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January 9, 2015

Board of Directors
Wabash County Hospital
P.O. Box 548
710 N. East Street
Wabash, IN 46992-0548

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

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

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Auditor's Report and Financial Statements
December 31, 2013 and 2012



Wabash County Hospital
A Component Unit of Wabash County, Indiana
December 31, 2013 and 2012

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Independent Auditor's Report

Board of Trustees
Wabash County Hospital
Wabash, Indiana

We have audited the accompanying financial statements of Wabash County Hospital (Hospital) and its discretely presented component unit Wabash County Hospital Foundation, Inc., collectively a component unit of Wabash County, Indiana, as of and for the years ended December 31, 2013 and 2012, as listed in the table of contents.

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. The financial statements of Wabash County Hospital Foundation, Inc., a component unit included in the financial statements, were not audited in accordance with *Government Auditing Standards*.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital and its discretely presented component unit as of December 31, 2013 and 2012, 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 and pension information 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The detailed balance sheet information and detailed statement of revenue, expenses and change in net position information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

BKD, LLP

Fort Wayne, Indiana
June 24, 2014

Wabash County Hospital

A Component Unit of Wabash County, Indiana

Management's Discussion and Analysis

December 31, 2013

Introduction

This management's discussion and analysis of the financial performance of Wabash County Hospital (Hospital) and its discretely presented component unit, provides an overview of the Hospital's financial activities for the years ended December 31, 2013 and 2012. The financial activities of the Hospital also include its operated long-term care facilities (Extended Services). This management discussion and analysis should be read in conjunction with the accompanying financial statements.

Financial Highlights

Cash and investments of the Hospital increased in 2013 by \$174,874 or 1.1%. Cash and investments of the Hospital increased in 2012 by \$40,374 or 0.3%.

The Hospital's net position decreased by \$417,763 or 1.4% and increased by \$984,281 or 3.5% in 2013 and 2012, respectively.

The Hospital reported an operating loss of \$535,953 and income of \$696,892 in 2013 and 2012, respectively.

Using This Annual Report

The Hospital's financial statements consist of three statements including a balance sheet; a statement of revenue, expenses and changes in net position; and a statement of cash flows. These statements and the related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grants 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 Revenue, 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 revenue, 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 revenue 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 it. The Hospital's total net position, the difference between assets and liabilities, are 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.

Wabash County Hospital

A Component Unit of Wabash County, Indiana

Management's Discussion and Analysis

December 31, 2013

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 three 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 sheets. The Hospital's net position decreased by \$417,763 or 1.4% in 2013 over 2012 and increased by \$984,281 or 3.5% in 2012 over 2011, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets			
Patient accounts receivable, net	\$ 7,856,795	\$ 6,799,882	\$ 6,728,983
Other current assets	15,830,216	16,893,499	15,364,615
Capital assets, net	7,677,827	7,541,673	5,899,407
Other noncurrent assets	<u>2,784,342</u>	<u>2,067,518</u>	<u>3,224,442</u>
Total assets	<u>\$ 34,149,180</u>	<u>\$ 33,302,572</u>	<u>\$ 31,217,447</u>
Liabilities	<u>\$ 5,045,567</u>	<u>\$ 3,781,196</u>	<u>\$ 2,680,352</u>
Net Position			
Net investment in capital assets	7,131,962	7,541,673	5,899,407
Restricted expendable	24,912	24,912	24,912
Unrestricted	21,875,308	21,795,384	22,505,919
Restricted, nonexpendable	<u>71,431</u>	<u>159,407</u>	<u>106,857</u>
Total net position	<u>29,103,613</u>	<u>29,521,376</u>	<u>28,537,095</u>
Total liabilities and net position	<u>\$ 34,149,180</u>	<u>\$ 33,302,572</u>	<u>\$ 31,217,447</u>

The Hospital controls a majority interest in a physician joint venture, Wabash MRI, LLC. A distribution of \$124,842 and \$11,000 was paid on the noncontrolling interest stock, which is included in restricted, nonexpendable net position in 2013 and 2012, respectively.

Operating Results and Changes in the Hospital's Net Position

The Hospital was formed and is operated primarily to serve residents of Wabash County and the surrounding area.

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Management's Discussion and Analysis
December 31, 2013

In 2013, the Hospital's net position decreased by \$417,763 or 1.4%, as shown in Tables 1 and 2. This decrease is due primarily to an increase in operating expenses in excess of operating revenue. In 2012, net position increased by \$984,281 or 3.5%.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenue			
Net patient service revenue	\$ 41,212,027	\$ 39,362,735	\$ 36,633,444
Other operating revenue	<u>1,457,194</u>	<u>1,341,300</u>	<u>694,872</u>
Total operating revenue	<u>42,669,221</u>	<u>40,704,035</u>	<u>37,328,316</u>
Operating Expenses			
Salaries and wages and employee benefits	22,512,888	21,921,948	21,110,379
Purchased services and professional fees	10,542,467	6,123,755	5,554,677
Depreciation and amortization	1,506,279	1,599,641	1,642,021
Other operating expenses	<u>8,643,540</u>	<u>10,361,799</u>	<u>9,151,256</u>
Total operating expenses	<u>43,205,174</u>	<u>40,007,143</u>	<u>37,458,333</u>
Operating Income (Loss)	<u>(535,953)</u>	<u>696,892</u>	<u>(130,017)</u>
Nonoperating Revenue (Expenses)			
Investment return	66,543	86,748	129,455
Interest expense	(20,229)	—	—
Other nonoperating revenue and expense, net	<u>(6,735)</u>	<u>11,559</u>	<u>(22,905)</u>
Total nonoperating revenue (expenses)	39,579	98,307	106,550
Capital gifts	203,453	200,082	44,653
Distributions to noncontrolling investors	<u>(124,842)</u>	<u>(11,000)</u>	<u>(40,180)</u>
Increase (Decrease) in Net Position	<u>\$ (417,763)</u>	<u>\$ 984,281</u>	<u>\$ (18,994)</u>

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Management's Discussion and Analysis
December 31, 2013

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income (loss); generally, the difference between net patient service and other operating revenue and the expenses incurred to perform those services. In 2013 and 2012, the Hospital reported operating loss and operating income, respectively.

