospital is a component unit of Knox County, Indiana (County) and the Board of County Commissioners appoints members to the Board of Governors of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Knox County area.

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

Good Samaritan Hospital Physician Services, Inc. (Physician Services) is also a blended component unit of the Hospital. The primary government appoints a voting majority of Physician Service's board and a financial benefit/burden relationship exists between the Hospital and Physician Services. Although it is legally separate from the Hospital, Physician Services is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

During 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) No. 61, *The Financial Reporting Entity*, which amended GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement no. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement has been applied retrospectively and had no impact on the Hospital's net position, changes in net position or financial reporting disclosures. In accordance with this statement, the financial statements include the financial statements of Good Samaritan Hospital Foundation and Good Samaritan Hospital Physician Services, Inc.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions, principally federal and state grants, are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2012 and 2011

During 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in 7 of that Statement to apply post-November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. This Statement has been applied retrospectively and had no impact on the Hospital's net position, changes in net position or financial reporting disclosures.

During 2012, the Hospital also adopted Statement of Governmental Accounting Standards Board (GASB) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement has been applied retrospectively and had no impact on the Hospital's net position, changes in net position or financial reporting disclosures other than changing terminology from net assets to net position.

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2012 and 2011, cash equivalents consisted primarily of money market accounts with brokers.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2012 and 2011

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method (FIFO) or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

	Years
Land improvements	5 - 25
Buildings and leasehold improvements	5 - 40
Equipment	5 - 20

Good Samaritan Hospital

A Component Unit of Knox County, Indiana

Notes to Financial Statements December 31, 2012 and 2011

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	2012	2011
Interest costs capitalized	\$ 2,061,013	\$ -
Interest costs charged to expense	1,144,557	1,061,790
Total interest incurred	\$ 3,205,570	\$ 1,061,790

Intangible Assets

Intangible assets represent assets recognized during business purchases during 2012 and 2011. The intangible assets are subject to amortization and are deemed to have a weighted-average useful life of approximately five to ten years. The amortized cost of the assets was \$1,120,207 and \$1,340,744 at December 31, 2012 and 2011, respectively. The Hospital recognized amortization expense of \$200,537 during 2012 and 2011.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

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Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets, consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings, and unspent borrowings to be used for capital acquisitions. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Foregone charges for charity care approximated \$14,870,000 for 2012 and \$15,055,000 for 2011. Estimated cost based on the Hospital's records was \$5,400,000 for 2012 and \$6,000,000 for 2011.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Physician Services is exempt from income taxes under Section 509(a)(3) of the Internal Revenue Code and a similar provision of state law. Physician Services is subject to federal income tax on any unrelated business taxable income.

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Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2012, the Hospital completed the first-year requirements under both the Medicare and Medicaid programs and has recorded revenue of approximately \$3,350,000, which is included in other operating revenues in the statement of revenues, expenses and changes in net position.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

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These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient non-acute services are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. The payment methodologies are similar to those prescribed by the Medicare program more fully described above.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana Law (HEA 1095, Public Law 27-1992) and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care (as defined) and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when reasonably determined that the funds will be received. The Hospital recognized approximately \$860,000 of net patient service revenue related to this supplemental payment program for the year ended December 31, 2012 and approximately \$3,200,000 for the year ended December 31, 2011.

The Hospital also received approximately \$11.8 million during 2012 due to the enactment of a state specific provider assessment program to increase Medicaid payments to hospitals. This revenue is recorded within net patient service revenue in the statement of revenues, expenses and changes in net position for 2012. Approximately \$3.9 million of these increased payments were related to the Hospital's fiscal year 2011. The Hospital paid approximately \$9.4 million into this Medicaid program, which is recorded as an operating expense in the statement of revenues, expenses and changes in net position. Approximately \$3.1 million of the payments to the Medicaid program were related to the Hospital's fiscal year 2011 but are included in 2012 as a result of when the assessment program was approved. There is no assurance this program will continue to be implemented in the future.

Approximately 44% of net patient service revenue for 2012 and 2011 is 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 has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations 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.

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Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Indiana state law requires the Hospital to deposit money with any financial institution designated by the state board of finance as depositories for state deposits. The Hospital's funds exceeding the FDIC insurance amount are covered by the Public Deposit Insurance Fund (PDIF). The PDIF insures those state and local public funds that are deposited in approved financial institutions in the event of financial institution failures.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, 2012 and 2011, the Hospital had the following investments and maturities:

Type	Fair Value	2012 Maturities in Years	
		Less Than 1	1-5
Mutual funds	\$ 36,339,452	\$ 36,339,452	\$ -
Money market mutual funds	40,515,674	40,515,674	-
	<u>\$ 76,855,126</u>	<u>\$ 76,855,126</u>	<u>\$ -</u>
		2011 Maturities in Years	
Type	Fair Value	Less Than 1	1-5
Mutual funds	\$ 31,597,337	\$ 31,597,337	\$ -
Money market mutual funds	34,010,120	34,010,120	-
	<u>\$ 65,607,457</u>	<u>\$ 65,607,457</u>	<u>\$ -</u>

