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June 18, 2015

Board of Directors
Dearborn County Hospital
600 Wilson Creek Road
Lawrenceburg, IN 47025-2751

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2014 to December 31, 2014. 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 Dearborn County Hospital, as of December 31, 2014 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

DEARBORN COUNTY HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2014

CPAS / ADVISORS

blue

DEARBORN COUNTY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Dearborn County Hospital
Lawrenceburg, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Dearborn County Hospital (the Hospital), which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Board of Trustees
Dearborn County Hospital
Lawrenceburg, Indiana

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

Report on Supplementary Information

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

Blue & Co., LLC

Indianapolis, Indiana
May 13, 2015

REQUIRED SUPPLEMENTARY INFORMATION

This section of Dearborn County Hospital's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance. This MD&A does include a discussion and analysis of the activities and results of the Hospital's Blended Component Unit, Health Services Corporation of Southeastern Indiana (HSC). Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

Financial Highlights

- The Hospital's total assets increased approximately $9,333,000 or 5.4% during 2014. Total liabilities decreased approximately $6,260,000 or 9.6% during 2014.

- The Hospital's net position increased approximately $15,593,000 or 14.7% in 2014.

- The Hospital reported operating income of approximately $13,317,000 for 2014, representing an increase of approximately $2,548,000 in comparison to the 2013 results.

- The Hospital added capital assets of approximately $6,174,000 during 2014 while capital assets with a net book value of approximately $26,000 were disposed. Net additions and disposals combined with depreciation expense of approximately $6,174,000 resulted in net capital assets increasing approximately $612,000 from 2013.

- The Hospital's assets whose use is limited, both current and non-current portions, increased approximately $2,588,000 as a result of favorable operating income and investment returns.

- The Hospital has agreements to lease the operations of multiple long-term care facilities. The Hospital recognized approximately $142,230,000 and $130,111,000 of gross patient service revenue related to long-term care during 2014 and 2013, respectively.

Using This Annual Report

The Hospital's consolidated financial statements consist of three statements – a Balance Sheet; a Statement of Revenues, Expenses and of Changes in Net Position; and a Statement of Cash Flows. These consolidated financial statements and related notes provide information about the activities and the financial position of the Hospital.

The Consolidated Balance Sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities).

All of the current year's revenue earned and expenses incurred are accounted for in the Consolidated Statement of Revenues, Expense and Changes in Net Position.

Finally, the purpose of the Consolidated Statement of Cash Flows is to provide information about the Hospital's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and the change in cash balance during the year.

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

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The consolidated balance sheet and the consolidated statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These consolidated statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two consolidated statements report the Hospital's net position and changes in it. The Hospital's net position is the difference between assets and liabilities. It is one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

<u>Table 1 – Consolidated Balance Sheets</u>

The significant change in the Hospital's assets was in current assets which decreased approximately $21,344,000 in 2014 compared to 2013 as a result of the reclassification of the current portion of assets whose use is limited to noncurrent. As of December 31, 2013, current assets included the current portion of assets whose use is limited of approximately $28,000,000 related to the current classification of the Hospital's revenue bonds based on the terms of the letter of credit. The terms of the letter of credit were modified during 2014 which resulted in the change in classification as of December 31, 2014. The noncurrent portion of assets whose use is limited increased approximately $30,088,000 due to the reclassification previously discussed combined with favorable operating results and investment return for 2014. Cash and cash equivalents, included in current assets, increased approximately $7,884,000 during 2014.

Current liabilities decreased by approximately $33,260,000. The majority of the decrease related to a decrease in the current portion of revenue bonds payable of approximately $27,500,000 and estimated third-party payor settlements which decreased approximately $3,837,000. In addition, accounts payable decreased approximately $2,381,000 mainly related to long-term care operations.

Net position increased by approximately $15,593,000 from 2013 through 2014. The increase relates to a favorable operating income driven from operations and investment return.

	2014	2013	2014-2013 Change
Assets			
Current assets	$ 83,312,520	$ 104,656,367	$ (21,343,847)
Assets whose use is limited	51,277,989	21,189,579	30,088,410
Capital assets, net	45,684,401	45,072,513	611,888
Other assets	371,723	395,631	(23,908)
Total assets	$ 180,646,633	$ 171,314,090	$ 9,332,543
Liabilities			
Current liabilities	$ 32,122,788	$ 65,382,812	$ (33,260,024)
Long-term debt, net	27,000,000	-0-	27,000,000
Total liabilities	59,122,788	65,382,812	(6,260,024)
Net position			
Net investment in capital assets	18,184,000	17,048,707	1,135,293
Unrestricted	103,339,845	88,882,571	14,457,274
Total net position	121,523,845	105,931,278	15,592,567
Total liabilities and net position	$ 180,646,633	$ 171,314,090	$ 9,332,543

Table 2 – Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Hospital's performance in 2014 was favorable with a return on equity of 12.8% compared to prior year of 14.0%.