Operating results for 2013 decreased by \$1,232,845 or 177% when compared to 2012. The primary component of the decreased operating income is a decrease in patient volumes while costs continued to increase. During 2013, the Hospital entered into Extended Services operations which provided operating income of \$426,656. There were no Extended Services revenues or expenses in 2012.

Operating results for 2012 increased by \$826,909 or 636% when compared to 2011, due primarily to increases in net patient service revenue and achievement of meeting meaningful use under the electronic health records incentive program for both Medicare and Medicaid.

Operating income derived from Extended Services in 2013 totaled \$426,656, which was an increase of 100% from operating income reported in 2012. The primary components of the changes in operating income for Extended Services are:

- An increase in net patient services revenue of \$4,238,837 (100%) from 2012 to 2013.
- An increase in other operating revenues of \$853,314 (100%) from 2012 to 2013. This increase is primarily attributed to an increase in supplemental Medicaid payments to the nursing facilities.
- An increase in all operating expenses of \$4,665,495 (100%) from 2012 to 2013.

The changes above are a result of the Hospital entering Extended Services operations with 2 nursing facilities in June 2013.

Nonoperating Revenue and Expenses

Nonoperating revenue and expenses consist primarily of interest income and expense, investment earnings and losses and other revenue and expenses. The investment return decreased \$20,205 or 23% in 2013 from 2012 due to changes in market conditions.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating results and nonoperating revenue and expenses for 2013.

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Management's Discussion and Analysis
December 31, 2013

Capital Assets

At the end of 2013, the Hospital had \$7,677,827 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 of the financial statements. In 2013, the Hospital purchased new capital assets totaling \$1,612,433.

Wabash County Hospital Foundation

In 2013, there were no significant changes with the Foundation's net position or changes in net position compared to 2012.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers 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 Administration by telephoning 260.563.3131.

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Balance Sheets
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,480,539	\$ 6,352,233
Short-term investments	7,513,193	8,213,449
Restricted cash and investments, current	24,912	24,912
Patient accounts receivable, net of allowances of \$3,024,075 and \$2,704,000	7,856,795	6,799,882
Other receivables	500,858	1,178,424
Estimated amount due from third-party payers	249,214	—
Supplies	865,200	923,845
Prepaid expenses and other	<u>196,300</u>	<u>200,636</u>
Total current assets	23,687,011	23,693,381
Noncurrent Cash and Investments	2,589,342	1,842,518
Capital Assets, Net	7,677,827	7,541,673
Other Assets	<u>195,000</u>	<u>225,000</u>
Total assets	<u>\$ 34,149,180</u>	<u>\$ 33,302,572</u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term obligations	\$ 161,628	\$ 47,053
Accounts payable	2,343,706	1,094,477
Salaries and wages payable	1,532,312	1,521,649
Health insurance claims payable	541,736	446,263
Estimated amounts due to third-party payers	<u>—</u>	<u>501,136</u>
Total current liabilities	4,579,382	3,610,578
Long-Term Debt	384,237	68,568
Other Long-Term Obligations	<u>81,948</u>	<u>102,050</u>
Total liabilities	<u>5,045,567</u>	<u>3,781,196</u>
Net Position		
Net investment in capital assets	7,131,962	7,541,673
Restricted, expendable for specific operating activities	24,912	24,912
Unrestricted	21,875,308	21,795,384
Restricted, nonexpendable	<u>71,431</u>	<u>159,407</u>
Total net position	<u>29,103,613</u>	<u>29,521,376</u>
Total liabilities and net position	<u>\$ 34,149,180</u>	<u>\$ 33,302,572</u>

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Wabash County Hospital Foundation, Inc.
Statements of Financial Position
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Cash and cash equivalents	\$ 181,275	\$ 231,612
Investments	488,888	361,825
Interest in assets at Community Foundation of Wabash County	<u>589,527</u>	<u>530,163</u>
Total assets	\$ <u>1,259,690</u>	\$ <u>1,123,600</u>
Net Assets		
Unrestricted	\$ 745,360	\$ 669,195
Temporarily restricted	<u>514,330</u>	<u>454,405</u>
Total net assets	\$ <u>1,259,690</u>	\$ <u>1,123,600</u>

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Statements of Revenue, Expenses and Changes in Net Position
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of \$2,839,441 and \$2,906,720	\$ 41,212,027	\$ 39,362,735
Other	<u>1,457,194</u>	<u>1,341,300</u>
Total operating revenue	<u>42,669,221</u>	<u>40,704,035</u>
Operating Expenses		
Salaries and wages	17,156,053	15,946,900
Employee benefits	5,356,835	5,975,048
Drugs	2,086,249	1,897,274
Food	378,933	303,105
Utilities	792,366	638,137
Medical/surgical supplies	3,754,087	3,285,961
Minor equipment	87,866	158,554
Other expenses	2,124,078	1,854,721
Other supplies	511,209	387,814
Dues/subscriptions	104,462	136,123
Travel and continuing education	107,435	99,383
Rental expense	1,134,900	539,966
Professional fees	6,788,380	6,123,755
Repairs and maintenance	1,320,492	1,060,761
Gain on sale of capital lease	(4,450)	—
Depreciation and amortization	<u>1,506,279</u>	<u>1,599,641</u>
Total operating expenses	<u>43,205,174</u>	<u>40,007,143</u>
Operating Income (Loss)	<u>(535,953)</u>	<u>696,892</u>
Nonoperating Revenue (Expenses)		
Investment return	66,543	86,748
Interest expense	(20,229)	—
Other	<u>(6,735)</u>	<u>11,559</u>
Total nonoperating revenue (expenses)	<u>39,579</u>	<u>98,307</u>
Excess (Deficiency) of Revenue Over Expenses	(496,374)	795,199
Capital Gifts	203,453	200,082
Less: Distributions to Noncontrolling Interests	<u>(124,842)</u>	<u>(11,000)</u>
Increase (Decrease) in Net Position	(417,763)	984,281
Net Position, Beginning of Year	<u>29,521,376</u>	<u>28,537,095</u>
Net Position, End of Year	<u>\$ 29,103,613</u>	<u>\$ 29,521,376</u>

