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June 13, 2016

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

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2015 to December 31, 2015. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of the Decatur County Memorial Hospital, as of December 31, 2015 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* includes a reference to Finding 2015-001 that is deemed a significant deficiency in internal control. This finding is included in the report.

The audit 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

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana

Independent Auditor's Report and Financial Statements
December 31, 2015 and 2014

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
December 31, 2015 and 2014

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Independent Auditor's Report

Board of Trustees
Decatur County Memorial Hospital
Greensburg, Indiana

Report on the Financial Statements

We have audited the accompanying balance sheets of Decatur County Memorial Hospital (Hospital), a component unit of Decatur County, Indiana, as of December 31, 2015 and 2014, 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 basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Decatur County Memorial Hospital Foundation, which are included in the Hospital's financial statements, were not audited in accordance with *Government Auditing Standards*.

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 Decatur County Memorial Hospital, a component unit of Decatur County, Indiana, as of December 31, 2015 and 2014, 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.

Other Matters

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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining schedules listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2016 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
May 4, 2016

Decatur County Memorial Hospital

A Component Unit of Decatur County, Indiana

Management's Discussion and Analysis

December 31, 2015 and 2014

Introduction

This management's discussion and analysis of the financial performance of Decatur County Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2015 by \$4,766,343 or 21.4% compared to an increase of \$876,272 or 4.1% in 2014.
- The Hospital's net position increased in 2015 by \$2,238,738 or 4.74% compared to a decrease of \$2,477,966 or 4.98% in 2014.
- The Hospital reported operating income of \$2,157,723 in 2015 compared to an operating loss of \$2,877,639 in 2014. The operating results in 2015 increased by \$5,035,362, while in 2014, the operating results decreased by \$2,507,666.
- Net nonoperating revenues for 2015 were \$81,015 compared to net nonoperating revenues of \$399,673 for 2014. This was a decrease of \$318,658 or 79.7%. In 2014, net nonoperating revenues decreased by \$31,572 or 7.3%.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The Hospital's Net Position

The Hospital's net position is equal to its assets plus deferred outflows of resources, less liabilities reported in the balance sheets. The Hospital's net position increased by \$2,238,738 or 4.74% in 2015 over 2014 compared to a decrease in net position of \$2,477,966 or 4.98% in 2014 over 2013, as shown in Table 1.

Table 1: Assets, Deferred Outflows of Resources, Liabilities and Net Position

	2015	2014	2013
Assets and Deferred Outflows of Resources			
Patient accounts receivable, net	\$ 8,877,884	\$ 8,006,800	\$ 6,640,422
Other current assets	25,288,839	20,300,018	18,698,770
Capital assets, net	37,050,690	33,113,773	34,363,562
Other noncurrent assets and deferred outflows of resources	5,963,530	5,883,319	5,853,598
Total assets and deferred outflows of resources	<u>\$ 77,180,943</u>	<u>\$ 67,303,910</u>	<u>\$ 65,556,352</u>
Liabilities			
Long-term debt	\$ 11,974,189	\$ 9,272,249	\$ 10,402,527
Other current and long-term liabilities	15,694,435	10,758,080	5,402,278
Total liabilities	<u>27,668,624</u>	<u>20,030,329</u>	<u>15,804,805</u>
Net Position			
Net investment in capital assets	25,076,501	23,841,524	23,961,035
Restricted	3,086,576	3,044,828	3,014,478
Unrestricted	21,349,242	20,387,229	22,776,034
Total net position	<u>49,512,319</u>	<u>47,273,581</u>	<u>49,751,547</u>
Total liabilities and net position	<u>\$ 77,180,943</u>	<u>\$ 67,303,910</u>	<u>\$ 65,556,352</u>

A significant change in the Hospital's assets in 2015 is the increase in patient accounts receivable of \$871,084 (10.9%) consisting of a decrease in the Hospital division's accounts receivable of \$1,048,288 and an increase in the long-term care division's accounts receivable of \$1,919,372. These changes are consistent with overall patient volumes and collections in 2015 as well as the addition of four new long-term care facilities. In 2014, patient accounts receivable increased by \$1,366,378 (20.6%), which was consistent with overall patient volumes and gross charges in 2014. A significant change in the Hospital's liabilities in 2015 is the increase in accounts payable and accrued expenses by \$4,561,905 (88.1%) as a result of the addition of the new long-term care facilities. The Hospital's liabilities saw an increase in estimated third-party settlements of \$4,606,542 (473.9%) in 2014 as a result of changes in estimates of amounts owed to the Medicare program.

Another significant change in the Hospital's financial position in 2015 was the increase in capital assets of \$3,936,917, which was primarily the result of various construction projects and information system upgrades. During 2014, the Hospital's capital assets decreased by \$1,249,789.

Additionally, with the ongoing construction and information system upgrades, the Hospital issued new debt during 2015 with \$3,828,257 out of an available \$5,000,000 drawn as of December 31, 2015.

Operating Results and Changes in the Hospital's Net Position

In 2015, the Hospital's net position increased by \$2,238,738 or 4.74%, as shown in Table 2. This increase is made up of several different components and represents an increase of 190.35% compared with the decrease in net position for 2014 of \$2,477,966. The increase in net position for 2013 was \$825,486.

Table 2: Operating Results and Changes in Net Position

	2015	2014	2013
Operating Revenue			
Net patient service revenue	\$ 63,595,462	\$ 46,400,008	\$ 47,183,026
Other operating revenue	6,834,058	1,317,051	975,074
Total operating revenue	70,429,520	47,717,059	48,158,100
Operating Expenses			
Salaries, wages, contract labor and employee benefits	36,781,378	28,542,769	29,775,485
Purchased services and professional fees	9,136,089	6,811,092	5,789,283
Depreciation and amortization	2,778,185	2,852,868	2,602,979
Other operating expenses	19,576,145	12,387,969	10,360,326
Total operating expenses	68,271,797	50,594,698	48,528,073
Operating Income (Loss)	2,157,723	(2,877,639)	(369,973)
Nonoperating Revenue (Expenses)			
Investment income	(52,031)	430,416	314,489
Interest expense	(297,864)	(290,256)	(207,595)
Noncapital grants and contributions	340,236	189,375	343,111
Noncapital appropriations - Decatur County	108,000	108,000	108,000
Other	(17,326)	(37,862)	(126,760)
Total nonoperating revenue	81,015	399,673	431,245
Capital Grants and Contributions	-	-	764,214
Increase (Decrease) in Net Position	\$ 2,238,738	\$ (2,477,966)	\$ 825,486

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.