Total operating revenue increased approximately $12,208,000 as utilization in long-term care services increased. Net patient service revenue accounted for $10,108,000 of the increase in 2014. The increase in other operating revenue of approximately of $2,100,000 relates to other long-term care services. In addition, there was an increase of Electronic Health Records (EHR) payments of approximately $1,233,000 during 2014 compared to 2013.

Expenses increased by approximately $9,660,000 between 2014 and 2013. While salaries, wages and benefits decreased approximately $883,000, long-term care services contributed to the majority of the increases related to total expenses including professional fees and contract services increase of $6,548,000 and facility and equipment leases of $8,601,000. During 2014, the Hospital recorded Hospital Assessment Fee program expense of approximately $4,020,000 compared to approximately $5,337,000 during 2013.

Nonoperating revenues (expenses) decreased by approximately $1,830,000 due to a decrease of investment income where the balance was approximately $2,665,000 in 2014 compared to $4,433,000 in 2013. Interest expense increased approximately $12,000 from 2013 while gain on the disposal of capital assets decreased approximately $49,000 in 2014.

	2014	2013	2014-2013 Change
Operating revenues			
Net patient service revenue	$ 257,902,371	$ 247,794,646	$ 10,107,725
Other operating revenue	10,245,868	8,145,746	2,100,122
Total operating revenues	268,148,239	255,940,392	12,207,847
Operating expenses			
Salaries, wages and benefits	59,090,361	59,973,414	(883,053)
Professional fees and contract services	104,042,470	96,668,596	7,373,874
Supplies	27,089,918	25,821,663	1,268,255
Depreciation and amortization	5,572,885	5,791,145	(218,260)
Other	59,035,317	56,916,150	2,119,167
Total operating expenses	254,830,951	245,170,968	9,659,983
Operating income	13,317,288	10,769,424	2,547,864
Nonoperating revenues (expense)	2,275,279	4,104,841	(1,829,562)
Change in net position	15,592,567	14,874,265	718,302
Net position			
Beginning of year	105,931,278	91,057,013	14,874,265
End of year	$ 121,523,845	$ 105,931,278	$ 15,592,567

Table 3 – Consolidated Statements of Cash Flows

The final required statement is the consolidated statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing 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 balance during the reporting period?"

Total cash and cash equivalents increased approximately $11,736,000 in 2014. Operating activities generated cash and cash equivalents of approximately $12,623,000 during 2014 mainly from operating income. Capital and related financing decreased cash and cash equivalents by approximately $7,061,000 during 2014 mainly as the result of expenditures for property and equipment additions and debt service. Investing activities increased cash and cash equivalents by approximately $6,174,000 in 2014 as investments matured and were sold.

The following is a summary of cash flows:

Cash Flow Data	2014	2013	2014-2013 Change
From operating activities	$ 12,622,656	$ 21,137,993	$ (8,515,337)
From capital and related financing activities	(7,061,232)	(3,052,580)	(4,008,652)
From investing activities	6,174,152	(2,092,890)	8,267,042
Change in cash and cash equivalents	$ 11,735,576	$ 15,992,523	$ (4,256,947)

Capital Assets and Debt Administration

During 2014, the Hospital invested approximately $5,478,000 in capital assets net of asset disposals. The change in capital assets is outlined in the following table:

	2014	2013	2014-2013 Change
Land	$ 1,154,243	$ 921,882	$ 232,361
Land improvements	2,225,890	2,172,666	53,224
Buildings and improvements	68,726,596	67,873,919	852,677
Equipment	50,516,473	46,928,406	3,588,067
Construction in process	1,568,563	837,216	731,347
Total	124,191,765	118,734,089	5,457,676
Less accumulated depreciation	78,507,364	73,661,576	4,845,788
Capital assets, net	$ 45,684,401	$ 45,072,513	$ 611,888

Debt

The Hospital had no significant changes in debt as there were no new borrowings during 2014. Principal payments reduced the current and noncurrent debt balances by approximately $523,000 during 2014. More detailed information about the Hospital's debt is presented in the Notes to the Consolidated Financial Statements.

Economic Outlook

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant cost factor affecting the Hospital is the increases in labor costs due to the increasing competition for quality health care workers. Uncompensated care is also a significant factor on the Hospital's margin.