Wabash County Hospital
A Component Unit of Wabash County
Wabash County Hospital Foundation, Inc.
Statements of Activities
Year Ended December 31, 2013

	2013		
	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support			
Contributions	\$ 56,119	\$ 91,873	\$ 147,992
Fund raising	—	152,600	152,600
Investment return	21,575	—	21,575
Return on assets at Community Foundation of Wabash County	38,365	—	38,365
Net assets released from restrictions	<u>184,548</u>	<u>(184,548)</u>	<u>—</u>
Total revenue, gains and other support	300,607	59,925	360,532
Expenses			
Program services	<u>224,442</u>	<u>—</u>	<u>224,442</u>
Change in Net Assets	76,165	59,925	136,090
Net Assets, Beginning of Year	<u>669,195</u>	<u>454,405</u>	<u>1,123,600</u>
Net Assets, End of Year	<u>\$ 745,360</u>	<u>\$ 514,330</u>	<u>\$ 1,259,690</u>

2012		
Unrestricted	Temporarily Restricted	Total
\$ 75,856	\$ 122,985	\$ 198,841
—	138,604	138,604
14,955	—	14,955
38,433	—	38,433
<u>331,167</u>	<u>(331,167)</u>	<u>—</u>
460,411	(69,578)	390,833
<u>377,476</u>	<u>—</u>	<u>377,476</u>
82,935	(69,578)	13,357
<u>586,260</u>	<u>523,983</u>	<u>1,110,243</u>
<u>\$ 669,195</u>	<u>\$ 454,405</u>	<u>\$ 1,123,600</u>

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 40,082,330	\$ 39,421,014
Payments to suppliers and contractors	(17,782,774)	(16,035,635)
Payments to employees	(22,522,327)	(21,847,408)
Gain on disposition of capital assets	4,450	—
Other receipts, net	<u>1,457,194</u>	<u>1,341,300</u>
Net cash provided by operating activities	<u>1,238,873</u>	<u>2,879,271</u>
Capital and Related Financing Activities		
Principal paid on long-term obligations	(156,476)	(26,945)
Interest paid on long-term obligations	(20,229)	—
Purchase of capital assets	(1,025,713)	(3,099,341)
Payment of distributions to noncontrolling interests	<u>(124,842)</u>	<u>(11,000)</u>
Net cash used in capital and related financing activities	<u>(1,327,260)</u>	<u>(3,137,286)</u>
Investing Activities		
Net change in certificates of deposit	(698)	—
Investment income	72,797	86,748
Purchase of investments	(73,694)	(75,743)
Deposit to restricted property escrow	—	805,265
Proceeds from sale of investments	21,570	1,800,000
Other nonoperating revenue	<u>196,718</u>	<u>211,641</u>
Net cash provided by investing activities	<u>216,693</u>	<u>2,827,911</u>
Increase in Cash and Cash Equivalents	128,306	2,569,896
Cash and Cash Equivalents, Beginning of Year	<u>6,352,233</u>	<u>3,782,337</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,480,539</u>	<u>\$ 6,352,233</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating Income (Loss)	\$ (535,953)	\$ 696,892
Depreciation and amortization	1,506,279	1,599,641
Gain on disposal of capital assets	4,450	—
Provision for uncollectible accounts	2,839,411	2,906,720
Changes in operating assets and liabilities		
Patient accounts receivable	(3,896,354)	(2,977,619)
Accounts payable and accrued expenses	1,259,892	467,487
Estimated third-party payer settlements	(750,350)	1,071,539
Other assets and liabilities	<u>811,468</u>	<u>(885,389)</u>
Net cash provided by operating activities	<u>\$ 1,238,873</u>	<u>\$ 2,879,271</u>
Capital assets acquired through issuance of long-term debt	\$ 586,720	\$ 142,566
Interest paid	\$ 20,229	—

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

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

Nature of Operations and Reporting Entity

Wabash County Hospital (Hospital) is an acute care hospital located in Wabash, Indiana. The Hospital is a component unit of Wabash County as the Board of County Commissioners of Wabash, Indiana appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Wabash County area. It also operates a home health agency in the same geographic area.

The Hospital controls Wabash MRI, LLC (LLC), a for-profit diagnostic center. The LLC is a joint venture between the Hospital and seven local physicians which primarily earns revenue from performing diagnostic services with magnetic resonance imaging (MRI). The Hospital reports the LLC utilizing the blended component unit method in accordance with Governmental Accounting Standards Board Statement No. 39.

The Hospital operates 2 long-term care facilities through various lease agreements, which are reported in the Hospital's extended services division (Extended Services). These facilities provide inpatient and therapy services throughout their respective geographic areas and support the Hospital's mission to provide quality care and services to the facilities' residents. The facilities are managed by third parties under various management agreements. The revenues from operations are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

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. Revenue, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenue 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 revenue 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 is available.

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 revenue 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, 2013 and 2012, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

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.

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 employee health claims and include an estimate of the ultimate costs for these reported claims and claims incurred but not yet reported.

Investments and Investment Income

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 carried at other than fair value 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 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. 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:

Land improvements	3 to 20 years
Buildings and leasehold improvements	5 to 40 years
Equipment	2 to 20 years
Computer software	3 years

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Contributions

From time to time, the Hospital receives contributions from individuals, private organizations and the Wabash County Hospital Foundation, Inc. Revenue from contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted for capital acquisitions are reported after nonoperating revenue and expenses.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. Expense and the related liability are recognized as vacation benefits are earned plus associated employee payroll taxes whether the employee is expected to realize the benefits as time off or in cash. 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 using rates in effect at that date.