Operating income was \$2,157,723 for 2015 compared to an operating loss of \$2,877,639 for 2014, which equates to an improvement of \$5,035,362 or 175.0%. The operating loss for 2014 decreased by \$2,507,666 or 677.8% as compared to 2013. The primary components of the change in operating income or loss in 2015 are:

- Net patient service revenue was \$63,595,462 for 2015 compared to \$46,400,008 in 2014, which is an increase of \$17,195,454 or 37.06%. Net patient service revenue in 2014 represented a decrease of \$783,018 or 1.66% compared to 2013.
- Salaries, wages, contract labor and employee benefits for the Hospital was \$36,781,378 for 2015 compared to \$28,542,769 for 2014, which results in an increase of \$8,238,609 or 28.86%. In 2014 salaries, wages and benefits decreased by \$1,232,716, or 4.14% compared to 2013.
- Other operating expenses were \$31,490,419 for 2015 compared to \$22,051,929 in 2014, which is an increase of \$9,438,490 or 42.80%. This change is primarily attributable to the long-term care facility acquired during 2015 and 2014, as discussed in the attached notes to the financial statements.

The increase in net patient service revenue in 2015 is the result of a slight increase in volumes, along with the addition of four long-term care nursing facilities, as discussed in the notes to the financial statements.

Employee salaries and wages and benefits increased in 2015 in connection with the Hospital's retention and recruitment efforts, as well as the addition of four long-term care nursing facilities.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Expenditures for medical supplies, prescription drugs and other supplies are a major component of the Hospital's costs. In 2015, medical supplies and prescription drug costs totaled \$10,547,137 or 15.6% of total operating expenses, compared to 2014 when they totaled \$6,084,136 or 12.0% of total operating expenses, which was an increase of \$4,463,001 or 73.4% from 2014. Some of the major factors contributing to the increased medical supply and drug costs include an aging population, the introduction of new drugs that cannot be obtained in generic form, changes in therapeutic mix and pharmaceutical marketing.

Operating income for 2015 of \$2,157,723 resulted from improved Hospital operations, participation in the 340B drug pricing program and the addition of four long-term care facilities. The increase in net total operating revenues of \$22,712,461, along with an increase in total operating expenses of \$17,677,099, factored into the Hospital recording an operating income in 2015.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, noncapital grants and interest expense. Interest expense and noncapital grants and contributions remained relatively constant in 2015 as compared to 2014. Investment return decreased \$482,447 as a result of market conditions.

Capital Grants and Contributions

The Hospital received gifts of \$764,214 from organizations and various individuals as part of the capital campaign during 2013 for significant additions and renovations done during 2013 to the Hospital in order to further serve the community. These funds are held as restricted portion of net position at year end until the funds are fully collected and utilized for the capital project. No additional funds were recognized during 2015 and 2014 for this campaign.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2015 and 2014, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2015, the Hospital had \$37,050,690 invested in capital assets, net of accumulated depreciation, compared to \$33,113,773 at the end of 2014, as detailed in Note 5 to the financial statements. These increases are a result of further Hospital renovations and improvements in information systems.

Debt

At December 31, 2015, the Hospital had \$11,974,189 in revenue bonds, notes payable and capital lease obligations outstanding compared to \$9,272,249 at December 31, 2014. During 2015, the Hospital issued new debt to assist in the acquisition and implementation of a new information system.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital's Administration by telephoning (812) 663-4331.

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Balance Sheets
December 31, 2015 and 2014

Assets and Deferred Outflows of Resources

	2015	2014
Current Assets		
Cash and cash equivalents	\$ 11,403,192	\$ 6,736,518
Short-term investments	9,905,532	9,995,680
Patient accounts receivable, net of allowance of 2015 - \$2,514,801, 2014 - \$4,365,091	8,877,884	8,006,800
Contributions receivable	122,311	145,211
Supplies	641,781	484,748
Prepaid expenses and other assets	3,216,023	2,937,861
Total current assets	<u>34,166,723</u>	<u>28,306,818</u>
Noncurrent Cash and Investments		
Internally designated for capital improvements	2,852,171	2,849,434
Held by trustee for debt service	1,639,645	1,686,187
Restricted by contributors and grantors	1,226,061	992,439
	<u>5,717,877</u>	<u>5,528,060</u>
Capital Assets, net	<u>37,050,690</u>	<u>33,113,773</u>
Other Assets	<u>149,549</u>	<u>215,417</u>
Total assets	77,084,839	67,164,068
Deferred Outflows of Resources - losses on debt refunding	<u>96,104</u>	<u>139,842</u>
Total assets and deferred outflows of resources	<u><u>\$ 77,180,943</u></u>	<u><u>\$ 67,303,910</u></u>

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 1,530,613	\$ 1,112,269
Accounts payable and accrued expenses	9,741,302	5,179,397
Estimated third-party settlements	5,953,133	5,578,683
Total current liabilities	<u>17,225,048</u>	<u>11,870,349</u>
Long-Term Debt	<u>10,443,576</u>	<u>8,159,980</u>
Total liabilities	<u>27,668,624</u>	<u>20,030,329</u>
Net Position		
Net investment in capital assets	25,076,501	23,841,524
Restricted:		
For debt service	1,639,645	1,686,187
Expendable for capital acquisitions	1,292,324	1,302,821
Expendable for specific operating activities	154,607	55,820
Unrestricted	21,349,242	20,387,229
Total net position	<u>49,512,319</u>	<u>47,273,581</u>
Total liabilities and net position	<u><u>\$ 77,180,943</u></u>	<u><u>\$ 67,303,910</u></u>

