



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2013 AND 2012



CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

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Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Cameron Memorial Community Hospital, Inc.
Angola, Indiana

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Cameron Memorial Community Hospital, Inc. (the Hospital), which comprise the consolidated balance sheet as of September 30, 2013, and the related consolidated statements of operations and changes in net assets, 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General in the United States. 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.

Board of Directors
Cameron Memorial Community Hospital Inc.
Angola, Indiana

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2013, and its results of operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PRIOR PERIOD CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Hospital as of September 30, 2012, were audited by other auditors whose report dated February 15, 2013, expressed an unmodified opinion on those statements.

REPORT ON SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2013 consolidating information listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the balance sheet, results of operations, changes in net assets and cash flows of the individual entities, and is not a required part of the consolidated financial statements. The accompanying 2013 schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is also 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 2013 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole. The 2012 consolidating information listed in the accompanying table of contents was subjected to the auditing procedures applied in the 2012 audit of the basic consolidated financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2012 consolidated financial statements as a whole.

Board of Directors
Cameron Memorial Community Hospital Inc.
Angola, Indiana

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 on our consideration of the Hospital's internal control over financial reporting and on 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 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.

Blue & Co., LLC

Indianapolis, Indiana
December 20, 2013

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,413,601	\$ 3,398,162
Patient accounts receivable, less allowances for uncollectible accounts of \$2,697,000 in 2013 and \$2,260,000 in 2012	6,436,118	6,678,333
Other receivables	601,152	169,366
Inventory	880,562	933,543
Prepaid expenses	411,378	304,185
Notes receivable, current portion	160,226	102,852
Total current assets	<u>14,903,037</u>	<u>11,586,441</u>
Assets whose use is limited		
Donor restricted	196,726	199,854
Held by trustee	31,676,377	354,800
Board designated for capital improvements	1,880,453	1,853,188
Total assets whose use is limited	<u>33,753,556</u>	<u>2,407,842</u>
Investments	14,770,139	15,628,463
Property and equipment, net	25,472,183	19,281,953
Other assets		
Deferred financing costs	730,921	58,708
Notes receivable, less current portion	409,572	285,456
Receivable from Cameron Hospital Foundation, Inc.	214,527	536,015
Total other assets	<u>1,355,020</u>	<u>880,179</u>
Total assets	<u>\$ 90,253,935</u>	<u>\$ 49,784,878</u>

See accompanying notes to consolidated financial statements.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2013 AND 2012

LIABILITIES AND NET ASSETS

	2013	2012
Current liabilities		
Accounts payable	\$ 1,409,073	\$ 1,355,697
Accrued wages and related liabilities	1,765,820	1,679,228
Accrued expenses and other liabilities	901,548	922,591
Estimated third-party settlements	2,527,258	311,105
Current portion of long-term debt	1,129,494	1,433,396
Total current liabilities	<u>7,733,193</u>	<u>5,702,017</u>
Long-term liabilities		
Long-term debt, less current portion	<u>47,101,932</u>	<u>14,354,313</u>
Total liabilities	54,835,125	20,056,330
Net assets		
Unrestricted	34,842,484	28,821,931
Temporarily restricted	<u>576,326</u>	<u>906,617</u>
Total net assets	<u>35,418,810</u>	<u>29,728,548</u>
Total liabilities and net assets	<u><u>\$ 90,253,935</u></u>	<u><u>\$ 49,784,878</u></u>

See accompanying notes to consolidated financial statements.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Unrestricted revenue, gains and other support		
Net patient service revenue	\$ 49,107,932	\$ 45,111,387
Less provision for bad debts	4,891,286	4,357,268
Net patient service revenue net of provision for bad debts	44,216,646	40,754,119
Other revenue	2,786,043	2,954,230
Net assets released from restrictions	8,872	8,066
Total unrestricted revenue, gains and other support	47,011,561	43,716,415
Expenses		
Salaries and wages	15,813,893	14,805,748
Employee benefits	5,032,891	6,155,390
Purchased services and professional fees	10,283,926	8,761,985
Supplies	3,903,849	3,246,707
Repair and maintenance	1,321,635	1,280,286
Utilities	633,641	630,732
Equipment rent	558,901	537,625
Insurance	361,640	398,524
Interest	305,316	399,374
Depreciation and amortization	2,505,313	2,904,774
Other	2,922,439	3,211,405
Total expenses	43,643,444	42,332,550
Operating income	3,368,117	1,383,865
Nonoperating income (expense)		
Investment income	1,718,854	1,963,700
Loss on bond defeasance	(58,707)	-0-
Contributions	-0-	48,978
Total nonoperating income (expense)	1,660,147	2,012,678
Excess of revenues over expenses	5,028,264	3,396,543
Other changes in net assets		
Net assets released from restrictions for property	992,289	5,025
Change in unrestricted net assets	6,020,553	3,401,568
Temporarily restricted net assets		
Contributions	670,801	231,849
Investment income	69	924
Net assets released from restrictions	(1,001,161)	(13,091)
Change in temporarily restricted net assets	(330,291)	219,682
Change in net assets	5,690,262	3,621,250
Net assets		
Beginning of year	29,728,548	26,107,298
End of year	\$ 35,418,810	\$ 29,728,548