Net Position

Net position of the Hospital is classified in four components. Net investment in capital assets consists 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 expendable net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital. Restricted, nonexpendable net position represents noncontrolling interest capital and noncapital assets less liabilities owned by entities unrelated to the Hospital. Unrestricted net position represents the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets, restricted expendable or restricted, nonexpendable.

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.

Operating Revenue and Expenses

The Hospital's statements of revenue, expenses and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue result from exchange transactions associated with providing health care services — the Hospital's principal activity. Nonexchange revenue, including contributions received for purposes other than capital acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

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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. Charges excluded from revenue under the Hospital's charity care policy were \$1,584,734 and \$1,915,383 for 2013 and 2012, respectively.

Income Taxes

As an essential government function of Wabash 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. The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital and the Foundation are subject to federal income tax on any unrelated business taxable income and are no longer subject to U.S. federal examinations by tax authorities for years before 2010.

The LLC is not directly subject to income taxes under provisions of the Internal Revenue Code and applicable state laws. Therefore, taxable income or loss is reported to the individual members for inclusion in their respective tax returns and no provision for federal and state income taxes is included in these statements. With a few exceptions, the LLC is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2010.

Medical Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is insured under an occurrence-based 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 claim experience, no such accrual has been recorded. It is reasonable that this estimate could change in the near term.

Foundation

Wabash County Hospital Foundation, Inc. (Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs. The Board of the Foundation is self-perpetuating.

Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the Hospital. Because these restricted resources held by the Foundation can only be used by or for the benefit of the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

During the years ended December 31, 2013 and 2012, the Foundation provided \$203,453 and \$200,082, respectively, of monetary support to the Hospital.

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The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

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). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. 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 under both programs 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 \$730,000, which is included in other operating revenue in the statement of revenues, expenses and changes in net position. The Hospital did not meet the second-year requirements in 2013 and therefore has not recorded revenue.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement 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. These payment arrangements include:

Medicare. The Hospital is designated by Medicare as a Critical Access Hospital. Inpatient acute care and swing bed services, and most outpatient services, are reimbursed based on a cost reimbursement methodology. Interim per diem rates for inpatient services and percent of charges for outpatient services are reimbursed throughout the year, with final settlement determined after submission of the annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

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Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge for inpatient services and per occasion for outpatient services.

Medicaid Disproportionate Share Payments. 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 DSH payments. The amounts of these additional DSH funds 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. DSH payments have been made by the state of Indiana, and the Hospital records such amounts as revenue when it is reasonably determinable that the funds will be received. The Hospital recognized \$242,502 of net patient service revenue related to the DSH program for the year ended December 31, 2012. The Hospital did not receive a DSH payment for the year ended December 31, 2013.

In May 2007, the federal Medicare program issued a final ruling that may change the state of Indiana's ability to operate the DSH program as described above. Upon enactment of this final ruling, Congress issued a one-year moratorium on the ruling, which was scheduled to expire in May 2008. In anticipation of the moratorium expiration, the state of Indiana accelerated payments through state fiscal year 2008. A condition of the accelerated payments may result in a payback of the DSH funds. As such, it is reasonably possible estimates associated with the DSH program could change materially in the near term.

Approximately 50% and 52% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2013 and 2012, respectively. 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 could change materially in the near term.

In 2011, the State of Indiana submitted certain Medicaid State Plan Amendments to the Centers for Medicare and Medicaid Services (CMS) to incorporate a Provider Assessment Fee, requesting retroactive approval to July 1, 2011, which was approved by CMS in 2012. The effect of the Provider Assessment Fee on reimbursement is to increase Medicaid base fee for service and diagnosis related group payment rates to Indiana hospitals and reduce the level of Medicaid lump sum payments made under the existing Medicaid Supplemental Payment programs. For the years ended December 31, 2012 and 2012, the Hospital paid Provider Assessment Fees of approximately \$660,000 and \$905,000, respectively, and received payments from the program of approximately \$1,310,000 and \$1,144,000, respectively, yielding a net increase to revenue in excess of expenses of approximately \$650,000 and \$239,000, respectively. Provider Assessment Fee expense is included within other expenses and additional reimbursements received from the program are included in net patient service revenue on the statements of revenue, expenses and changes in net position.

In March 2014, the Centers for Medicare and Medicaid Services approved the provider assessment fee program retroactively to July 1, 2013 through June 30, 2017. For the period of July 1, 2013 to December 31, 2013, no payments to the Hospital have been received or revenue recorded and no assessments against the Hospital have been paid or expense recorded because the approval by CMS had not been obtained as of December 31, 2013.

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The aforementioned provider assessment fee program is subject to retroactive rate setting by the State of Indiana and its Medicaid program. Management has recorded an accrual for an anticipated provider assessment expense approximating \$ pertaining to the state fiscal period ended June 30, 2013.

The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital is responsible for funding the IGT for the long-term care operations. Revenue associated with the UPL program is recorded net of IGT payments made to the program and are included in other operating revenue. The Hospital recognized approximately \$853,000 related to this supplement payment program for the year ended December 31, 2013, which is included in other operating revenue in the statements of revenues, expenses and changes in net position. At December 31, 2013 and 2012, \$352,778 and \$0, respectively, is accrued and included in other receivables.

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.

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 deposited in approved financial institutions in the event of financial institution failures. Indiana is the only state that has a PDIF.

At December 31, 2013, \$7,099,000 of the Hospital and LLC bank balances are covered by the PDIF or FDIC, and \$0 of the bank balances of LLC exceed FDIC coverage limits.

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, the Hospital had the following investments and maturities:

Type	Fair Value	December 31, 2013	
		Maturities in Years	
		Less Than 1	1 - 5
Certificates of deposit	\$ 10,113,938	\$ 7,524,596	\$ 2,589,342
Money market mutual funds	8,597	8,597	—
Restricted cash, property escrow	<u>4,912</u>	<u>4,912</u>	<u>—</u>
	<u>\$ 10,127,447</u>	<u>\$ 7,538,105</u>	<u>\$ 2,589,342</u>

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Type	Fair Value	December 31, 2012	
		Maturities in Years	
		Less Than 1	1 - 5
Certificates of deposit	\$ 9,845,584	\$ 8,003,066	\$ 1,842,518
Money market mutual funds	29,470	29,470	—
U.S. agency bonds	200,215	200,215	—
Restricted cash, property escrow	<u>5,610</u>	<u>5,610</u>	<u>—</u>
	<u>\$ 10,080,879</u>	<u>\$ 8,238,361</u>	<u>\$ 1,842,518</u>

Interest Rate Risk - The Hospital's investment policy does not address interest rate risk.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital's investment policy does not address credit risk.