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of \$4,905,904 and \$5,919,497	\$ 63,595,462	\$ 46,400,008
Other	6,834,058	1,317,051
Total operating revenues	<u>70,429,520</u>	<u>47,717,059</u>
Operating Expenses		
Salaries, wages and contract labor	30,968,769	22,390,685
Employee benefits	5,812,609	6,152,084
Purchased services and professional fees	9,136,089	6,811,092
Medical supplies, drugs and other supplies	10,547,137	6,084,136
Utilities	1,111,936	814,066
Repairs and maintenance	1,793,419	1,606,538
Lease and rentals	1,903,522	402,706
Insurance	716,390	496,490
Depreciation and amortization	2,778,185	2,852,868
Other	2,883,835	1,549,841
Provider hospital assessment fee	619,906	1,434,192
Total operating expenses	<u>68,271,797</u>	<u>50,594,698</u>
Operating Income (Loss)	<u>2,157,723</u>	<u>(2,877,639)</u>
Nonoperating Revenues (Expenses)		
Investment return	(52,031)	430,416
Interest expense	(297,864)	(290,256)
Noncapital grants and contributions	340,236	189,375
Noncapital appropriations - Decatur County	108,000	108,000
Other	(17,326)	(37,862)
Total nonoperating revenues	<u>81,015</u>	<u>399,673</u>
Excess (Deficiency) of Revenues Over Expenses and Increase (Decrease) in Net Position	2,238,738	(2,477,966)
Net Position, Beginning of Year	<u>47,273,581</u>	<u>49,751,547</u>
Net Position, End of Year	<u>\$ 49,512,319</u>	<u>\$ 47,273,581</u>

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 65,517,285	\$ 49,640,172
Payments to suppliers and contractors	(24,397,909)	(18,126,736)
Payments to employees	(37,284,928)	(28,240,941)
Other receipts (payments), net	3,406,491	(383,496)
Net cash provided by operating activities	<u>7,240,939</u>	<u>2,888,999</u>
Noncapital Financing Activities		
Noncapital grants and contributions	340,236	189,375
Noncapital appropriations - Decatur County	108,000	108,000
Net cash provided by noncapital financing activities	<u>448,236</u>	<u>297,375</u>
Capital and Related Financing Activities		
Acquisition and construction of capital assets	(5,390,057)	(1,679,421)
Capital grants and contributions	88,768	270,347
Insurance proceeds from destruction of capital assets	-	70,000
Proceeds from issuance of long-term debt	3,828,257	-
Principal paid on long-term debt	(1,082,424)	(1,050,306)
Principal paid on capital leases	(29,644)	(36,797)
Interest paid on long-term debt and capital leases	(268,375)	(276,479)
Net cash used in capital and related financing activities	<u>(2,853,475)</u>	<u>(2,702,656)</u>
Investing Activities		
Interest and dividends on investments	469,177	521,029
Purchase of investments	(1,301,927)	(1,041,294)
Proceeds from disposition of investments	681,050	263,195
Other investing activities	(17,326)	(37,862)
Net cash used in investing activities	<u>(169,026)</u>	<u>(294,932)</u>
Increase in Cash and Cash Equivalents	4,666,674	188,786
Cash and Cash Equivalents, Beginning of Year	<u>6,736,518</u>	<u>6,547,732</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 11,403,192</u></u>	<u><u>\$ 6,736,518</u></u>
Reconciliation of Operating Income (Loss) to		
Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 2,157,723	\$ (2,877,639)
Depreciation and amortization	2,778,185	2,852,868
Loss on sale of capital assets	-	4,942
Provision for uncollectible accounts	4,905,904	5,919,497
Changes in operating assets and liabilities:		
Patient accounts receivable	(5,776,988)	(7,285,875)
Supplies and other current assets	(431,315)	(1,088,914)
Estimated third-party settlements	374,450	4,606,542
Accounts payable and accrued expenses	3,232,980	757,578
Net cash provided by operating activities	<u><u>\$ 7,240,939</u></u>	<u><u>\$ 2,888,999</u></u>
Supplemental Cash Flows Information		
Capital asset additions included in accounts payable	\$ 1,328,925	\$ -

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Notes to Financial Statements
December 31, 2015 and 2014

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

Nature of Operations and Reporting Entity

Decatur County Memorial Hospital (Hospital) is an acute care hospital located in Greensburg, Indiana. The Hospital is a component unit of Decatur County (County) and the Board of County Commissioners appoints members to the Board of Trustees 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 Decatur County area. It also operates a home health agency in the same geographic area.

The Hospital operates five long-term care facilities (LTC) through various lease arrangements. These facilities provides inpatient and therapy services in its geographic area and supports the Hospital's mission to provide quality care and services to the facility's residents. The facilities are managed by third parties under a management agreement. The revenues from operations are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

In accordance with GASB Statement No. 61, the financial statements include the financial statements of the Decatur County Memorial Hospital Foundation (Foundation). The Foundation's purpose is to provide philanthropic support through fundraising and other activities for the acquisition of equipment, facility development and support of programs at the Hospital, and has therefore been reported as a blended component unit.

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 and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted component of net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Notes to Financial Statements
December 31, 2015 and 2014

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015, cash equivalents consisted primarily of money market accounts with brokers.

Risk Management

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

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

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.

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Supplies

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

Capital Assets

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

Land improvements	5 - 25 years
Buildings and improvements	5 - 40 years
Equipment	5 - 25 years
Major moveable equipment	3 - 25 years
Vehicles	4 years

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

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 is expected to be paid within one year of the balance sheet date, and is therefore included in current liabilities.

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Net Position

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

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 \$2,872,388 for 2015 compared to \$2,738,430 for 2014.

Income Taxes

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

The Foundation is exempt from 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 Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files federal tax returns in the U.S. federal jurisdiction.

Foundation

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

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Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAH) 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.

The Hospital began recognizing incentive payment revenues earned for qualified EHR technology expenditures during 2012, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. The Hospital recorded revenue of approximately \$197,000 from Medicaid and Medicare in 2014, which is included in net patient service revenue in the statements of revenues, expenses and change in net position. No additional amounts were recorded in 2015.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation. The reclassifications had no effect on the changes in net position.

