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March 12, 2015

Board of Directors  
Sullivan County Community Hospital  
2200 N. Section Street  
Sullivan, IN 47882

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 Sullivan County Community 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.

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

Paul D. Joyce, CPA  
State Examiner

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

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**December 31, 2013 and 2012**

**Table of Contents**

<b>Independent Auditor's Report on Financial Statements and Supplementary Information .....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>3</b>
<b>Financial Statements</b>	
Balance Sheets.....	8
SCCH Fitness Center, Inc. - Statements of Financial Position.....	9
Statements of Revenues, Expenses and Changes in Net Position .....	10
SCCH Fitness Center, Inc. - Statements of Activities .....	11
Statements of Cash Flows .....	12
Notes to Financial Statements .....	13

## Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees  
Sullivan County Community Hospital  
Sullivan, Indiana

We have audited the accompanying financial statements of Sullivan County Community Hospital (Hospital), and its discretely presented component unit, collectively, a component unit of Sullivan County, Indiana, which comprise the balance sheets as of December 31, 2013 and 2012, 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, 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.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sullivan County Community Hospital, a component unit of Sullivan County, Indiana, 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.

### ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, in the current year the Hospital changed its method of accounting for debt issuance costs as a result of adopting GASB Statement No. 65, which has been applied retrospectively. Our opinion is not modified with respect to this matter.

### ***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  
March 17, 2014

# **Sullivan County Community Hospital**

## **A Component Unit of Sullivan County, Indiana**

### **Management's Discussion and Analysis**

#### **Year Ended December 31, 2013 and 2012**

#### **Introduction**

This management's discussion and analysis of the financial performance of Sullivan County Community Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital. Unless otherwise indicated, amounts are in thousands.

#### **Financial Highlights**

- Cash and investments increased in 2013 by \$1,501,545 or 8.9% compared to an increase of \$1,280,972 or 9.1% in 2012.
- The Hospital's net position increased in 2013 by \$515,275 or 1.7% compared to an increase of \$1,931,517 or 6.8% in 2012.
- The Hospital reported operating income in both 2013 (\$525,235) and 2012 (\$1,811,396). The operating income in 2013 decreased by \$1,286,161 or 71%, while in 2012, the operating income increased by \$977,627 or 117%.
- Net nonoperating expenses for 2013 were \$9,960 compared to net nonoperating revenues of \$120,121 for 2012. This is a decrease of \$130,081 or 108%. In 2012, net nonoperating revenues increased by \$248,868 or 177%.

#### **Using This Annual Report**

The Hospital's financial statements consist of three statements—the balance sheets; the statements of revenues, expenses and changes in net position; and the statements 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 Sheets and Statements 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 sheets and the statements 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 Statements of Cash Flows**

The statements of cash flows report 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 sheets. The Hospital's net position increased by \$515,275 or 1.7% in 2013 over 2012 compared to an increase in net position of \$1,931,517 or 6.8% in 2012 over 2011 as shown in Table 1.

**Table 1: Assets, Liabilities and Net Position**

	<b>2013</b>	<b>2012 Restated</b>	<b>2011 Restated</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 3,139,867	\$ 2,548,719	\$ 2,687,283
Other current assets	2,819,154	4,326,957	2,100,021
Capital assets, net	13,433,353	13,970,852	15,004,521
Other noncurrent assets	14,947,022	12,323,879	12,609,593
	<u>\$ 34,339,396</u>	<u>\$ 33,170,407</u>	<u>\$ 32,401,418</u>
<b>Liabilities</b>			
Long-term debt	\$ -	\$ -	\$ 990,000
Other current and noncurrent liabilities	3,795,235	3,141,521	3,314,049
Total liabilities	<u>3,795,235</u>	<u>3,141,521</u>	<u>4,304,049</u>
<b>Net Position</b>			
Net investment in capital assets	13,433,353	13,970,852	14,014,521
Restricted	-	-	785,765
Unrestricted	17,110,808	16,058,034	13,297,083
Total net position	<u>30,544,161</u>	<u>30,028,886</u>	<u>28,097,369</u>
Total liabilities and net position	<u>\$ 34,339,396</u>	<u>\$ 33,170,407</u>	<u>\$ 32,401,418</u>