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 does not address custodial credit risk.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer.

Summary of Carrying Values

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

	2013	2012
Carrying value		
Deposits	\$ 6,480,539	\$ 6,352,233
Investments	<u>10,127,447</u>	<u>10,080,879</u>
	<u>\$ 16,607,986</u>	<u>\$ 16,433,112</u>

Included in the following balance sheets captions:

	2013	2012
Cash and cash equivalents	\$ 6,480,539	\$ 6,352,233
Short-term investments	7,513,193	8,213,449
Restricted cash and investments, current	24,912	24,912
Noncurrent investments	<u>2,589,342</u>	<u>1,842,518</u>
	<u>\$ 16,607,986</u>	<u>\$ 16,433,112</u>

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Investment Return

Investment return for the years ended December 31 consisted of:

	<u>2013</u>	<u>2012</u>
Restricted cash and investments, current	\$ 72,797	\$ 86,748
Unrealized loss	<u>(6,254)</u>	<u>—</u>
	<u>\$ 66,543</u>	<u>\$ 86,748</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 consisted of:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 2,669,838	\$ 1,822,638
Medicaid	582,568	193,398
Other third-party payers	2,900,779	2,625,580
Patients	<u>4,728,085</u>	<u>4,862,266</u>
	10,881,270	9,503,882
Less allowance for uncollectible accounts	<u>(3,024,475)</u>	<u>(2,704,000)</u>
	<u>\$ 7,856,795</u>	<u>\$ 6,799,882</u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2013 and 2012, was:

	<u>2013</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 1,295,014	\$ —	\$ —	\$ —	\$ 1,295,014
Land improvements	314,699	—	—	—	314,699
Buildings and leasehold improvements	16,839,009	—	—	295,176	17,134,185
Equipment	14,387,873	997,845	(10,212)	71,080	15,446,586
Construction in progress	<u>2,029,180</u>	<u>614,588</u>	<u>—</u>	<u>(366,256)</u>	<u>2,277,512</u>
	<u>34,865,775</u>	<u>1,612,433</u>	<u>(10,212)</u>	<u>—</u>	<u>36,467,996</u>

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2013					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Less accumulated depreciation					
Land improvements	265,488	11,519	—	—	277,007
Buildings and leasehold improvements	15,548,242	330,974	—	—	15,879,216
Equipment	<u>11,510,372</u>	<u>1,133,786</u>	<u>(10,212)</u>	<u>—</u>	<u>12,633,946</u>
	<u>27,324,102</u>	<u>1,476,279</u>	<u>(10,212)</u>	<u>—</u>	<u>28,790,169</u>
Capital assets, net	<u>\$ 7,541,673</u>	<u>\$ 136,154</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,677,827</u>

2012					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 475,705	\$ 819,309	\$ —	\$ —	\$ 1,295,014
Land improvements	314,699	—	—	—	314,699
Buildings and leasehold improvements	16,815,534	—	—	23,475	16,839,009
Equipment	13,921,755	142,372	(660,990)	984,736	14,387,873
Construction in progress	<u>757,165</u>	<u>2,280,226</u>	<u>—</u>	<u>(1,008,211)</u>	<u>2,029,180</u>
	<u>32,284,858</u>	<u>3,241,907</u>	<u>(660,990)</u>	<u>—</u>	<u>34,865,775</u>
Less accumulated depreciation					
Land improvements	252,593	12,895	—	—	265,488
Buildings and leasehold improvements	15,200,282	347,960	—	—	15,548,242
Equipment	<u>10,932,576</u>	<u>1,238,786</u>	<u>(660,990)</u>	<u>—</u>	<u>11,510,372</u>
	<u>26,385,451</u>	<u>1,599,641</u>	<u>(660,990)</u>	<u>—</u>	<u>27,324,102</u>
Capital assets, net	<u>\$ 5,899,407</u>	<u>\$ 1,642,266</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,541,673</u>

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Note 6: 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 individual amount of \$125,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the annual individual amounts. 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 could change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 446,263	\$ 446,263
Current year claims incurred and changes in estimates for claims incurred in prior years	2,855,016	3,868,537
Claims and expenses paid	<u>(2,759,543)</u>	<u>(3,868,537)</u>
Balance, end of year	\$ <u>541,736</u>	\$ <u>446,263</u>

Note 7: Long-Term Obligations

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

		2013				
		Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$	115,621	\$ 586,720	\$ (156,476)	\$ 545,865	\$ 161,628

		2012				
		Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$	—	\$ 142,566	\$ (26,945)	\$ 115,621	\$ 47,053

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Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 2.34% to 3.25% together with the present value of the future minimum lease payments as of December 31, 2013:

2014	\$ 176,548
2015	147,817
2016	127,295
2017	105,107
2018	<u>22,991</u>
Total minimum lease payments	579,758
Less amount representing interest	<u>(33,893)</u>
Present value of future minimum lease payments	<u>\$ 545,865</u>

Note 8: Long-Term Care Operating Leases and Management Agreements

The Hospital has entered into various agreements to lease the facilities and equipment for the operation of 2 nursing homes. Along with each lease agreement, the Hospital has also entered into management agreements with the facilities' previous managers (Managers) to continue to operate the facilities. These agreements expire June 2016 and include optional one year extensions. The management agreements include optional termination clauses by either party if material changes in circumstances, as defined in the agreement, occur. The leases include termination clauses where the lease shall automatically end at the termination of the management agreement between the Hospital and the Managers.