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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.

Long-term care services rendered to Medicare program beneficiaries are paid under a prospectively determined payment system on a per diem basis based on each resident's health at admission. Medicare reimburses for 100 days of skilled nursing facility care subject to certain eligibility requirements

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.

Long-term care services rendered to Medicaid program beneficiaries are paid on a per diem basis.

Approximately 53% and 49% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2015 and 2014. 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 reviews billing, licensure and other issues to ensure compliance with Federal, State and other regulations. During 2014, the Hospital performed a review, and as a result, self-disclosed a matter to the Health and Human Services Office of the Inspector General (OIG). The Hospital accrued approximately \$3.8 million during 2014, which was management's estimate of amounts potentially owed to the Medicare program as a result of this review. The Hospital reached a settlement agreement with the OIG in 2016 for the full amount estimated by management. Amounts accrued are included in estimated third-party settlements on the balance sheets at December 31, 2015 and 2014.

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The Hospital participates in a state specific provider assessment program to increase Medicaid payments to hospitals. The Hospital paid approximately \$620,000 and \$1.4 million into this Medicaid program for 2015 and 2014, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position. During 2014, this program was re-instated retroactively to July 1, 2013 and this program is scheduled to sunset on June 30, 2017. There is no assurance this program will continue to be implemented in the future

The Hospital's Medicaid Inpatient Utilization Rate (MIUR) exceeds state-wide thresholds, as defined by state regulation. A benefit of having the Hospital's MIUR over state-wide thresholds includes paying 75% of the provider assessment fee, where nonqualified hospitals must pay 100% of the provider assessment fee. The state measures the MIUR no less than every two years and no more than every four years. At each measurement period, the state-defined MIUR changes, which may affect the Hospital's ability to continue to pay the 75% rate. Additionally, depending on the time in which the state elects to re-measure the MIUR threshold, the change could occur retroactively, requiring the Hospital to recognize 100% of the provider assessment fee. Any changes in the amount of tax due will be recorded in the period once the state has made its determination.

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 approximately \$1.7 million and \$900,000 within net patient service revenue related to this supplemental payment program for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, \$600,000 and \$1.3 million is accrued as receivable in other current assets. These amounts represent management's best estimate of DSH funds due to the Hospital which are typically paid in arrears.

The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital is responsible for funding the IGT for the long-term care operations. Revenue associated with the UPL program is recorded net of IGT payments made to the program and is included in other operating revenue. The Hospital recognized approximately \$2.8 million and \$470,000 related to this supplemental payment program for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, \$825,000 and \$470,000 are accrued and included in prepaid expenses and other current assets.

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.

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Note 3: Deposits, Investments and Investment Income

Deposits

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

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depositary 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 certain deposit accounts, mutual funds, repurchase agreements and pooled investment funds as authorized by Indiana Code 16-22-3-20.

At December 31, 2015 and 2014, the Hospital had the following investments and maturities:

		2015			
		Maturities in Years			
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 1,117,831	\$ 1,117,831	\$ -	\$ -	\$ -
Equity mutual funds	5,552,395	5,552,395	-	-	-
Fixed income mutual funds	4,342,794	4,342,794	-	-	-
	<u>\$ 11,013,020</u>	<u>\$ 11,013,020</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

		2014			
		Maturities in Years			
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 1,467,689	\$ 1,467,689	\$ -	\$ -	\$ -
Equity mutual funds	6,188,553	6,188,553	-	-	-
Fixed income mutual funds	3,718,736	3,718,736	-	-	-
	<u>\$ 11,374,978</u>	<u>\$ 11,374,978</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy for interest rate risk.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital does not have a formal investment policy for credit risk. At December 31, 2015 and 2014, the Hospital's investments were not rated by Standard & Poor's or Moody's Investors Service.

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. The Hospital's policy is to limit holdings in equities to 70% and to limit fixed income holdings to 60%.

Summary of Carrying Values

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

	<u>2015</u>	<u>2014</u>
Carrying value:		
Deposits	\$ 16,013,581	\$ 10,885,280
Investments	<u>11,013,020</u>	<u>11,374,978</u>
	<u>\$ 27,026,601</u>	<u>\$ 22,260,258</u>
Included in the following balance sheets captions:		
Cash and cash equivalents	\$ 11,403,192	\$ 6,736,518
Short-term investments	9,905,532	9,995,680
Noncurrent cash and investments		
Internally designated for capital improvements	2,852,171	2,849,434
Held by trustee for debt service	1,639,645	1,686,187
Restricted by contributors and grantors	<u>1,226,061</u>	<u>992,439</u>
	<u>\$ 27,026,601</u>	<u>\$ 22,260,258</u>

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Investment Income

Investment income for the years ended December 31 consisted of:

	2015	2014
Interest and dividend income	\$ 469,177	\$ 521,029
Net decrease in fair value of investments	(521,208)	(90,613)
	<u>\$ (52,031)</u>	<u>\$ 430,416</u>

Note 4: Patient Accounts Receivable

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

	2015	2014
Medicare	\$ 2,519,492	\$ 2,108,897
Medicaid	1,581,331	603,730
Other third-party payers	3,842,576	3,299,214
Patients	<u>3,449,286</u>	<u>6,360,050</u>
	11,392,685	12,371,891
Less allowance for uncollectible accounts	<u>2,514,801</u>	<u>4,365,091</u>
	<u>\$ 8,877,884</u>	<u>\$ 8,006,800</u>

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Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