See accompanying notes to consolidated financial statements.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Operating activities		
Change in net assets	\$ 5,690,262	\$ 3,621,250
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	2,505,313	2,904,774
Provision for bad debts	4,891,286	4,357,268
Loss on disposal of property and equipment	2,823	-0-
Realized and unrealized gain on investments	(1,352,584)	(1,676,793)
Loss on bond defeasance	58,707	-0-
Restricted contributions	(670,801)	(231,849)
Change in operating assets and liabilities		
Patient accounts receivable	(4,649,071)	(4,425,135)
Other receivables	(110,298)	121,306
Inventory and prepaid expenses	(54,212)	(127,625)
Notes receivable	(181,490)	(388,308)
Accounts payable, accrued wages and related liabilities	(1,896)	196,352
Accrued expenses and other liabilities	(21,043)	235,887
Estimated third-party settlements	2,216,153	150,690
Net cash flows from operating activities	8,323,149	4,737,817
Investing activities		
Proceeds from sale of investments	9,345,934	5,649,646
Purchase of investments	(38,480,740)	(6,856,458)
Purchase of property and equipment	(7,849,951)	(1,660,550)
Proceeds from disposal of property and equipment	150	-0-
Net cash flows from investing activities	(36,984,607)	(2,867,362)
Financing activities		
Restricted contributions	670,801	231,849
Payments on long-term debt	(15,002,078)	(1,559,030)
Payments for bond discount	(260,907)	-0-
Payments for deferred financing costs	(730,919)	-0-
Proceeds from issuance of long-term debt	47,000,000	-0-
Net cash from financing activities	31,676,897	(1,327,181)
Net change in cash and cash equivalents	3,015,439	543,274
Cash and cash equivalents		
Beginning of year	3,398,162	2,854,888
End of year	\$ 6,413,601	\$ 3,398,162
Supplemental disclosure of cash flows information		
Cash paid for interest net of amounts capitalized of \$691,000 in 2013 and \$205,000 in 2012	\$ 305,316	\$ 399,374
Property and equipment in accounts payable	\$ 141,864	\$ 219,329
Property and equipment acquired through capital leases	\$ 706,702	\$ 491,453

See accompanying notes to consolidated financial statements.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

1. ORGANIZATION

Nature of Operations

Cameron Memorial Community Hospital, Inc. (the Hospital), a not-for-profit organization, is a general acute care facility in Angola, Indiana with 25 licensed beds and associated ancillary service departments including outpatient services, home health care and an urgent care center. The Hospital provides health care services primarily in the northeast portion of Indiana. Expenses relate to the provision of medical care and related general and administrative costs.

Cameron Medical Outreach, Inc. (CMO), a not-for-profit organization, is a community outreach organization providing health care needs of indigent individuals, medically underserved areas and the community as a whole. CMO primarily earns revenue from rental and leasing arrangements. The Hospital is the sole member of CMO which began operations on October 1, 2007. CMO operates an assisted living facility and medical office buildings in Angola, Indiana.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Hospital and CMO. Intercompany transactions and balances have been eliminated in the consolidation.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period and could differ from actual results.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

New Accounting Pronouncements

Effective October 1, 2012, the Hospital adopted Accounting Standards Update (ASU) 2011-07, Healthcare Entities (Topic 954), "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Healthcare Entities," which requires certain healthcare entities to present the provision for bad debts relating to patient service revenue as a deduction from patient service revenue in the statements of operations and changes in net assets rather than as an operating expense. All periods presented have been reclassified to conform to this presentation. The Hospital's adoption of this standard had no net impact on its financial position, results of operations, or cash flows.

ASU 2011-07 also requires healthcare entities to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for uncollectible accounts. See the "Patient Accounts Receivable and Net Patient Service Revenue" and "Allowance for Uncollectible Accounts" sections of this note.