Contacting Hospital Management

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's financial condition. If you have any questions about this report, you may contact the Hospital's Administrative offices at 600 Wilson Creek Road, Lawrenceburg, Indiana 47025.

DEARBORN COUNTY HOSPITAL

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2014

ASSETS

Current assets		
Cash and cash equivalents	$	37,638,798
Patient accounts receivable, less allowance		
for uncollectible accounts of $2,611,557		33,886,980
Inventory		1,396,698
Current portion of assets whose use is limited		500,000
Other current assets		9,890,044
Total current assets		83,312,520
Assets whose use is limited		
Internally designated, net of current portion		51,277,989
Capital assets		
Land		1,154,243
Depreciable capital assets		121,468,959
Construction in progress		1,568,563
		124,191,765
Less accumulated depreciation		78,507,364
Capital assets, net		45,684,401
Other assets		371,723
Total assets	$	180,646,633

LIABILITIES AND NET POSITION

Current liabilities		
Current portion of capital leases	$	401
Current portion of revenue bonds payable		500,000
Accounts payable		23,939,179
Accrued salaries, wages, and related liabilities		6,009,386
Estimated third-party payor settlements		1,673,822
Total current liabilities		32,122,788
Revenue bonds payable, net of current portion		27,000,000
Total liabilities		59,122,788
Net position		
Net investment in capital assets		18,184,000
Unrestricted		103,339,845
Total net position		121,523,845
Total liabilities and net position	$	180,646,633

See accompanying notes to consolidated financial statements.

DEARBORN COUNTY HOSPITAL

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2014

Operating revenues	
Net patient service revenue	$ 257,902,371
Other operating revenue	10,245,868
Total operating revenues	268,148,239
Operating expenses	
Salaries and wages	45,676,435
Employee benefits	13,413,926
Professional fees and contract services	104,042,470
Supplies	27,089,918
Insurance	2,637,326
Facility and equipment leases	26,055,889
Repairs and maintenance	4,967,612
Utilities	5,524,201
HAF program	4,019,631
Depreciation and amortization	5,572,885
Other	15,830,658
Total operating expenses	254,830,951
Operating income	13,317,288
Nonoperating revenues (expenses)	
Investment income	2,664,903
Interest expense	(395,518)
Gain on disposal of capital assets	5,894
Total nonoperating revenues (expenses)	2,275,279
Change in net position	15,592,567
Net position	
Beginning of year	105,931,278
End of year	$ 121,523,845

See accompanying notes to consolidated financial statements.

DEARBORN COUNTY HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

Operating activities	
Cash received from patients and third-party payors	$ 253,684,453
Cash paid to employees for salaries and benefits	(58,609,882)
Cash paid to vendors for goods and services	(192,697,783)
Other operating receipts, net	10,245,868
Net cash from operating activities	12,622,656
Capital and related financing activities	
Acquisition and construction of capital assets	(6,174,023)
Proceeds from disposal of capital assets	31,714
Interest paid on debt	(395,518)
Principal payments on debt	(523,405)
Net cash from capital and related financing activities	(7,061,232)
Investing activities	
Investment income	2,664,903
Purchase of investments	(76,493)
Proceeds from sale of investments	3,585,742
Net cash from investing activities	6,174,152
Net change in cash and cash equivalents	11,735,576
Cash and cash equivalents	
Beginning of year	39,892,782
End of year	$ 51,628,358
Reconciliation of cash and cash equivalents to the balance sheets	
Cash and cash equivalents	
In current assets	$ 37,638,798
In assets whose use is limited	13,989,560
Total cash and cash equivalents	$ 51,628,358

See accompanying notes to consolidated financial statements.

DEARBORN COUNTY HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

Reconciliation of operating income to net cash from operating activities		
Operating income	$	13,317,288
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization		5,572,885
Provision for bad debts		12,996,610
Changes in assets and liabilities		
Patient accounts receivable		(13,377,946)
Inventory and other current assets		(173,470)
Other assets		23,908
Accounts payable		(2,380,516)
Accrued salaries, wages, and related liabilities		480,479
Estimated third-party payor settlements		(3,836,582)
Net cash flows from operating activities	$	12,622,656

See accompanying notes to consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Dearborn County Hospital (the Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient, outpatient and long-term health care services. The Board of County Commissioners of Dearborn County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between Dearborn County (the County) and the Hospital. For these reasons, the Hospital is considered a component unit of the County.

The consolidated financial statements of Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital and its controlled subsidiaries. They do not purport to, and do not, present the financial position of the County as of December 31, 2014 and the changes in its financial position or its cash flows for the year then ended.