2015					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,127,637	\$ -	\$ -	\$ -	\$ 1,127,637
Land improvements	440,624	-	-	-	440,624
Buildings and leasehold improvements	37,615,626	128,095	-	30,734	37,774,455
Equipment	3,163,816	153,511	-	-	3,317,327
Major moveable equipment	18,371,895	695,552	(80,931)	406,040	19,392,556
Vehicles	84,518	-	-	-	84,518
Construction in progress	195,335	5,741,824	-	(436,774)	5,500,385
	<u>60,999,451</u>	<u>6,718,982</u>	<u>(80,931)</u>	<u>-</u>	<u>67,637,502</u>
Less accumulated depreciation:					
Land improvements	339,908	22,727	-	-	362,635
Buildings and leasehold improvements	11,643,893	1,108,727	-	-	12,752,620
Equipment	1,706,093	227,858	-	-	1,933,951
Major moveable equipment	14,142,964	1,404,906	(77,051)	-	15,470,819
Vehicles	52,820	13,967	-	-	66,787
	<u>27,885,678</u>	<u>2,778,185</u>	<u>(77,051)</u>	<u>-</u>	<u>30,586,812</u>
Capital assets, net	<u>\$ 33,113,773</u>	<u>\$ 3,940,797</u>	<u>\$ (3,880)</u>	<u>\$ -</u>	<u>\$ 37,050,690</u>

2014					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,127,637	\$ -	\$ -	\$ -	\$ 1,127,637
Land improvements	402,942	23,721	-	13,961	440,624
Buildings and leasehold improvements	37,629,484	31,157	(70,000)	24,985	37,615,626
Equipment	3,164,349	83,443	(156,083)	72,107	3,163,816
Major moveable equipment	16,875,361	373,852	(246,288)	1,368,970	18,371,895
Vehicles	84,518	-	-	-	84,518
Construction in progress	508,110	1,167,248	-	(1,480,023)	195,335
	<u>59,792,401</u>	<u>1,679,421</u>	<u>(472,371)</u>	<u>-</u>	<u>60,999,451</u>
Less accumulated depreciation:					
Land improvements	317,272	22,636	-	-	339,908
Buildings and leasehold improvements	10,521,562	1,122,331	-	-	11,643,893
Equipment	1,633,692	226,023	(153,622)	-	1,706,093
Major moveable equipment	12,919,606	1,465,765	(242,407)	-	14,142,964
Vehicles	36,707	16,113	-	-	52,820
	<u>25,428,839</u>	<u>2,852,868</u>	<u>(396,029)</u>	<u>-</u>	<u>27,885,678</u>
Capital assets, net	<u>\$ 34,363,562</u>	<u>\$ (1,173,447)</u>	<u>\$ (76,342)</u>	<u>\$ -</u>	<u>\$ 33,113,773</u>

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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. Commercial stop-loss insurance coverage is purchased for claims in excess of \$150,000 with a maximum aggregate annual reimbursement of \$1,000,000. 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.

Activity in the Hospital's accrued employee health claims liability during 2015 and 2014 is summarized as follows:

	2015	2014
Balance, beginning of year	\$ 530,000	\$ 400,000
Current year claims incurred and changes in estimates for		
claims incurred in prior years	2,924,378	3,489,090
Claims and expenses paid	<u>(2,924,378)</u>	<u>(3,359,090)</u>
Balance, end of year	<u>\$ 530,000</u>	<u>\$ 530,000</u>

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Note 8: Long-Term Obligations

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

2015					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds payable:					
First mortgage refunding bonds, series 2011	\$ 1,805,000	\$ -	\$ (625,000)	\$ 1,180,000	\$ 322,500
Capital improvement bond, series 2012	7,332,964	-	(457,424)	6,875,540	469,116
Note payable to bank	-	3,828,257	-	3,828,257	716,699
Deferred amounts					
Plus: bond premium	64,875	-	(14,249)	50,626	-
Capital lease obligations	69,410	-	(29,644)	39,766	22,298
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total long-term debt	<u>\$ 9,272,249</u>	<u>\$ 3,828,257</u>	<u>\$ (1,126,317)</u>	<u>\$ 11,974,189</u>	<u>\$ 1,530,613</u>

2014					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds payable:					
First mortgage refunding bonds, series 2011	\$ 2,410,000	\$ -	\$ (605,000)	\$ 1,805,000	\$ 625,000
Capital improvement bond, series 2012	7,778,270	-	(445,306)	7,332,964	457,193
Plus: bond premium	108,050	-	(43,175)	64,875	-
Capital lease obligations	106,207	-	(36,797)	69,410	30,076
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total long-term debt	<u>\$ 10,402,527</u>	<u>\$ -</u>	<u>\$ (1,130,278)</u>	<u>\$ 9,272,249</u>	<u>\$ 1,112,269</u>

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First Mortgage Refunding Bonds, Series 2011

The First Mortgage Refunding Bonds, Series 2011 (Series 2011 Bonds) consist of bonds payable in the original amount of \$5,595,000 dated December 1, 2011, issued by the Decatur County Hospital Association (Association). These bonds were made up of two components referred to as: a) 2011 lease revenue refunding bonds and b) 2011 revenue refunding bonds. The Hospital entered into an agreement with the Association where the Hospital would be responsible for 50% of principal and interest on the 2011 lease revenue refunding bonds totaling \$4,515,000. The County is responsible for the remaining 50% of principal and interest payments on these bonds. The bonds are payable in semiannual installments through January 2019 and bear interest at 2.0% to 4.0%. The total liability recorded by the Hospital at December 31, 2015 and 2014 related to these bonds was \$1,180,000 and \$1,495,000, respectively.

The Hospital also entered into an agreement with the Association where the Hospital would be responsible for 100% of the principal and interest of the 2011 revenue refunding bonds totaling \$1,080,000. The bonds, payable in semiannual installments, were paid in full in June 2015. The liability recorded by the Hospital at December 31, 2014 related to these bonds was \$310,000.

The Hospital is required to make monthly deposits to the debt service fund held by the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the balance sheets. The Series 2011 Bonds are not subject to optional redemption prior to maturity. The Series 2011 Bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement.

Capital Improvements Bond, Series 2012

The Capital Improvements Bond, Series 2012 (Series 2012 Bond) consist of bonds payable in the original amount up to \$8,000,000 dated August 1, 2012, issued by the Hospital. The bonds were issued to fund certain expansions of the Hospital. During the construction phase in 2013 and 2012, bond advances were made to fund the costs of the construction project. The bond is payable in monthly installments of \$54,059 through June 2028 and bears interest at 2.65%. The total liability recorded by the Hospital at December 31, 2015 and 2014 related to these bonds was \$6,875,540 and \$7,332,964, respectively.