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Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy provides guidance to invest approximately 70% of its investment portfolio in fixed income securities. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital's policy provides guidance to invest in fixed income investments in U.S. Government bonds, bank certificates of deposits, and U.S. Treasury bonds among other government agencies. Such investments are to be insured by the U.S. Government or covered by applicable Federal and State Insurance programs.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's investment policy provides investments are to be maintained in insured deposits.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer, however, the PDIF described above mitigates the concentration of credit risk.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2012	2011
Carrying value		
Deposits	\$ 84,813,952	\$ 31,008,935
Investments	76,855,126	65,607,457
	\$ 161,669,078	\$ 96,616,392
 Included in the following balance sheets captions		
Cash and cash equivalents	\$ 53,016,758	\$ 37,691,152
Short-term investments	45,327,570	51,271,609
Restricted cash - current	63,274,750	2,632,459
Noncurrent investments	50,000	5,021,172
	\$ 161,669,078	\$ 96,616,392

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Investment Return

Investment return for the years ended December 31, 2012 and 2011 consisted of:

	2012	2011
Interest and dividend income	\$ 1,437,542	\$ 1,721,617
Realized gains from sales of investments	242,317	218,121
Net increase (decrease) in fair value of investments	<u>3,116,652</u>	<u>(1,737,351)</u>
	<u>\$ 4,796,511</u>	<u>\$ 202,387</u>

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2012 and 2011 consisted of:

	2012	2011
Medicare	\$ 6,318,585	\$ 7,020,724
Medicaid	3,504,428	4,515,110
Other third-party payers	9,505,232	7,527,664
Patients	<u>18,519,557</u>	<u>17,529,305</u>
	37,847,802	36,592,803
Less allowance for uncollectible accounts	<u>14,999,600</u>	<u>13,776,000</u>
	<u>\$ 22,848,202</u>	<u>\$ 22,816,803</u>

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Note 6: Operating Leases

The Hospital leases various facilities and equipment under operating leases expiring at various dates through 2018. Total rental expense in 2012 and 2011 for these operating leases was approximately \$1,332,731 and \$1,180,318, respectively.

Future minimum lease payments under operating leases as of December 31, 2012 were:

2013	\$ 1,304,640
2014	669,868
2015	498,929
2016	401,414
2017	392,389
2018	<u>322,628</u>
	<u>\$ 3,589,868</u>

Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. In addition, the Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$200,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

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Activity in the Hospital's accrued employee health claims liability during 2012 and 2011 is summarized as follows:

	2012	2011
Balance, beginning of year	\$ 1,435,719	\$ 1,428,982
Current year claims incurred and changes in estimates for claims incurred in prior years	16,344,968	16,405,526
Claims and expenses paid	(16,437,384)	(16,398,789)
Balance, end of year	\$ 1,343,303	\$ 1,435,719

Note 9: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	Beginning Balance	Additions	2012 Deductions	Ending Balance	Current Portion
Long-term debt					
Lease revenue refunding bonds payable, 2012 (a)	\$ -	\$ 83,395,000	\$ -	\$ 83,395,000	\$ 1,330,000
Lease revenue refunding bonds payable, 2002 (b)	9,170,000	-	9,170,000	-	-
Lease revenue bonds payable, 2004 (c)	12,655,000	-	12,655,000	-	-
Plus: Unamortized bond premium	328,307	3,004,425	395,072	2,937,660	-
Less: Deferred amount on refunding	448,201	1,296,870	145,260	1,599,811	-
Capital lease obligations	490,229	-	435,947	54,282	54,282
Total long-term debt	\$ 22,195,335	\$ 85,102,555	\$ 22,510,759	\$ 84,787,131	\$ 1,384,282

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	Beginning Balance	2011		Ending Balance	Current Portion
		Additions	Deductions		
Long-term debt					
Lease revenue refunding					
bonds payable, 2002 (b)	\$ 10,625,000	\$ -	\$ 1,455,000	\$ 9,170,000	\$ 1,515,000
Lease revenue bonds					
payable, 2004 (c)	13,410,000	-	755,000	12,655,000	770,000
Plus: Unamortized bond premium	359,837	-	31,530	328,307	-
Less: Deferred amount on refunding	522,901	-	74,700	448,201	-
Capital lease obligations	1,370,721	82,666	963,158	490,229	413,931
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total long-term debt	\$ 25,242,657	\$ 82,666	\$ 3,129,988	\$ 22,195,335	\$ 2,698,931

- (a) The economic development revenue and refunding bonds (Bonds) were issued in the original amount of \$83,395,000 dated April 2012, which bear interest at 2.5% to 5.9%. The Bonds are payable in semi-annual installments through 2042. The Hospital is required to make annual deposits to the debt service fund held by the trustee, which are included as restricted cash in the balance sheets. The Bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement. Under the master indenture, the Hospital is required to maintain a debt service coverage ratio of at least 1.25, measured annually and must have no less than 65 days of cash on hand measured semi-annually.