A significant change in the Hospital's assets in 2013 is the increase in patient accounts receivable of approximately \$600,000 or 23%. Although net patient service revenues decreased during the year by \$399,178 or 1.5% from \$26,166,666 in 2012 to \$25,767,488 in 2013, net patient accounts receivable increased by \$591,148 or 23% from \$2,548,719 in 2012 to \$3,139,867 in 2013 or approximately 8 days of revenue at December 31, 2013, versus December 31, 2012. This increase in receivables was a combination of a decrease in the Hospital's accounts receivable of approximately \$200,000 for inpatient and outpatient charges, and an increase in Hospital physician receivables of approximately \$800,000 as a result of acquiring a significant family practice in the last quarter of 2013. In 2012, there was a decrease in patient accounts receivable. Although net patient service revenues increased in 2012 by \$3,185,539 or 13.9% as compared to 2011, net patient accounts receivable decreased by \$138,564 or approximately 2 days of revenue at December 31, 2012, versus December 31, 2011. The decrease resulted primarily from increased patient service revenue and associated payments from the state Medicaid program under the state specific provider assessment program implemented during 2012, and improvements in filing claims with other third-party payers.

Another significant change in the Hospital's financial position in 2013 was the decrease in cash and an increase in investments during 2013, as a rebalancing of the Hospital's cash and investment portfolio. Total cash and investments increased by approximately \$1.5 million from 2012 to 2013, which included a shift in liquid cash to investments held.

Additionally, during 2012, the Hospital paid off all outstanding bonds in advance of maturity. Outstanding debt associated with these bonds at December 31, 2011 was \$990,000.

### **Operating Results and Changes in the Hospital's Net Position**

In 2013, the Hospital's net position increased by \$515,275 or 1.7%, as shown in Table 2. This increase is made up of several different components and represents a decrease of 73.3% compared with the increase in net position for 2012 of \$1,931,517. In 2012, net position increased by \$1,931,517, which represents an increase of 174% compared with the increase in net position for 2011 of \$705,022.

**Table 2: Operating Results and Changes in Net Position**

	<b>2013</b>	<b>2012 Restated</b>	<b>2011 Restated</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 25,767,488	\$ 26,166,666	\$ 22,981,327
Other operating revenues	438,970	122,445	118,451
Total operating revenues	<u>26,206,458</u>	<u>26,289,111</u>	<u>23,099,778</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	14,161,416	13,186,938	12,746,087
Purchased services and professional fees	3,738,438	3,226,248	3,032,369
Depreciation and amortization	1,732,403	1,725,234	1,605,433
Other operating expenses	6,048,966	6,339,295	4,882,120
Total operating expenses	<u>25,681,223</u>	<u>24,477,715</u>	<u>22,266,009</u>
<b>Operating Income</b>	<u>525,235</u>	<u>1,811,396</u>	<u>833,769</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	(397)	130,727	145,804
Interest expense	-	(3,182)	(26,174)
Other	(9,563)	(7,424)	(248,377)
Total nonoperating revenues (expenses)	<u>(9,960)</u>	<u>120,121</u>	<u>(128,747)</u>
<b>Increase in Net Position</b>	<u>\$ 515,275</u>	<u>\$ 1,931,517</u>	<u>\$ 705,022</u>

## **Operating Income**

The first component of the overall change in the Hospital's net position is its operating income or loss—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 an 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 Sullivan 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 was \$525,235 for 2013 compared to \$1,811,396 for 2012, which equates to a decrease of \$1,286,161 or 71.0%, while the operating income for 2012 increased by \$977,627 or 117.3% as compared to 2011. The primary components of the decreased operating income in 2013 are:

- Net patient service revenue was \$25,767,488 for 2013 compared to \$26,166,666 in 2012, which is a decrease of \$399,178 or 1.5%.
- Salaries, wages and benefits for the Hospital's employees were \$14,161,416 for 2013 compared to \$13,186,938 for 2012, which results in an increase of \$974,478 or 7.4%.