The Hospital is required to make monthly deposits to the debt service fund held by the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the balance sheets.

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Note Payable to Bank

The Hospital borrowed funds to finance the acquisition of certain information technology improvements. The note payable to bank, dated May 18, 2015, allows for borrowings up to \$5 million and bears interest at LIBOR 1 Month plus 2.5%, (2.9% at December 31, 2015). The Hospital is required to make interest only payments through March 2016, followed by 50 monthly principal and interest payments through May 2020. The note is secured by certain inventories, accounts receivable and capital assets of the Hospital. As of December 31, 2015, the Hospital had borrowed \$3,828,257 under this agreement.

The Hospital is also required to comply with certain restrictive covenants including maintaining a historical debt-service coverage ratio of at least 1.5 to 1, maintenance of minimum working capital of \$8,000,000 and maintenance of a current ratio of at least 2.0 to 1.

At December 31, 2015, the Hospital did not meet certain covenants for which the bondholder and bank have waived such violation through December 31, 2016.

The debt service requirements as of December 31, 2015, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2016	\$ 1,797,818	\$ 1,508,315	\$ 289,503
2017	1,958,754	1,698,812	259,942
2018	1,961,922	1,745,857	216,065
2019	1,783,816	1,616,409	167,407
2020	1,046,230	917,345	128,885
2021 - 2025	3,243,516	2,803,894	439,622
2026 - 2028	1,675,828	1,593,165	82,663
	\$ 13,467,884	\$ 11,883,797	\$ 1,584,087

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Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 5.7% to 6.1% together with the present value of the future minimum lease payments as of December 31, 2015:

2016	\$ 23,964
2017	14,865
2018	<u>3,144</u>
Total minimum lease payments	41,973
Less amount representing interest	<u>2,207</u>
Present value of future minimum lease payments	<u><u>\$ 39,766</u></u>

Assets under capital leases at December 31, 2015 and 2014, totaled:

	<u>2015</u>	<u>2014</u>
Machinery and equipment	\$ 105,758	\$ 181,421
Accumulated depreciation	<u>(69,327)</u>	<u>(116,272)</u>
	<u><u>\$ 36,431</u></u>	<u><u>\$ 65,149</u></u>

Note 9: Pension Plan

The Hospital contributes to a defined-contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan administrator is the Executive Director of Human Resources for the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. The Hospital is required to match 100% of the employee contribution up to 1% of employee's compensation. In addition, the Hospital may make a discretionary contribution as determined by the Hospital Board, which was 3% for 2015 and 2014. Hospital expense related to the employer contributions to the plan approximated \$688,000 for 2015 compared to \$695,000 for 2014.

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Notes to Financial Statements
December 31, 2015 and 2014

Note 10: Commitments and 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.

Note 11: Contributions Receivable

Contributions receivable consisted of the following at December 31:

	2015	Restricted 2014
Due within one year	\$ 122,311	\$ 145,211
Due in one to five years	98,549	215,417
	<u>\$ 220,860</u>	<u>\$ 360,628</u>

Note 12: Noncapital Appropriations - Decatur County

Decatur County, of which the Hospital is a component unit, subsidized the Hospital for providing the County with ambulance service. The Hospital recognizes these payments as nonoperating revenue. The Hospital recognized subsidy revenue of \$108,000 for each of 2015 and 2014.

Note 13: 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 required the establishment of health insurance exchanges, which provides 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.

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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. In 2015, the state of Indiana expanded its Medicaid program with the implementation of the Healthy Indiana Plan (HIP) 2.0. Under HIP 2.0, the first \$2,500 of beneficiary medical expenses are reimbursed from special savings accounts funded partly by the state and partly by the beneficiary.

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

Note 14: Blended Component Unit

The Hospital's financial statements include the blended component unit accounts of the Foundation. The following is a financial summary of the Foundation as of and for the years ended December 31, 2015 and 2014:

	2015	2014
Current assets	\$ 780,843	\$ 764,593
Noncurrent assets	<u>1,270,791</u>	<u>1,152,814</u>
Total assets	<u><u>\$ 2,051,634</u></u>	<u><u>\$ 1,917,407</u></u>
Current and total liabilities	\$ 136,519	\$ 92,898
Net position	<u>1,915,115</u>	<u>1,824,509</u>
Total liabilities and net position	<u><u>\$ 2,051,634</u></u>	<u><u>\$ 1,917,407</u></u>
Revenues	\$ 285,633	\$ 172,115
Expenses	<u>195,027</u>	<u>171,313</u>
Increase in net position	90,606	802
Net position, beginning of year	<u>1,824,509</u>	<u>1,823,707</u>
Net position, end of year	<u><u>\$ 1,915,115</u></u>	<u><u>\$ 1,824,509</u></u>

Decatur County Memorial Hospital
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Notes to Financial Statements
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Note 15: Long-Term Care Operating Lease and Management Agreements

The Hospital has entered into various agreements to lease the facilities and equipment for the operation of five nursing homes. Along with the lease agreements, the Hospital also entered into management agreements with the facilities' previous managers (Managers) to continue to operate the facilities. These agreements expire at various times through September 2017 and include optional two year extensions. The management agreements include optional termination clauses by either party if material changes in circumstances, as defined in the agreements, occur. The leases include termination clauses where the lease shall automatically end at the termination of the management agreement between the Hospital and the Managers.

The lease agreements call for monthly base rent payments as outlined in the agreements. Rental expense approximated \$1.8 million and \$223,000 in 2015 and 2014, respectively. Future minimum rent payments for the years ending December 31, 2016 and 2017, approximate \$2.8 million and \$783,000, respectively.

The management agreements include management fees consisting of base management fees, subordinated management fees and incentive management fees. Base and subordinate management fees are determined on percentages of net patient service revenue of the individual facilities and range from 2% to 4.75%. Incentive management fees are to be paid only if sufficient working capital exists. The agreements also call for quality, royalty and capital improvement fees to be paid to the Managers. Management and other fees approximated \$1.0 million and \$71,000 in 2015 and 2014, respectively, and include waivers of certain fees as insufficient cash flows existed to fund the amounts due.