Accounting principles generally accepted in the United States require that these consolidated financial statements present the Hospital and its significant component unit, collectively referred to as the "primary government." The blended component unit, as discussed below, is included in the Hospital's reporting entity because of the significance of its operational or financial relationships with the Hospital. A blended component unit, although a legally separate entity, is in substance part of the primary government's operations and exists solely to provide services to the Hospital.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the blended component unit, Health Services Corporation of Southeastern Indiana (HSC). The Hospital appoints the majority of HSC's board and a financial benefit/burden relationship exists between the Hospital and HSC. Although it is a legally separate from the Hospital, HSC is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital. All significant intercompany transactions have been eliminated in the consolidated financial statements.

Long-Term Care Operations

The Hospital owns the operations of multiple long-term care facilities by way of an arrangement with the Managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

While the management and related lease agreements are in effect, the performance of all activities of the Managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

The Hospital has entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital pays the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees and incentive management fees. The agreements expire at various times through 2016. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

Enterprise Fund Accounting

The Hospital utilizes the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Use of Estimates

The preparation of the consolidated financial statements include only the financial position, results of operations, changes in net position and cash flows of the Hospital in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less. The Hospital maintains its cash in accounts, which at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program.

These programs have audited the year-end cost report filed with the Medicare program through December 31, 2012 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2013 through 2014 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2014, the Hospital recognized a decrease in change in net position in the consolidated statement of revenues, expenses and changes in net position of approximately $55,000 due to differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies. Patient charges under these programs, on which no interim payments have been received, are included in patient accounts receivable at the estimated net realizable value of such charges.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

Inventory

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory consists of medical supplies and pharmaceuticals.

Other Current Assets

Other current assets consist of prepaid expenses, other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized during 2015.

Assets Whose Use is Limited – Internally Designated

Assets whose use is limited are stated at fair market value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes. These investments consist primarily of cash and cash equivalents and mutual funds. Investment interest, dividends, gains and losses, both realized and unrealized, are included in nonoperating revenues (expenses) in the consolidated statement of revenues, expenses and changes in net position. Demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at contract value.

Capital Assets and Depreciation

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at historical cost. Contributed or donated assets are reported at estimated fair value at the time received. Capital assets under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

The capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) is $2,500 per item, or a group of items with an aggregate cost of at least $5,000. Depreciation is calculated on the straight-line method over the estimated useful lives of capital assets which range from 3-40 years. For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest cost was capitalized during 2014.

Net Position

The net position of the Hospital is classified into two components (1) Net investment in capital assets represents capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets and (2) Unrestricted net position is the remaining assets that do not meet the definition of net investment in capital assets or restricted.

Operating Revenues and Expenses

The Hospital's consolidated statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonoperating revenues include contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenues or expenses. Operating expenses are generally all expenses incurred to provide health care services, other than financing costs.

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports.

The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as other operating income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2014, the Hospital recognized approximately $1,233,000 in EHR incentive payments using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other operating revenue in the consolidated statement of revenues, expenses and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur. Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Grants and Contributions

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because the Hospital does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue.

Of the Hospital's total expenses reported within the consolidated statements of revenues, expenses and changes in net position, an estimated $868,000 arose from providing services to charity patients for 2014. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's expenses including interest expense to gross patient service revenue.

Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense for 2014 was approximately $171,000.

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. The estimated amount of unused time off is reported as a liability within the accrued salaries, wages and related liabilities on the consolidated balance sheet.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statues. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

HSC is a tax-exempt organization under Internal Revenue Code 501(c)(3). As such, HSC is generally exempt from income taxes. However, HSC is required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and has concluded that as of December 31, 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements.

HSC has filed its federal and state income tax returns for periods through December 31, 2013. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions). HSC is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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.

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

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is May 13, 2015.

2. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include:

Internally designated – Amounts transferred by the Hospital's Board of Trustees through funding depreciation expense. Such amounts are to be used for debt service, equipment and building, remodeling, repairing, replacing or making additions to the Hospital's buildings as authorized by IC 16-22-3-13.

The composition of assets whose use is limited includes the following as of December 31, 2014:

Internally designated	
Cash and cash equivalents	$ 13,989,560
Mutual funds	37,788,429
Total internally designated	51,777,989
Less current portion	500,000
	$ 51,277,989

The current portion of assets whose use is limited reflects the current scheduled principal payments on the revenue bonds. See the Debt note for further information.

3. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments (assets whose use is limited) are carried at fair market value except for money market deposit funds which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

As of December 31, 2014, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Mutual funds	$ 37,788,429	$ 37,788,429	$ -0-	$ -0-	$ -0-

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

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

Concentration of credit risk – The Hospital places a limit on the amount it may invest in any one issuer. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits consist of the following as of December 31, 2014:

Carrying amount	
Deposits	$ 51,628,358
Investments	37,788,429
	$ 89,416,787
Included in the balance sheet captions	
Cash and cash equivalents	$ 37,638,798
Assets whose use is limited - internally designated	
Current	500,000
Non current	51,277,989
	$ 89,416,787

4. FAIR VALUE MEASUREMENTS

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

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

- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2014.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2014.

- *Money market mutual funds*: Valued based at the subscription and redemption activity at a $1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of securities.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

The following tables set forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of December 31, 2014.

	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Cash equivalents				
Money market mutual funds	$ 13,988,152	$ -0-	$ 13,988,152	$ -0-
Mutual funds				
Fixed income	18,972,284	18,972,284	-0-	-0-
Small cap growth	1,664,295	1,664,295	-0-	-0-
Small cap value	2,212,552	2,212,552	-0-	-0-
Mid cap growth	963,768	963,768	-0-	-0-
Large cap blended	7,452,222	7,452,222	-0-	-0-
Growth and income	5,367,652	5,367,652	-0-	-0-
International growth	1,155,656	1,155,656	-0-	-0-
Total mutual funds	37,788,429	37,788,429	-0-	-0-
	51,776,581	$ 37,788,429	$ 13,988,152	$ -0-
Cash	1,408			
Total assets whose use is limited	$ 51,777,989			

As of December 31, 2014, the market value of investments exceeded the cost by approximately $4,074,000. The gains included in earnings for 2014 are attributable to the change in unrealized gains relating to assets held as of December 31, 2014 and are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment income. The unrealized gains approximated $795,000 for 2014.

The Hospital holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

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

Cash and cash equivalents, accounts payable, accrued salaries, wages and related liabilities and estimated third-party payor settlements: The carrying amount reported in the consolidated balance sheet for cash and cash equivalents, accounts payable, accrued salaries, wages and related liabilities and estimated third-party payor settlements approximate fair value based on short-term maturity.

Debt: The carrying value of the Hospital's variable rate revenue bonds approximates fair value based upon current traded value. The carrying value of capital lease obligations approximates fair value based on current fixed rates available to similar entities with similar credit ratings.

5. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year-end consisted of the following amounts as of December 31, 2014:

Patient accounts receivable		
Receivable from patients and their insurance carriers	$	25,807,477
Receivable from Medicare		15,800,497
Receivable from Medicaid		11,060,348
Total patient accounts receivable		52,668,322
Less allowance for contractual agreements		16,169,785
Less allowance for uncollectible amounts		2,611,557
Patient accounts receivable, net	$	33,886,980
Accounts payable and accrued expenses		
Payable to suppliers and others	$	23,939,179
Payable to employees and related liabilities		6,009,386
Total accounts payable and accrued expenses	$	29,948,565

6. CAPITAL ASSETS

Capital asset activity for 2014 is as follows:

	Balance December 31, 2013	Additions	Retirements	Transfers	Balance December 31, 2014
Land	$ 921,882	$ 232,361	$ -0-	$ -0-	$ 1,154,243
Land improvements	2,172,666	53,224	-0-	-0-	2,225,890
Buildings and improvements	67,873,919	213,687	(229,940)	868,930	68,726,596
Equipment	46,928,406	2,487,488	(486,407)	1,586,986	50,516,473
Construction in process	837,216	3,187,263	-0-	(2,455,916)	1,568,563
Total capital assets	118,734,089	6,174,023	(716,347)	-0-	124,191,765
Less accumulated depreciation	73,661,576	5,536,315	(690,527)	-0-	78,507,364
Capital assets, net	$ 45,072,513	$ 637,708	$ (25,820)	$ -0-	$ 45,684,401

There were no significant outstanding commitments on capital assets as of December 31, 2014.

7. DEBT

Indiana Finance Authority Hospital Revenue Bonds, Series 2006 original issue for $30,000,000 were issued for various building additions, improvements and renovations. The Series 2006 Bonds have a variable interest rate (0.19% as of December 31, 2014) and mature April 1, 2036. The Series 2006 Bonds are secured ultimately by the gross revenues of the Hospital.

The Hospital has an available letter of credit for approximately $27,800,000 with a financial institution for the Series 2006 Bonds. The letter of credit fees consist of 1.35% interest per annum. The letter of credit is collateralized by the Hospital’s gross revenues and expires in October 2017. There was no balance outstanding on the letter of credit as of December 31, 2014. The debt agreements require the Hospital to maintain certain financial ratios and restrictive covenants. As of December 31, 2014, the Hospital was in compliance with the financial ratios and restrictive covenants.