The lease agreements call for monthly base rent payments as outlined in the agreements. Rental expense approximated \$760,000 in 2013. Future minimum rent payments at December 31 are as follows:

2014	\$ 1,301,306
2015	1,301,306
2016	<u>1,192,864</u>
Future minimum lease payments	<u>\$ 3,795,476</u>

The management agreements include management fees consisting of base management fees, subordinated management fees and incentive management fees. These amounts are based on the net patient service revenue of the individual facilities. Subordinate and incentive management fees are to be paid only if sufficient working capital exists on an aggregate basis for each group of homes managed by an individual Managers. The agreements also call for quality, royalty and capital improvement fees to be paid to the Managers at amounts based on the occupancy of each facility. Management and other fees approximated \$565,000 in 2013.

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Note 9: Restricted and Designated Net Position

At December 31, restricted expendable net position was available for the following purposes:

	<u>2013</u>	<u>2012</u>
Specific operating activities		
Scholarship Leon Ribley	\$ <u>24,912</u>	\$ <u>24,912</u>

At December 31, 2013 and 2012, approximately \$6,500,000 and \$6,480,000, respectively, of unrestricted net position has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net position remains under the control of the Board of Trustees, which may, at its discretion, later use the net position for other purposes.

Note 10: Operating Leases

Noncancellable operating leases for medical equipment and satellite facilities expire in various years through 2019. These leases generally contain renewal options for periods ranging from one to five years and require the Hospital to pay all executory costs (property taxes, maintenance and insurance). Rental payments include minimum rentals. Rent expense for the years ended December 31, 2013 and 2012, was \$391,350 and \$539,966, respectively.

Future minimum lease payments at December 31, 2013, were:

2014	\$ 135,548
2015	78,000
2016	78,000
2017	78,000
2018	78,000
2019	<u>19,500</u>
Future minimum lease payments	\$ <u>467,048</u>

Note 11: 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 Hospital personnel. 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 governing body. Contributions made by plan members were \$714,115 and \$763,250 while the Hospital made contributions of \$760,197 and \$792,352 during 2013 and 2012, respectively.

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Note 12: Postemployment Health Care Plan

Plan Description

The Hospital offers a group health insurance plan (Plan) to former employees with 20 years or more of service who are at least 62 years of age and not eligible for Medicare benefits or other medical benefits. Eleven former employees were participating in this plan on December 31, 2012. The Hospital pays a portion of the cost of this plan for participants.

Effective January 1, 2010, Plan terms were amended. Former employees previously included in the Plan under the prior terms with 20 years or more of service who are at least 55 years of age and not eligible for Medicare benefits or other medical benefits were grandfathered into the amended plan.

Funding Policy

The contribution requirements of Plan members and the Hospital are established and may be amended by the governing body of the Hospital. The postemployment health care benefits are funded on a pay-as-you-go basis. The Hospital funds on a cash basis as benefits are paid. For 2011, Plan members receiving benefits contributed \$40,000 of the total premiums, through their required contribution (depending on policy selected) of \$234 to \$257 per month for retiree-only coverage and \$442 to \$488 for retiree and spouse coverage.

Annual OPEB Cost and Net OPEB Obligation

The Hospital's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation to the Plan:

	2013	2012
Annual required contribution	\$ 155,803	\$ 187,546
Interest on net OPEB obligation	4,082	3,418
Adjustment to annual required contribution	<u>(6,281)</u>	<u>(5,141)</u>
Annual OPEB cost	153,604	185,823
Contributions made	<u>(173,706)</u>	<u>(169,223)</u>
Increase (decrease) in net OPEB obligation	(20,102)	16,600
Net OPEB obligation, beginning of year	<u>102,050</u>	<u>85,450</u>
Net OPEB obligation, end of year	\$ <u>81,948</u>	\$ <u>102,050</u>

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The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013, 2012 and 2011 are as follows:

Fiscal Year-End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	\$ 185,194	79%	\$ 85,450
December 31, 2012	185,823	91	102,050
December 31, 2013	153,604	113	81,948

Funded Status and Funding Progress

As of December 31, 2013 and 2012, the Actuarial Accrued Liability (AAL) was \$1,477,228 and \$1,841,714, respectively. No assets have been segregated and restricted to provide postretirement benefits within the definition of Plan Assets under GASB Statement No. 45. The covered payroll (annual payroll of active employees covered by the Plan) was \$15,446,732 and \$15,946,900, and the ratio of the UAAL to the covered payroll was 10% and 12% for the years ended December 31, 2013 and 2012, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Benefit obligations are computed using the projected unit credit method. Benefits are attributed to service based on the Plan's benefit eligibility provisions. The beginning of the attribution period is the date of hire and the end is the full eligibility date. The unfunded actuarial accrual liability is amortized over a 30-year closed period level dollar amounts. Cumulative gains and losses are amortized over the same 30-year period as other UAAL. Other assumptions for both the 2013 and 2012 projections are as follows:

- Discount Rate: 4.00%
- Eligibility: Age 55 with 15 years of service until January 1, 2010, and then age 62 with 20 years of service
- Mortality basis: IRC 1.430(h) Annuitant and Nonannuitant tables (sex distinct)

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- Inflation: 5% in 2013
- Morbidity: Average claim cost age weighted 2% per year
- Election: 100% of participants will elect coverage at retirement
- Retirement:

Age	
62	30.0%
63	40.0
64	45.0
65	100.0
66	100.0
67	100.0
68	100.0
69	100.0
70	100.0

- Turnover:

Age	
20	15.0%
25	11.3
30	7.5
35	6.0
40	4.5
45	3.0
50	1.5
55	0.0

Note 13: Related Party Transactions

Included among the Hospital's and Foundation's directors and trustees are volunteers from the business, financial and professional community. During the year, cash and/or temporary investments and the Hospital's defined contribution pension plan were maintained or administered in banks with which directors were associated. The total Hospital cash and/or investments maintained at these banks were approximately \$7,022,000 and \$6,500,000 at December 31, 2013 and 2012, respectively. Additionally, the Foundation cash and/or investments maintained at these banks were approximately \$199,000 and \$147,000 at December 31, 2013 and 2012, respectively.