Under the management agreements, the employees necessary to operate the facilities are contracted by the Hospital. The majority of all costs in the ordinary course of business are paid by the Managers who are then reimbursed by the Hospital from operations of the facilities. Similarly, Managers of certain facilities have provided working capital to cover insufficient cash flows from operations. Consequently, the majority of accounts payable and accrued expenses of the long-term care operations approximating \$4.1 million and \$1.1 million at December 31, 2015 and 2014, reflect amounts due to the Managers.

Supplementary Information

Decatur County Memorial Hospital

A Component Unit of Decatur County, Indiana

Combining Balance Sheet Information

December 31, 2015

	2015				
	Hospital	LTC	Hospital Foundation	Eliminations	Total
Assets and Deferred Outflows of Resources					
Current Assets					
Cash and cash equivalents	\$ 10,384,689	\$ 562,801	\$ 455,702	\$ -	\$ 11,403,192
Short-term investments	9,702,702	-	202,830	-	9,905,532
Patient accounts receivable, net of allowance of Hospital - \$1,988,414, LTC - \$526,387	6,418,716	2,459,168	-	-	8,877,884
Contributions receivable	-	-	122,311	-	122,311
Supplies	641,781	-	-	-	641,781
Prepaid expenses and other assets	1,981,518	1,234,505	-	-	3,216,023
Due from related party	69,642	-	-	(69,642)	-
Total current assets	29,199,048	4,256,474	780,843	(69,642)	34,166,723
Noncurrent Cash and Investments					
Internally designated for capital improvements	2,852,171	-	-	-	2,852,171
Held by trustee for debt service	1,639,645	-	-	-	1,639,645
Restricted by contributors and grantors	53,819	-	1,172,242	-	1,226,061
	4,545,635	-	1,172,242	-	5,717,877
Capital Assets, net	36,820,930	229,760	-	-	37,050,690
Other Assets	51,000	-	98,549	-	149,549
Total assets	70,616,613	4,486,234	2,051,634	(69,642)	77,084,839
Deferred Outflows of Resources - debt defeasance costs	96,104	-	-	-	96,104
Total assets and deferred outflows of resources	\$ 70,712,717	\$ 4,486,234	\$ 2,051,634	\$ (69,642)	\$ 77,180,943
Liabilities and Net Position					
Current Liabilities					
Current maturities of long-term debt	\$ 1,530,613	\$ -	\$ -	\$ -	\$ 1,530,613
Accounts payable and accrued expenses	5,608,925	4,065,500	66,877	-	9,741,302
Estimated third-party settlements	5,953,133	-	-	-	5,953,133
Due to related party	-	-	69,642	(69,642)	-
Total current liabilities	13,092,671	4,065,500	136,519	(69,642)	17,225,048
Long-Term Debt	10,443,576	-	-	-	10,443,576
Total liabilities	23,536,247	4,065,500	136,519	(69,642)	27,668,624
Net Position					
Net investment in capital assets	24,846,741	229,760	-	-	25,076,501
Restricted:					
For debt service	1,639,645	-	-	-	1,639,645
Expendable for capital acquisitions	-	-	1,292,324	-	1,292,324
Expendable for specific operating activities	53,819	-	100,788	-	154,607
Unrestricted	20,636,265	190,974	522,003	-	21,349,242
Total net position	47,176,470	420,734	1,915,115	-	49,512,319
Total liabilities and net position	\$ 70,712,717	\$ 4,486,234	\$ 2,051,634	\$ (69,642)	\$ 77,180,943

Decatur County Memorial Hospital

A Component Unit of Decatur County, Indiana

Combining Balance Sheet Information

December 31, 2014

	2014				
	Hospital	LTC	Hospital Foundation	Eliminations	Total
Assets and Deferred Outflows of Resources					
Current Assets					
Cash and cash equivalents	\$ 6,265,859	\$ 107,940	\$ 362,719	\$ -	\$ 6,736,518
Short-term investments	9,739,017	-	256,663	-	9,995,680
Patient accounts receivable, net of allowance of Hospital - \$4,305,091; LTC - \$60,000	7,467,004	539,796	-	-	8,006,800
Contributions receivable	-	-	145,211	-	145,211
Supplies	484,748	-	-	-	484,748
Prepaid expenses and other assets	2,429,730	508,131	-	-	2,937,861
Due from related party	34,831	-	-	(34,831)	-
Total current assets	26,421,189	1,155,867	764,593	(34,831)	28,306,818
Noncurrent Cash and Investments					
Internally designated for capital improvements	2,849,434	-	-	-	2,849,434
Held by trustee for debt service	1,686,187	-	-	-	1,686,187
Restricted by contributors and grantors	55,042	-	937,397	-	992,439
	4,590,663	-	937,397	-	5,528,060
Capital Assets, net	33,113,773	-	-	-	33,113,773
Other Assets	-	-	215,417	-	215,417
Total assets	64,125,625	1,155,867	1,917,407	(34,831)	67,164,068
Deferred Outflows of Resources - debt defeasance costs	139,842	-	-	-	139,842
Total assets and deferred outflows of resources	\$ 64,265,467	\$ 1,155,867	\$ 1,917,407	\$ (34,831)	\$ 67,303,910
Liabilities and Net Position					
Current Liabilities					
Current maturities of long-term debt	\$ 1,112,269	\$ -	\$ -	\$ -	\$ 1,112,269
Accounts payable and accrued expenses	3,999,876	1,121,454	58,067	-	5,179,397
Estimated third-party settlements	5,578,683	-	-	-	5,578,683
Due to related party	-	-	34,831	(34,831)	-
Total current liabilities	10,690,828	1,121,454	92,898	(34,831)	11,870,349
Long-Term Debt	8,159,980	-	-	-	8,159,980
Total liabilities	18,850,808	1,121,454	92,898	(34,831)	20,030,329
Net Position					
Net investment in capital assets	23,841,524	-	-	-	23,841,524
Restricted:					
For debt service	1,686,187	-	-	-	1,686,187
Expendable for capital acquisitions	-	-	1,302,821	-	1,302,821
Expendable for specific operating activities	55,042	-	778	-	55,820
Unrestricted	19,831,906	34,413	520,910	-	20,387,229
Total net position	45,414,659	34,413	1,824,509	-	47,273,581
Total liabilities and net position	\$ 64,265,467	\$ 1,155,867	\$ 1,917,407	\$ (34,831)	\$ 67,303,910