One component of the decrease in net patient service revenue in 2013 was a decrease of approximately \$800,000 as a result of changes to Indiana supplemental payment mechanisms for the Medicaid program. One supplemental payment program, which began during 2012, terminated June 30, 2013 resulting in a decrease in net patient service revenue of approximately \$1.9 million between 2013 and 2012. This decrease was partially offset by an increase in revenue of approximately \$1.1 million for the legacy supplemental Indiana Medicaid program.

The change in Indiana's supplemental Medicaid programs resulted in additional patient revenue of approximately \$2.4 million in 2012 compared to 2011 when comparing both of Indiana's supplemental payment programs. Supplemental Medicaid revenue recognized in 2013 was approximately \$2.3 million in 2013 compared to \$3.1 million in 2012 and approximately \$700,000 in 2011. These fluctuations in patient revenue were partially offset by the provider assessment fees reflected as an operating expense in the statements of revenues, expenses and changes in net position, as noted below.

Employee salaries and wages and benefits increased in 2013 in connection with the Hospital's retention and recruitment efforts. These efforts result primarily from the shortage of nurses and other health care professionals in the United States.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Expenditures for supplies and prescription drugs are a major component of the Hospital's costs. In 2013, supplies and prescription drug costs totaled \$2,456,455, or 9.6%, of total operating expenses. In 2012, they totaled \$2,445,731, or 10.0%, of total operating expenses, a decrease of \$46,906, or 1.9%, over 2011.

Operating income for 2013 of \$525,235 was a decrease in operating income from the \$1,811,396 recognized in 2012. The decrease in net patient service revenue of \$399,178 coupled with increases in employee salaries and wages and increases, resulted in the decrease of \$1,286,161 in the operating margin between 2013 and 2012. The decrease in other operating expenses of \$290,329 was primarily related to payments made under the newly implemented state specific provider assessment program. During 2012, the Hospital recognized \$1,342,276 of assessment fees paid into the supplemental Medicaid program, compared to \$773,791 in 2013. As noted above, this supplemental Medicaid program terminated June 30, 2013.

## **Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of investment income, interest expense, rental income on Hospital-owned property and payments made to subsidize the Hospital's discretely presented component unit. Interest expense and rental income remained relatively constant in 2013 as compared to 2012. Investment income decreased by \$131,124 in 2013 compared to 2012, as a result of market conditions. Investment income between 2012 and 2011 remained consistent.

## **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 2013 and 2012, discussed earlier.

## **Capital Asset and Debt Administration**

### **Capital Assets**

At the end of 2013, the Hospital had \$13,433,353 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2013 and 2012, the Hospital had capital acquisitions of approximately \$1,200,000 and \$800,000, respectively. The majority of these purchases were related to electronic medical records software and hardware as well as replacement equipment.

### **Debt**

During 2012, the Hospital had paid all amounts outstanding on its revenue bonds in advance of their contractual maturity dates. The Hospital issued no new debt in 2013 or 2012, and has no outstanding debt as of December 31, 2013 or 2012.

## **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 Administration by telephoning (812) 268-4311.

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**Balance Sheets**  
**December 31, 2013 and 2012**

**Assets**

	<b>2013</b>	<b>2012 Restated</b>
	<b>2013</b>	<b>Restated</b>
<b>Current Assets</b>		
Cash	\$ 1,979,598	\$ 3,101,196
Patient accounts receivable, net of allowance: 2013 - \$1,865,800, 2012 - \$1,813,600	3,139,867	2,548,719
Supplies	552,437	468,736
Prepaid expenses and other current assets	287,119	757,025
Total current assets	5,959,021	6,875,676
<b>Noncurrent Cash and Investments</b> - Funded depreciation	14,947,022	12,323,879
<b>Capital Assets</b>	13,433,353	13,970,852
Total assets	\$ 34,339,396	\$ 33,170,407

**Liabilities and Net Position**

<b>Current Liabilities</b>		
Accounts payable	\$ 860,449	\$ 631,495
Accrued expenses	1,957,915	1,600,952
Estimated amounts due to third-party payers	976,871	909,074
Total current liabilities	3,795,235	3,141,521
<b>Net Position</b>		
Net investment in capital assets	13,433,353	13,970,852
Unrestricted	17,110,808	16,058,034
Total net position	30,544,161	30,028,886
Total liabilities and net position	\$ 34,339,396	\$ 33,170,407