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Note 14: Wabash County Hospital Foundation, Inc.

Financial Statements

The financial statements of the Foundation are presented in accordance with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The FASB ASC requires the Foundation to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. The FASB ASC establishes standards for external financial statements of not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows. As permitted by GASB Statement No. 34, the Hospital has elected not to present a statement of cash flows for the Foundation in the basic financial statements of the Hospital's reporting entity.

Investments and Investment Return

Investments at December 31 consist of the following:

	2013	2012
Fixed income mutual funds	\$ 38,403	\$ 39,197
Equity mutual funds	201,241	175,986
Money market mutual funds	312	61
Certificate of deposit	<u>248,932</u>	<u>146,642</u>
	<u>\$ 488,888</u>	<u>\$ 361,886</u>
Interest in assets at Community Foundation of Wabash County	<u>\$ 589,527</u>	<u>\$ 530,163</u>

Total investment return is comprised of the following:

	2013	2012
Interest and dividend income	\$ 11,009	\$ 7,314
Return on assets held at Community Foundation of Wabash County	38,365	38,433
Net realized and unrealized gain (loss) on investments reported at fair value	<u>10,566</u>	<u>7,641</u>
	<u>\$ 59,940</u>	<u>\$ 53,388</u>

Interest in Assets at Community Foundation of Wabash County

The Foundation established an endowment fund by transferring assets to the Community Foundation of Wabash County. At the time of the transfer, the Foundation granted variance power to the Community Foundation of Wabash County. The Foundation is to receive the interest annually, but none of the principal. The cumulative amount of the retained interest included in the statements of financial position was \$589,527 and \$530,163 at December 31, 2013 and 2012, respectively.

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Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31 are available for the following purposes:

	2013	2012
Critical care	\$ 9,628	\$ 9,628
Cardiac rehabilitation	19,297	19,147
Charity for patients	441	—
Oncology	21,217	21,356
Home health care	33,461	65,311
Nutritional care	3,591	4,390
Skilled nursing care	2,882	3,553
Hospice	94,672	120,018
Prevention care/education	3,510	6,639
Campaign	37,068	—
United Way home health care	2,640	4,308
Employee support committee	11,167	8,443
Building fund	9,300	46,367
Diabetes fund	16,450	18,187
Employee crisis fund	27,695	24,022
Respiratory therapy	9,774	10,482
Mammogram charity	10,357	5,960
Acute care center	40,538	5,267
Disaster preparedness fund	4,904	3,975
Emergency fund	22,895	22,695
Physician education	1,842	1,842
Employee vision	580	580
Harvest for health	5,934	2,819
Women's Center	3,179	3,179
Other hospital-based programs	<u>121,308</u>	<u>46,237</u>
	<u>\$ 514,330</u>	<u>\$ 454,405</u>

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Net Assets Released from Restrictions

Net assets was released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2013	2012
Cardiac rehabilitation	\$ —	\$ 932
Home health care	47,960	56
Hospice	39,776	64,490
Prevention care/education	8,128	7,292
United Way home health care	6,391	5,901
Employee support committee	709	1,989
Employee crisis fund	3,500	4,134
Respiratory therapy	708	1,316
Mammogram charity	3,351	4,864
Disaster preparedness fund	7,192	6,231
Harvest for health	—	2,885
Other hospital-based programs	<u>66,833</u>	<u>231,077</u>
	<u>\$ 184,548</u>	<u>\$ 331,167</u>

Disclosures About Fair Value of Assets and Liabilities

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2013 and 2012:

		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value				
December 31, 2013					
Investments					
Fixed income mutual funds					
Intermediate-term bond funds	\$ 25,837	\$ 25,837	\$ —	\$ —	
Short-term bond funds	12,566	12,566	—	—	
Equity mutual funds					
Moderate allocation funds	49,652	49,652	—	—	
Large value funds	21,913	21,913	—	—	
Conservative allocation funds	32,670	32,670	—	—	
World allocation funds	90,472	90,472	—	—	
World stock funds	6,534	6,534	—	—	
Money market mutual funds	312	312	—	—	
Interest in assets at Community Foundation of Wabash County	589,527	—	589,527	—	

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Notes to Financial Statements

December 31, 2013 and 2012

		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value					
December 31, 2012					
Investments					
Fixed income mutual funds					
Intermediate-term bond funds	\$ 26,482	\$ 26,482	\$ —	\$ —	
Short-term bond funds	12,715	12,715	—	—	
Equity mutual funds					
Moderate allocation funds	41,690	41,690	—	—	
Large value funds	16,613	16,613	—	—	
Conservative allocation funds	22,965	22,965	—	—	
World allocation funds	89,564	89,564	—	—	
World stock funds	5,154	5,154	—	—	
Money market mutual funds					
	61	61	—	—	
Interest in assets at					
Community Foundation of Wabash County					
	530,163	—	530,163	—	

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. The Foundation has no liabilities measured at fair value on a recurring basis. Additionally, the Foundation has no assets or liabilities measured at fair value on a nonrecurring basis.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The Foundation does not have any Level 2 or 3 investment securities.

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December 31, 2013 and 2012

Interest in Assets at Community Foundation of Wabash County

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Note 15: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

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 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. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Note 1.

Current Economic Conditions

The current economic situation continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts that could negatively impact the Hospital's ability to maintain sufficient liquidity.

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Notes to Financial Statements
December 31, 2013 and 2012

Note 16: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Note 17: 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, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

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.