The letter of credit is intended to provide credit enhancement and liquidity support for the Hospital’s tax-exempt bonds. In the event the Series 2006 Bonds are not remarketed, the financial institution will advance a liquidity drawing on the letter of credit. The Hospital will reimburse the financial institution for the liquidity drawing at the date of when the 2006 Series Bonds are remarketed, redeemed or purchased, but no later than 367 days after the liquidity drawing.

A progression of the Hospital's debt follows:

	Balance December 31, 2013	Additions	Payments	Balance December 31, 2014	Current portion
Revenue bonds payable	$ 28,000,000	$ -0-	$ (500,000)	$ 27,500,000	$ 500,000
Capital leases	23,806	-0-	(23,405)	401	401
Total debt	$ 28,023,806	$ -0-	$ (523,405)	$ 27,500,401	$ 500,401

Scheduled principal and interest payments on the Series 2006 Bonds are as follows:

Year ending December 31,	Principal	Interest	Total
2015	$ 500,000	$ 52,250	$ 552,250
2016	600,000	51,300	651,300
2017	600,000	50,160	650,160
2018	700,000	49,020	749,020
2019	700,000	47,690	747,690
2020-2024	4,500,000	215,840	4,715,840
2025-2029	6,300,000	166,440	6,466,440
2030-2034	9,000,000	96,900	9,096,900
2035-2036	4,600,000	13,300	4,613,300
	$ 27,500,000	$ 742,900	$ 28,242,900

Amounts due for capital leases are due in monthly installments of approximately $400 including interest through January 2015 and are collateralized by equipment. Scheduled principal and interest payments on capital lease obligations are as follows:

Year ending December 31,	Principal	Interest	Total
2015	$ 401	$ 11	$ 412

The following is an analysis of the leased assets included in property and equipment as of December 31, 2014:

Equipment	$ 86,162
Accumulated depreciation	86,162
	$ -0-

8. PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

Medicare

Medicare inpatient services are reimbursed based on a predetermined amount for each case based on the diagnosis associated with the patient (Prospective Payment Hospital). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment. The Hospital's classification of patients under the Prospective Payment Hospital and the appropriateness of patient admissions are subject to validation reviews by the Medicare peer review organization which is under contract with the Hospital to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

Medicaid and the Indiana Hospital Assessment Fee Program

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

During 2012, the Indiana Hospital Assessment Fee (HAF) Program was approved by the Centers for Medicare & Medicaid Services (CMS). The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals.

The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. During 2014, the Hospital recognized HAF Program expense of approximately $4,020,000. The HAF Program expense is included in operating expenses in the consolidated statements of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program are included in patient service revenue in the consolidated statement revenues, expenses and changes in net position. The HAF Program was approved for extension through June 30, 2017.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Hospital Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient service revenue of approximately $2,096,000 during 2014. These programs are administered by the State of Indiana, but rely on Federal funding.

Other Payors

The Hospital also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Inpatient services	$ 85,121,464
Outpatient services	144,118,246
Long-term care services	131,906,316
Gross patient service revenue	361,146,026
Contractual allowances	88,234,341
Charity care	2,012,704
Provision for bad debts	12,996,610
Deductions from revenue	103,243,655
Net patient service revenue	$ 257,902,371

9. EMPLOYEE HEALTH AND DENTAL BENEFITS

The Hospital is self-insured for employee health and dental claims. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends, including frequency and amounts of payouts, and other economic and social factors. An excess policy through commercial insurance covers individual claims in excess of $300,000 with no overall annual aggregate limit. Health and dental insurance expense for 2014 was approximately $6,960,000.

Changes in the balance of claim liabilities are as follows:

Unpaid claims, beginning of year	$ 1,300,000
Incurred claims and changes in estimates	6,959,545
Claim payments	(6,859,545)
Unpaid claims, end of year	$ 1,400,000

10. MEDICAL MALPRACTICE

The Indiana Medical Malpractice Act (the Act) provides for a maximum recovery of $1,250,000 per occurrence ($7,500,000 annual aggregate) for professional liability, $250,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. The Hospital is insured against medical malpractice claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding $250,000 or aggregate claims exceeding $5,000,000, for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional $5,000,000 of coverage.