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**SCCH Fitness Center, Inc.**  
**Statements of Financial Position**  
**December 31, 2013 and 2012**

**Assets**

	<b>2013</b>	<b>2012</b>
Property and equipment, net of accumulated depreciation of \$670,111 and \$613,854 for 2013 and 2012, respectively	\$ 574,911	\$ 627,665
Total assets	\$ 574,911	\$ 627,665

**Liabilities and Net Assets**

**Liabilities**

Accrued expenses	\$ 21,972	\$ 22,370
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**Net Assets - Unrestricted**

Total liabilities and net assets	552,939	605,295
	\$ 574,911	\$ 627,665

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2013 and 2012**

	<b>2013</b>	<b>2012 Restated</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts of \$4,891,219 and \$4,705,258 for 2013 and 2012, respectively	\$ 25,767,488	\$ 26,166,666
Other	438,970	122,445
Total operating revenues	26,206,458	26,289,111
<b>Operating Expenses</b>		
Salaries and wages	11,070,849	10,377,943
Employee benefits	3,090,567	2,808,995
Purchased services and professional fees	3,738,438	3,226,248
Supplies	2,456,455	2,445,731
Utilities	425,387	401,070
Repair and maintenance	1,113,503	987,631
Leases and rentals	280,848	264,523
Insurance	332,283	292,008
Depreciation	1,732,403	1,725,234
Other	666,699	606,056
Provider hospital assessment fee	773,791	1,342,276
Total operating expenses	25,681,223	24,477,715
<b>Operating Income</b>	<b>525,235</b>	<b>1,811,396</b>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income (loss)	(397)	130,727
Interest expense	-	(3,182)
Other	(9,563)	(7,424)
Total nonoperating revenues (expenses)	(9,960)	120,121
<b>Increase in Net Position</b>	<b>515,275</b>	<b>1,931,517</b>
<b>Net Position, Beginning of Year</b> , as previously reported	30,028,886	28,198,329
Adjustments for change in accounting principle	-	(100,960)
<b>Net Position, Beginning of Year</b> , as restated	<b>30,028,886</b>	<b>28,097,369</b>
<b>Net Position, End of Year</b>	<b>\$ 30,544,161</b>	<b>\$ 30,028,886</b>

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**SCCH Fitness Center, Inc.**  
**Statements of Activities**  
**Years Ended December 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Revenues, Gains and Other Support</b>		
Membership, training, class and other revenue	\$ 207,224	\$ 220,900
Operating support from the Hospital	106,431	103,530
Total revenues, gains and other support	313,655	324,430
<b>Expenses</b>		
Salaries and wages	162,142	173,148
Employee benefits	84,091	89,536
Purchased services	23,690	24,101
Supplies	4,346	4,654
Utilities	18,604	18,164
Repair and maintenance	9,975	9,434
Depreciation	56,257	59,165
Other	6,906	6,851
Total expenses	366,011	385,053
<b>Change in Net Assets</b>	(52,356)	(60,623)
<b>Unrestricted Net Assets, Beginning of Year</b>	605,295	665,918
<b>Unrestricted Net Assets, End of Year</b>	\$ 552,939	\$ 605,295