Supplemental Information

Wabash County Hospital
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Detailed Balance Sheet Information
December 31, 2013

	2013			
	Hospital	Extended Services	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 5,943,345	\$ 537,194	\$ —	\$ 6,480,539
Short-term investments	7,513,193	—	—	7,513,193
Restricted cash and investments, current	24,912	—	—	24,912
Patient accounts receivable, net of allowances of \$3,024,075	6,910,648	946,147	—	7,856,795
Other receivables	395,544	352,778	(247,464)	500,858
Estimated amount due from third-party payers	249,214	—	—	249,214
Supplies	865,200	—	—	865,200
Prepaid expenses and other	<u>196,300</u>	<u>—</u>	<u>—</u>	<u>196,300</u>
Total current assets	22,098,356	1,836,119	(247,464)	23,687,011
Noncurrent Cash and Investments	2,589,342	—	—	2,589,342
Capital Assets, Net	7,677,827	—	—	7,677,827
Other Assets	<u>195,000</u>	<u>—</u>	<u>—</u>	<u>195,000</u>
Total assets	<u>\$ 32,560,525</u>	<u>\$ 1,836,119</u>	<u>\$ (247,464)</u>	<u>\$ 34,149,180</u>
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ 161,628	\$ —	\$ —	\$ 161,628
Accounts payable	1,181,707	1,161,999	—	2,343,706
Salaries and wages payable	1,532,312	—	—	1,532,312
Health insurance claims payable	541,736	—	—	541,736
Other	<u>—</u>	<u>247,464</u>	<u>(247,464)</u>	<u>—</u>
Total current liabilities	3,417,383	1,409,463	(247,464)	4,579,382
Long-Term Debt	384,237	—	—	384,237
Other Long-Term Liabilities	<u>81,948</u>	<u>—</u>	<u>—</u>	<u>81,948</u>
Total liabilities	<u>3,883,568</u>	<u>1,409,463</u>	<u>(247,464)</u>	<u>5,045,567</u>
Net Position				
Net investment in capital assets	7,131,962	—	—	7,131,962
Restricted, expendable for specific operating activities	24,912	—	—	24,912
Unrestricted	21,448,652	426,656	—	21,875,308
Restricted, nonexpendable	<u>71,431</u>	<u>—</u>	<u>—</u>	<u>71,431</u>
Total net position	<u>28,676,957</u>	<u>426,656</u>	<u>—</u>	<u>29,103,613</u>
Total liabilities and net position	<u>\$ 32,560,525</u>	<u>\$ 1,836,119</u>	<u>\$ (247,464)</u>	<u>\$ 34,149,180</u>

Wabash County Hospital
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Detailed Statement of Revenue, Expenses and
Changes in Net Position Information
Year Ended December 31, 2013

	2013		
	Hospital	Extended Service	Total
Operating Revenue			
Net patient service revenue, net of provision for uncollectible accounts of \$2,839,441	\$ 36,973,190	\$ 4,238,837	\$ 41,212,027
Other	<u>603,880</u>	<u>853,314</u>	<u>1,457,194</u>
Total operating revenue	<u>37,577,070</u>	<u>5,092,151</u>	<u>42,669,221</u>
Operating Expenses			
Salaries and wages	15,446,732	1,709,321	17,156,053
Employee benefits	5,201,084	155,751	5,356,835
Drugs	1,959,255	126,994	2,086,249
Food	266,439	112,494	378,933
Utilities	675,568	116,798	792,366
Medical/surgical supplies	3,754,087	—	3,754,087
Minor equipment	87,866	—	87,866
Other expenses	1,404,963	719,115	2,124,078
Other supplies	382,855	128,354	511,209
Dues/subscriptions	104,462	—	104,462
Travel and continuing education	105,197	2,238	107,435
Rental expense	391,350	743,550	1,134,900
Professional fees	6,027,913	760,467	6,788,380
Repairs and maintenance	1,230,079	90,413	1,320,492
Gain on sale of capital lease	(4,450)	—	(4,450)
Depreciation and amortization	<u>1,506,279</u>	<u>—</u>	<u>1,506,279</u>
Total operating expenses	<u>38,539,679</u>	<u>4,665,495</u>	<u>43,205,174</u>
Operating Income (Loss)	<u>(962,609)</u>	<u>426,656</u>	<u>(535,953)</u>
Nonoperating Revenue (Expenses)			
Investment return	66,543	—	66,543
Interest expense	(20,229)	—	(20,229)
Other	<u>(6,735)</u>	<u>—</u>	<u>(6,735)</u>
Total nonoperating revenue (expenses)	<u>39,579</u>	<u>—</u>	<u>39,579</u>
Excess (Deficiency) of Revenue Over Expenses	(923,030)	426,656	(496,374)
Capital Gifts	203,453	—	203,453
Less: Distributions to Noncontrolling Interests	<u>(124,842)</u>	<u>—</u>	<u>(124,842)</u>
Increase (Decrease) in Net Position	(844,419)	426,656	(417,763)
Net Position, Beginning of Year	<u>29,521,376</u>	<u>—</u>	<u>29,521,376</u>
Net Position, End of Year	<u>\$ 28,676,957</u>	<u>\$ 426,656</u>	<u>\$ 29,103,613</u>

Wabash County Hospital
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Schedule of Funding Progress
Year Ended December 31, 2013

Wabash County Hospital Post-retirement Medical Benefit Plan is a single-employer defined benefit plan administered by Wabash County Hospital. Please refer to Note 11 for more detailed information.

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011
Actuarial Valuation Date	December 31, 2013	December 31, 2011	December 31, 2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Actuarial accrued liability	\$ 1,477,228	\$ 1,841,714	\$ 1,839,636
Actuarial value of assets	<u>—</u>	<u>—</u>	<u>—</u>
Total Unfunded Actuarial Liability	<u>\$ 1,477,228</u>	<u>\$ 1,841,714</u>	<u>\$ 1,839,636</u>
Funded Ratio	.00%	.00%	.00%
Annual Covered Payroll	\$ 15,446,732	\$ 15,946,900	\$ 15,571,156
Ratio of Unfunded Actuarial Liability to Covered Payroll	9.56%	11.55%	11.81%
Participant Summary			
Active employees	229	250	250
Retirees	<u>12</u>	<u>11</u>	<u>11</u>
	<u>241</u>	<u>261</u>	<u>261</u>
Actuarial Assumptions			
UAAL amortization method	Level dollar	Level % of pay	Level % of pay
UAAL amortization period, closed/open	25 years, closed	30 years, closed	30 years, closed
Discount rate	4.00%	4.00%	4.00%