11. CONCENTRATIONS OF CREDIT RISK

The Hospital is primarily located in Lawrenceburg, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable and gross patient revenues from self-pay and third party payors as of and for the year ended December 31, 2014 was as follows:

	Receivables	Revenue
Medicare	30%	39%
Medicaid	21%	26%
Blue Cross	11%	12%
Commercial and other payors	23%	15%
Self-pay payors	15%	8%
	100%	100%

12. PENSION PLANS

Defined Benefit Pension Plan

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

The contribution requirements of plan members are established and can be amended by the Hospital Board of Trustees. The Hospital is required to contribute at an actuarially determined rate. The current rate is approximately 4.5% of covered payroll. For 2014, the Hospital's annual pension cost of approximately $1,887,000 was equal to the Hospital's required and actual contributions.

Actuarial information for the defined benefit pension plan is as follows:

Annual required contribution	$ 1,887,275
Interest on net pension obligation	-0-
Adjustment to annual required contribution	-0-
Annual pension cost	1,887,275
Contributions made	(1,887,275)
Change in net pension obligation	-0-
Net pension obligation	
Beginning of year	-0-
End of year	$ -0-

Contribution rate:	
Hospital	4.48%
Eligible employees	0.00%
Actuarial valuation date	11/1/2014
Actuarial cost method	Frozen entry age
Amortization method	Level dollar amount
Amortization period	Various years ranging from 10-30: minimum contribution amount is interest only on unfunded liability
Amortization period (from date)	N/A
Asset valuation method	5 year expected return
Actuarial assumptions:	
Investment rate of return	7.50%
Projected future salary increases	4.50%

Three Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	$ 1,508,887	100%	$ -0-
2013	$ 1,706,913	100%	$ -0-
2014	$ 1,887,275	100%	$ -0-

The funded status of the plan as of November 1, 2014, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
$29,702,448	$ 35,587,101	$ 5,884,653	83%	$ 42,097,830	14%

The schedule of funding progress below presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
11/1/2012	$ 23,996,810	$ 31,314,032	$ 7,317,222	77%	$ 36,153,924	20%
11/1/2013	$ 26,813,640	$ 34,181,846	$ 7,368,206	78%	$ 42,029,955	18%
11/1/2014	$ 29,702,448	$ 35,587,101	$ 5,884,653	83%	$ 42,097,830	14%

Defined Contribution Pension Plans

The Hospital and HSC maintain defined contribution plans administered by Lincoln Financial Group. These plans provide retirement benefits to plan members and beneficiaries. Reports for these plans are available by contacting the Hospital's human resources department.

The contribution requirements of members of the plans are established and can be amended by written agreement. Eligible employees are not required to contribute to these plans. The Hospital and HSC can elect discretionary contributions to the plans as determined by the Board of Trustees. The Hospital and HSC did not elect discretionary contributions for 2014. Therefore, no expense was recognized in 2014 for these plans.

13. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Hospital has entered into various operating leases expiring through 2020 having initial or remaining noncancelable terms exceeding one year for rental of office space. Rental expenditures for these leases were approximately $595,000 for 2014.

The following is a schedule of annual future minimum rental payments.

Year Ending December 31,	Amount
2015	$ 485,504
2016	453,198
2017	358,513
2018	55,796
2019	25,596
Thereafter	11,598
	$ 1,390,205

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately $24,712,000 for 2014. Annual rent expense through 2015 will approximate $25,000,000 under these leases.

14. BLENDED COMPONENT UNIT

The Hospital's consolidated financial statements include the accounts of HSC, its blended component. Below is condensed financial information of HSC as of and for the year ended December 31, 2014.

Balance sheet	
Assets	
Current assets	$ 3,437,180
Capital assets	7,628,871
Other assets	241,723
Total assets	$ 11,307,774
Liabilities	
Accounts payable and accrued expenses	$ 11,307,774
Net position	
Net investment in capital assets	7,628,871
Unrestricted	(7,628,871)
Total net position	-0-
Total liabilities and net position	$ 11,307,774

Statement of revenues, expenses and changes in net position		
Operating revenues (patient and other)	$	14,845,012
Operating expenses		
Depreciation and amortization		654,161
Other expenses		20,011,638
Total expenses		20,665,799
Operating loss		(5,820,787)
Nonoperating revenues, net		18,358
Transfers		5,802,429
Change in net position	$	-0-
Statement of cash flows		
Net cash flows from:		
Operating activities	$	(4,936,925)
Capital and related financing activities		4,638,537
Investing activities		18,358
Total		(280,030)
Cash and cash equivalents:		
Beginning of year		348,258
End of year	$	68,228

15. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future consolidated financial statements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68 making it effective for periods beginning after June 15, 2014. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

GASB Statement No. 72, *Fair Value Measurement and Application,* issued February 2015, will be effective for periods beginning after June 15, 2015. This Statement will enhance the comparability of financial statements among governments by requiring the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statements users about the impact of fair value measurements on a government's financial position.