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

	<b>2013</b>	<b>2012 Restated</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 25,244,137	\$ 26,130,303
Payments to suppliers and contractors	(7,731,755)	(8,011,934)
Payments to employees	(13,804,453)	(13,356,761)
Other receipts (payments), net	(954,645)	(1,815,334)
Net cash provided by operating activities	2,753,284	2,946,274
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	-	(990,000)
Interest paid on long-term debt	-	(3,182)
Purchase of capital assets	(1,241,779)	(795,422)
Net cash used in capital and related financing activities	(1,241,779)	(1,788,604)
<b>Investing Activities</b>		
Interest and dividends on investments	81,223	110,093
Purchase of investments	(5,190,267)	(6,879,864)
Proceeds from disposition of investments	2,485,504	7,287,171
Other investing activities	(9,563)	(7,424)
Net cash provided by (used in) investing activities	(2,633,103)	509,976
<b>Increase (Decrease) in Cash</b>	(1,121,598)	1,667,646
<b>Cash, Beginning of Year</b>	3,101,196	1,433,550
<b>Cash, End of Year</b>	\$ 1,979,598	\$ 3,101,196
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 525,235	\$ 1,811,396
Depreciation	1,732,403	1,725,234
Loss on sale of capital assets	46,875	10,553
Provision for uncollectible accounts	4,891,219	4,705,258
Changes in operating assets and liabilities:		
Patient accounts receivable	(5,482,367)	(4,566,695)
Estimated amounts due to third-party payers	67,797	(174,926)
Accounts payable and accrued expenses	585,917	2,398
Other assets and liabilities	386,205	(566,944)
Net cash provided by operating activities	\$ 2,753,284	\$ 2,946,274

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan 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***

Sullivan County Community Hospital (Hospital) is an acute care hospital located in Sullivan, Indiana. The Hospital is a component unit of Sullivan County (County) and the Board of County Commissioners appoints members to the Governing Board of the Hospital pursuant to the provisions of Indiana Code 16-22-2-2. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Sullivan County surrounding area. It also operates a home health agency in the same geographic area.

***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. Investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses.

During 2013, the Hospital adopted GASB Statement No. 65 of the Governmental Accounting Standards Board (GASB 65), *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, limiting the use of the term “deferred” in the financial statement presentations. Adoption of GASB 65 resulted in a decrease of \$100,960 in net position as of January 1, 2012. These changes resulted from the requirement in GASB 65 that debt issuance costs be recognized as an expense in the period incurred.

***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.

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan 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. 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.

***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 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 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.

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

***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. The following estimated useful lives are being used by the Hospital:

Land improvements	5 - 20 years
Buildings and leasehold improvements	10 - 20 years
Equipment	3 - 10 years

***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 to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. 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. The estimated compensated absences liability are expected to be paid within one year of the balance sheet date and is therefore included in current liabilities.

***Net Position***

Net position of the Hospital is classified in two 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. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

***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 \$116,835 for 2013 compared to \$138,607 for 2012.

# **Sullivan County Community Hospital**

## **A Component Unit of Sullivan County, Indiana**

### **Notes to Financial Statements**

#### **December 31, 2013 and 2012**

#### ***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 Fitness Center is exempt from federal income taxes under Section 501(c)(3) and 509(a)(2) of the U.S. Internal Revenue Code and a similar provision of state law. However, the Fitness Center is subject to federal income tax on any unrelated business taxable income. The Fitness Center files federal tax returns in the U.S. federal jurisdiction.

#### ***SCCH Fitness Center***

SCCH Fitness Center, Inc. (Fitness Center) is a legally separate, tax-exempt component unit of the Hospital. The Fitness Center's primary function is to provide community access to health and fitness equipment. The Hospital appoints a voting majority of the Fitness Center's board and a financial relationship exists where the Hospital subsidizes the operations of the Fitness Center. Because of this relationship, the Fitness Center 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 Hospital provided \$106,431 and \$103,530, respectively, of support to the Fitness Center for operations.

#### ***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 (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. 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. 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. As of December 31, 2013, management of the Hospital was not yet reasonably assured meaningful use was achieved and the earnings process was complete for Medicare purposes, therefore, no revenue has been recorded in 2013 or 2012 from Medicare. The Hospital has recognized Medicaid EHR funding in 2013 in the amount of \$309,000, which is included in other operating revenue in the statement of revenues, expenses and changes in net position.

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

**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. A summary of payment arrangements include:

*Medicare.* The Hospital is designated by Medicare as a critical access hospital (CAH).

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 fiscal intermediary.

*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to the service provided and the patient diagnosis.

Approximately 56% and 53% percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2013 and 2012. 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 received approximately \$1.0 million and \$2.9 million during 2013 and 2012, respectively, 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 statements of revenues, expenses and changes in net position for 2013 and 2012. The Hospital paid approximately \$800,000 and \$1.3 million into this Medicaid program for 2013 and 2012, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position. There is no assurance this program will continue to be implemented in the future, and as of December 31, 2013, this provider assessment program was awaiting federal approval to be continued past June 30, 2013.