Upon issuance and delivery of the Bonds, the Hospital defeased its outstanding 2002 bonds in the original principal amount of \$21,270,000, through a current refunding with the 2002 bonds called July 1, 2012. Additionally, the Hospital defeased its outstanding 2004 bonds in the original principal amount of \$17,210,000, through an advance refunding. Proceeds from the Bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the defeased 2004 bonds. This advance refunding transactions on the 2004 bonds resulted in an extinguishment of debt since the Hospital was legally released from its obligation on the 2004 bonds at the time of the defeasance. Accordingly, the 2004 bonds, aggregating \$11,885,000 at December 31, 2012, remain outstanding, but are excluded from the Hospital's balance sheet beginning in 2012. The 2004 bonds will be called for redemption February 1, 2014.

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The debt service requirements as of December 31, 2012, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2013	\$ 5,447,865	\$ 1,330,000	\$ 4,117,865
2014	5,450,690	1,370,000	4,080,690
2015	5,448,990	1,410,000	4,038,990
2016	5,451,015	1,455,000	3,996,015
2017	5,449,090	1,505,000	3,944,090
2018-2022	27,246,625	8,520,000	18,726,625
2023-2027	27,254,950	10,880,000	16,374,950
2028-2032	27,243,747	14,095,000	13,148,747
2033-2037	27,249,478	18,720,000	8,529,478
2038-2042	27,243,750	24,110,000	3,133,750
	<u>\$ 163,486,200</u>	<u>\$ 83,395,000</u>	<u>\$ 80,091,200</u>

- (b) The lease revenue refunding bonds payable consisted of Health Facilities Revenue Bonds (Bonds) in the original amount of \$21,270,000 dated September 1, 2002, which bore interest at 3.50% to 5.25%. The Bonds were payable in semi-annual installments through July 1, 2017, but were currently refunded with the issuance of the 2012 bonds and were fully called during 2012.

The 2002 bonds defeased its outstanding 1993 bonds at the time of issuance in the total principal amount of \$18,675,000, through an advance refunding. This transaction resulted in an extinguishment of debt since the Hospital was legally released from its obligation of the 1993 bonds at the time of the defeasance. Accordingly, the 1993 bonds, aggregating \$8,015,000 at December 31, 2012 and \$9,365,000 at December 31, 2011, remain outstanding, but are excluded from the Hospital's balance sheets.

- (c) The lease revenue bonds payable consisted of Health Facilities Revenue Bonds (Bonds) in the original amount of \$17,210,000 dated February 1, 2004, which bore interest at 2.00% to 5.00%. The Bonds were payable in semi-annual installments through January 15, 2024, but were advance refunded with the issuance of the 2012 bonds discussed above.

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2012 totaled \$4,830,013, net of accumulated depreciation of \$5,388,515. Assets under capital leases at December 31, 2011 totaled \$5,398,080, net of accumulated depreciation of \$5,069,369. Total future lease payments under these capital leases at December 31, 2012 are \$54,282, which is to be paid during 2013. Interest rates range from 4.25% to 4.75% on these leases.

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Note 10: Pension Plan

The Hospital contributes to a defined-contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's Board of Governors. The current contributions rate is 7% of the first \$9,999 and 10% thereafter of annual covered payroll for employees hired prior to January 1, 2002. Employees hired January 1, 2002 or later will receive 7% of annual earnings (annual earnings exclude overtime and bonus payments). Employer contributions to the plan in 2012 and 2011 was \$4,495,449 and \$4,634,691, respectively.

Note 11: Contingencies and Commitments

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. The Hospital currently has certain cases outstanding and management believes that the financial statements will not be materially affected, in the event of an adverse outcome. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Master Facility Plan Commitment

During 2012, the Hospital commenced implementation of a revised master facility plan that includes construction and equipping of certain Hospital facilities including a new tower to include numerous departments. The master facility plan also includes significant renovations to certain existing facilities within the Hospital, and construction of a new central plant as well as various energy efficiency improvements.

As part of these significant renovations, improvements and additions, the Hospital has entered into various contracts as of year end for the necessary work to be performed. The total cost of the project is expected to be approximately \$128 million, with approximately \$13 million incurred through December 31, 2012.

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Note 12: Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Indiana has not affirmatively indicated whether or not it will participate in the expansion of the Medicaid program. The impact of that decision on the overall reimbursement to the Hospital cannot be quantified at this point.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.