SUPPLEMENTARY INFORMATION

DEARBORN COUNTY HOSPITAL

CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2014

ASSETS	Hospital	HSC	Eliminations	Total
Current assets				
Cash and cash equivalents	$ 37,570,570	$ 68,228	$ -0-	$ 37,638,798
Patient accounts receivable, net	30,800,196	3,086,784	-0-	33,886,980
Inventory	1,387,698	9,000	-0-	1,396,698
Current portion of assets whose use is limited	500,000	-0-	-0-	500,000
Other current assets	13,419,192	273,168	(3,802,316)	9,890,044
Total current assets	83,677,656	3,437,180	(3,802,316)	83,312,520
Assets whose use is limited				
Internally designated, net of current portion	51,277,989	-0-	-0-	51,277,989
Capital assets				
Land	75,208	1,079,035	-0-	1,154,243
Depreciable capital assets	111,155,641	10,313,318	-0-	121,468,959
Construction in progress	1,568,563	-0-	-0-	1,568,563
	112,799,412	11,392,353	-0-	124,191,765
Less accumulated depreciation	74,743,882	3,763,482	-0-	78,507,364
Capital assets, net	38,055,530	7,628,871	-0-	45,684,401
Other assets	10,675,553	241,723	(10,545,553)	371,723
Total assets	$ 183,686,728	$ 11,307,774	$ (14,347,869)	$ 180,646,633
LIABILITIES AND NET POSITION				
Current liabilities				
Current portion of capital leases	$ 401	$ -0-	$ -0-	$ 401
Current portion of revenue bonds payable	500,000	-0-	-0-	500,000
Accounts payable	27,600,656	10,686,392	(14,347,869)	23,939,179
Accrued salaries, wages, and related liabilities	5,388,004	621,382	-0-	6,009,386
Estimated third-party payor settlements	1,673,822	-0-	-0-	1,673,822
Total current liabilities	35,162,883	11,307,774	(14,347,869)	32,122,788
Revenue bonds payable, net of current portion	27,000,000	-0-	-0-	27,000,000
Total liabilities	62,162,883	11,307,774	(14,347,869)	59,122,788
Net position				
Net investment in capital assets	10,555,129	7,628,871	-0-	18,184,000
Unrestricted	110,968,716	(7,628,871)	-0-	103,339,845
Total net position	121,523,845	-0-	-0-	121,523,845
Total liabilities and net position	$ 183,686,728	$ 11,307,774	$ (14,347,869)	$ 180,646,633

DEARBORN COUNTY HOSPITAL

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2014

	Hospital	HSC	Eliminations	Total
Operating revenues				
Net patient service revenue	$ 243,338,652	$ 14,563,719	$ -0-	$ 257,902,371
Other operating revenue	9,964,575	281,293	-0-	10,245,868
Total operating revenues	253,303,227	14,845,012	-0-	268,148,239
Operating expenses				
Salaries and wages	31,922,011	13,754,424	-0-	45,676,435
Employee benefits	10,888,297	2,525,629	-0-	13,413,926
Professional fees and contract services	103,577,220	465,250	-0-	104,042,470
Supplies	25,804,492	1,285,426	-0-	27,089,918
Insurance	2,267,480	369,846	-0-	2,637,326
Facility and equipment leases	25,192,994	862,895	-0-	26,055,889
Repairs and maintenance	4,791,002	176,610	-0-	4,967,612
Utilities	5,248,873	275,328	-0-	5,524,201
HAF Program	4,019,631	-0-	-0-	4,019,631
Depreciation and amortization	4,918,724	654,161	-0-	5,572,885
Other	15,534,428	296,230	-0-	15,830,658
Total operating expenses	234,165,152	20,665,799	-0-	254,830,951
Operating income (loss)	19,138,075	(5,820,787)	-0-	13,317,288
Nonoperating revenues (expenses)				
Investment income	2,646,545	18,358	-0-	2,664,903
Interest expense	(395,518)	-0-	-0-	(395,518)
Gain on disposal of capital assets	5,894	-0-	-0-	5,894
Total nonoperating revenues (expenses)	2,256,921	18,358	-0-	2,275,279
Transfers	(5,802,429)	5,802,429	-0-	-0-
Change in net position	15,592,567	-0-	-0-	15,592,567
Net position				
Beginning of year	105,931,278	-0-	-0-	105,931,278
End of year	$ 121,523,845	$ -0-	$ -0-	$ 121,523,845