The Hospital also qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law 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 and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized \$1,314,830 and \$188,035 within net patient service revenue related to this supplemental payment program for the years ended December 31, 2013 and 2012, respectively.

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

The Hospital has also entered into payment agreements with certain commercial insurance carriers, HMOs 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.

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation (FDIC) or by the Indiana Public Deposit Insurance Fund (IPDIF). This includes any deposit accounts issued or offered by a qualifying financial institution. Accordingly, all deposits in excess of FDIC levels are covered by the IPDIF and are considered collateralized.

***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 in corporate bonds and equity securities.

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

Type	December 31, 2013				
	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Fixed income mutual funds	\$ 2,997,959	\$ 2,997,959	\$ -	\$ -	\$ -

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

Type	December 31, 2012				
	Fair Value	Maturities in Years			More Than 10
		Less Than 1	1-5	6-10	
Fixed income mutual funds	\$ 4,251,149	\$ 4,251,149	\$ -	\$ -	\$ -
U.S. Governmental securities	1,262,939	1,262,939	-	-	-
	<u>\$ 5,514,088</u>	<u>\$ 5,514,088</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Interest Rate Risk** - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy limits investments to certificates of deposit and certain bond and mutual funds. No more than 50% of the total Hospital portfolio (including deposits) should be invested in bond mutual funds. Generally, the maturity date on all investments shall not exceed two years.

**Credit Risk** - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital's policy to limit its investments in certain bond and mutual funds to the American Hospital Association's Investment Fund and other portfolios with AAA or government backed ratings. At December 31, 2013 and 2012, the Hospital's investments in bond funds were rated by Standard & Poor's and or Moody's Investors Service as follows:

Type	December 31, 2013				
	Fair Value	AAA	AA	A	BBB
Fixed income mutual funds	\$ 2,997,959	\$ 1,234,859	\$ 542,331	\$ 1,132,329	\$ 88,440

Type	December 31, 2012				
	Fair Value	AAA	AA	A	BBB
Fixed income mutual funds	\$ 4,251,149	\$ 2,739,468	\$ 566,300	\$ 895,066	\$ 50,315
U.S. Governmental securities	1,262,939	1,246,405	16,534	-	-
	<u>\$ 5,514,088</u>	<u>\$ 3,985,873</u>	<u>\$ 582,834</u>	<u>\$ 895,066</u>	<u>\$ 50,315</u>

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

**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 how securities underlying repurchase agreements are to be held.

**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:

	<b>2013</b>	<b>2012</b>
Carrying value:		
Deposits	\$ 13,928,661	\$ 9,910,987
Investments	2,997,959	5,514,088
	\$ 16,926,620	\$ 15,425,075
Included in the following balance sheets captions:		
Cash	\$ 1,979,598	\$ 3,101,196
Noncurrent cash and investments - funded depreciation	14,947,022	12,323,879
	\$ 16,926,620	\$ 15,425,075

**Investment Income**

Investment income for the years ended December 31 consisted of:

	<b>2013</b>	<b>2012</b>
Interest and dividend income	\$ 81,223	\$ 110,093
Net increase (decrease) in fair value of investments	(81,620)	20,634
Investment income (loss)	\$ (397)	\$ 130,727

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

**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:

	<b>2013</b>	<b>2012</b>
Medicare	\$ 748,500	\$ 580,353
Medicaid	561,181	41,789
Other third-party payers	1,696,350	1,725,506
Patients	1,999,636	2,014,671
	5,005,667	4,362,319
Less allowance for uncollectible accounts	1,865,800	1,813,600
	\$ 3,139,867	\$ 2,548,719

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31 was:

	<b>2013</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Hospital					
Land	\$ 1,042,227	\$ -	\$ -	\$ -	\$ 1,042,227
Buildings and leasehold improvements	16,890,207	57,878	-	-	16,948,085
Equipment	14,456,582	948,435	(264,710)	35,341	15,175,648
Construction in progress	35,341	235,466	-	(35,341)	235,466
	32,424,357	1,241,779	(264,710)	-	33,401,426
Less accumulated depreciation:					
Buildings and leasehold improvements	15,038,538	1,360,583	(217,835)	-	16,181,286
Equipment	3,414,967	371,820	-	-	3,786,787
	18,453,505	1,732,403	(217,835)	-	19,968,073
Total Hospital capital assets, net	\$ 13,970,852	\$ (490,624)	\$ (46,875)	\$ -	\$ 13,433,353

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

	2012				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Hospital					
Land	\$ 1,042,227	\$ -	\$ -	\$ -	\$ 1,042,227
Buildings and leasehold improvements	16,871,566	18,641	-	-	16,890,207
Equipment	13,484,820	776,781	(77,691)	272,672	14,456,582
Construction in progress	308,013	-	-	(272,672)	35,341
	<u>31,706,626</u>	<u>795,422</u>	<u>(77,691)</u>	<u>-</u>	<u>32,424,357</u>
Less accumulated depreciation:					
Buildings and leasehold improvements	13,613,518	1,492,158	(67,138)	-	15,038,538
Equipment	3,189,546	225,421	-	-	3,414,967
	<u>16,803,064</u>	<u>1,717,579</u>	<u>(67,138)</u>	<u>-</u>	<u>18,453,505</u>
Total Hospital capital assets, net	<u>\$ 14,903,562</u>	<u>\$ (922,157)</u>	<u>\$ (10,553)</u>	<u>\$ -</u>	<u>\$ 13,970,852</u>

**Note 6: Medical Malpractice Claims**

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims 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 7: 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 \$1,000,000, and an individual policy maximum of \$55,000. 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.

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

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

	<b>2013</b>	<b>2012</b>
Balance, beginning of year	\$ 141,190	\$ 232,092
Current year claims incurred and changes in estimates for		
claims incurred in prior years	1,801,423	1,480,738
Claims and expenses paid	(1,760,490)	(1,571,640)
Balance, end of year	\$ 182,123	\$ 141,190

**Note 8: Long-Term Obligations**

The Indiana Health Facility Financing Authority Revenue Bonds (Series 1998) consisted of bonds in the original amount of \$12,000,000 dated May 1, 1998, which bore interest at various amounts ranging from 0.24% to 0.82%. The Series 1998 bonds were payable in annual installments through May 1, 2019. During 2012, principal balances outstanding of \$900,000 and interest on the bonds were paid in full.

**Note 9: Pension Plan**

The Hospital contributes to a defined-contribution pension plan covering substantially all employees following one year of service. 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 Board. 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. Plan members may contribute up to \$17,000 of their annual covered salary. The Hospital is required to match one-half of the employee contribution up to 5% of employee's compensation. In addition, the Hospital contributes 2% of the annual covered payroll for all eligible active participants. Hospital expense related to employer contributions to the plan was \$256,092 for 2013 \$294,080 for 2012. The Hospital had accrued benefits payable to the plan of \$166,870 at December 31, 2013 compared to \$161,889 as of December 31, 2012.

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

**Note 10: Operating Leases**

A noncancellable operating lease for primary care outpatient office space began in October 2013 and expires in October 2018. This lease contains renewal options for five year periods and requires the Hospital to pay all executory costs (property taxes, maintenance and insurance). Rental expense for operating leases during 2013 and 2012 were \$280,848 and \$264,523, respectively. Future minimum lease payments at December 31, 2013 were:

2014	\$ 220,486
2015	220,486
2016	220,486
2017	220,486
2018	165,365
	<hr/>
	\$ 1,047,309
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**Note 11: Contingencies**

***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.

***Commitments***

In July 2013, the Hospital agreed to a contract with Wolfe Construction Company for the construction of a new office building. The two parties agreed to a contract amount of approximately \$700,000. Of this amount, approximately \$200,000 was incurred through December 31, 2013 and is included in the construction-in-process account. The remaining \$500,000 of work is expected to be completed during 2014.

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

**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 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 currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Hospital's reduced revenue from other Medicare/Medicaid programs.