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Combining Statement of Revenues, Expenses and
Changes in Net Position Information
Year Ended December 31, 2015

	2015			
	Hospital	LTC	Hospital Foundation	Total
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts of Hospital - \$4,384,939; LTC - \$520,965	\$ 48,988,556	\$ 14,606,906	\$ -	\$ 63,595,462
Other	3,925,221	2,908,837	-	6,834,058
Total operating revenues	52,913,777	17,515,743	-	70,429,520
Operating Expenses				
Salaries, wages and contract labor	23,209,732	7,759,037	-	30,968,769
Employee benefits	5,812,609	-	-	5,812,609
Purchased services and professional fees	6,661,568	2,474,521	-	9,136,089
Medical supplies, drugs and other supplies	8,545,745	2,001,392	-	10,547,137
Utilities	709,025	402,911	-	1,111,936
Repairs and maintenance	1,696,383	97,036	-	1,793,419
Lease and rentals	147,372	1,756,150	-	1,903,522
Insurance	514,917	201,473	-	716,390
Depreciation and amortization	2,778,185	-	-	2,778,185
Other	1,421,647	1,462,188	-	2,883,835
Provider hospital assessment fee	619,906	-	-	619,906
Total operating expenses	52,117,089	16,154,708	-	68,271,797
Operating Income	796,688	1,361,035	-	2,157,723
Nonoperating Revenues (Expenses)				
Investment return	(25,455)	-	(26,576)	(52,031)
Interest expense	(297,864)	-	-	(297,864)
Noncapital grants and contributions	28,027	-	312,209	340,236
Noncapital appropriations - Decatur County	108,000	-	-	108,000
Other	177,701	-	(195,027)	(17,326)
Total nonoperating revenues (expenses)	(9,591)	-	90,606	81,015
Excess of Revenues Over Expenses Before Transfers	787,097	1,361,035	90,606	2,238,738
Transfers	974,714	(974,714)	-	-
Increase in Net Position	1,761,811	386,321	90,606	2,238,738
Net Position, Beginning of Year	45,414,659	34,413	1,824,509	47,273,581
Net Position, End of Year	\$ 47,176,470	\$ 420,734	\$ 1,915,115	\$ 49,512,319

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Combining Statement of Revenues, Expenses and
Changes in Net Position Information
Year Ended December 31, 2014

	2014			
	Hospital	LTC	Hospital Foundation	Total
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts of Hospital - \$5,859,497; LTC - \$60,000	\$ 44,933,765	\$ 1,466,243	\$ -	\$ 46,400,008
Other	843,217	473,834	-	1,317,051
Total operating revenues	45,776,982	1,940,077	-	47,717,059
Operating Expenses				
Salaries, wages and contract labor	21,348,434	1,042,251	-	22,390,685
Employee benefits	6,152,084	-	-	6,152,084
Purchased services and professional fees	6,620,812	190,280	-	6,811,092
Medical supplies, drugs and other supplies	5,918,261	165,875	-	6,084,136
Utilities	754,623	59,443	-	814,066
Repairs and maintenance	1,598,630	7,908	-	1,606,538
Lease and rentals	166,746	235,960	-	402,706
Insurance	460,354	36,136	-	496,490
Depreciation and amortization	2,852,868	-	-	2,852,868
Other	1,382,030	167,811	-	1,549,841
Provider hospital assessment fee	1,434,192	-	-	1,434,192
Total operating expenses	48,689,034	1,905,664	-	50,594,698
Operating Income (Loss)	(2,912,052)	34,413	-	(2,877,639)
Nonoperating Revenues (Expenses)				
Investment return	421,420	-	8,996	430,416
Interest expense	(290,256)	-	-	(290,256)
Noncapital grants and contributions	26,256	-	163,119	189,375
Noncapital appropriations - Decatur County	108,000	-	-	108,000
Other	133,451	-	(171,313)	(37,862)
Total nonoperating revenues	398,871	-	802	399,673
Excess (Deficiency) of Revenues Over Expenses and Increase (Decrease) in Net Position	(2,513,181)	34,413	802	(2,477,966)
Net Position, Beginning of Year	47,927,840	-	1,823,707	49,751,547
Net Position, End of Year	\$ 45,414,659	\$ 34,413	\$ 1,824,509	\$ 47,273,581

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees
Decatur County Memorial Hospital
Greensburg, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Decatur County Memorial Hospital (Hospital), a component unit of Decatur County, Indiana, which comprise the balance sheet as of December 31, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 4, 2016. The financial statements of Decatur County Memorial Hospital Foundation, which is included in the Hospital's financial statements, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Hospital's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control described in the accompanying schedule of findings and responses as item 2015-001 that we consider to be a significant deficiency in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's Response to Findings

The Hospital's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to the Hospital's management in a separate letter dated May 4, 2016.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Indianapolis, Indiana
May 4, 2016

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Schedule of Findings and Responses
December 31, 2015

Reference Number	Finding
2015-001	Criteria or Specific Requirement: Internal Control Over Financial Reporting Condition: The Hospital did not timely receive or review periodic financial reporting of the nursing home operations as prepared by the third-party managers. Context: Routine monitoring of the operations of the nursing home is imperative to ensure that the Hospital is exercising its fiduciary and regulatory responsibility. Cause: While financial statements were prepared and monitored by the third-party managers, they were not routinely or timely provided to Hospital management. Effect: Potential misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner. Recommendation: We recommend that the Hospital obtain and review periodic financial statements of each of its nursing homes and review internal calculations of amounts due under management agreements. Views of Responsible Officials and Planned Corrective Action: We concur. Management continues to evaluate current controls related to accounting for the nursing home operations to ensure that transactions are accounted for properly and in a timely manner.