Cash and Cash Equivalents

The Hospital considers highly liquid investments available for operating purposes with an original maturity of 90 days or less to be cash and cash equivalents for the purposes of the consolidated statements of cash flows. 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 and 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 service revenue and the related accounts receivable are recorded at the time services to patients are performed. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. These estimated retroactive adjustments under reimbursement agreements are included with estimated third-party payor settlements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Allowance for Uncollectible Accounts

Patient accounts receivable are reduced by an allowance for uncollectible accounts based on the Hospital's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to its service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary. For receivables associated with self-pay payments, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

During 2013, the Hospital's allowance for uncollectible accounts for patient services increased approximately \$437,000 from \$2,260,000 to \$2,697,000. The uncollectible allowance for self-pay balances increased approximately \$535,000 as the uncollectible estimate increased to 53% of self-pay balances at September 30, 2013 from 48% at September 30, 2012. The uncollectible allowance for third-party payor accounts decreased approximately \$98,000 as the uncollectible estimate was approximately 2% of third-party payor balances at September 30, 2013 and 2012. The changes are mainly based on the overall increase in self-pay patient accounts receivable and the Hospital's collection experience during 2013.

In addition, the Hospital's write-offs related primarily to self-pay decreased by approximately \$208,000 to approximately \$4,454,000 in 2013 from \$4,662,000 in 2012. The decrease was the result of trends experienced in the collection of amounts from self-pay and self-pay after third-party insurance patients during 2013. Furthermore, the Hospital enhanced its charity care policy during 2013 to adapt to economic conditions within the community.

As of September 30, 2013, the allowance for uncollectible accounts of approximately \$2,697,000 was comprised of \$2,534,000 reserved for self-pay balances and \$163,000 reserved for third-party payor balances. As of September 30, 2012, the allowance for uncollectible accounts of approximately \$2,260,000 was comprised of \$1,999,000 reserved for self-pay balances and \$261,000 reserved for third-party payor balances.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Estimated Third-Party Settlements

Estimated third-party settlements for the Medicare and Medicaid programs reflect the differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year, and any differences owed to or by the Hospital after such reports have been audited. As of September 30, 2013, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through September 30, 2009.

Changes to any previous year's estimated settlement are reflected in the period the intermediary finalizes its audit of cost reports, or when additional information becomes available. During 2013 and 2012, the Hospital did not recognize a change in net assets due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

Inventory

Inventory consists mainly of pharmaceuticals and medical supplies and is stated at the lower of cost, determined using the first-in, first-out (FIFO) method, or market.

Assets Limited as to Use

Assets limited as to use include: (1) assets restricted by donors, (2) assets held by trustees under bond indenture agreements and (3) assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Investments and Investment Income

Investments in equity securities, having a readily determinable fair value, and all debt securities are carried at fair value. The Hospital has classified all of its investments in debt and equity securities as trading securities. Investment return includes dividend, interest and other investment income, and realized and unrealized gains and losses on investments carried at fair value. Investment income that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment income is reflected in the consolidated statements of operations and changes in net assets as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Property and Equipment

Property and equipment other than that received by donation, are reported at cost and depreciated on a straight-line basis 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 estimated useful lives are as follows:

	<u>Estimated Useful Lives</u>
Buildings and building improvements	5-50 years
Fixed equipment	3-20 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service. Temporarily restricted net assets include property and equipment with a net book value of approximately \$165,000 and \$170,000 as of September 30, 2013 and 2012, respectively.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred at September 30 was:

	<u>2013</u>	<u>2012</u>
Total interest incurred	\$ 995,899	\$ 604,011
Less net interest cost capitalized	<u>690,583</u>	<u>204,637</u>
Total interest expense	<u>\$ 305,316</u>	<u>\$ 399,374</u>

Deferred Financing Costs and Original Issue Discounts

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are amortized over the term of the respective debt. The discounts incurred in issuing the debt are classified with long-term debt and are amortized using the effective-interest method over the respective term of the bond issues.

Notes Receivable

During 2013 and 2012, the Hospital extended credit in the form of notes receivable for patient service accounts where the patient established a long-term payment plan with the Hospital through a third-party collection agency. Notes receivable are for a period of up to five years, are interest free, unsecured and require monthly payments. The credit quality indicator is performance determined by delinquency status. Delinquency status is updated monthly. All notes receivable are considered performing.

Notes receivable are carried at their estimated collectible amounts and are periodically evaluated based on historical collections and current financial conditions. An estimated allowance for uncollectible amounts is established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of note recipients to repay the amounts due in accordance with the terms of the note agreements. The Hospital determines the estimated allowance for uncollectible amounts on notes receivable first by performing an evaluation of the individual notes and second by analyzing the overall performance of the aggregate notes receivable portfolio balance outstanding. After two missed payments, the notes receivable are charged against the allowance and remitted to a third-party collection agency. The evaluation of the collectability of notes receivable involves the use of significant estimates and assumptions. It is at least reasonably possible that management's estimate of uncollectible notes receivable will change in the near term.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

As of September 30, 2013 and 2012, notes receivables approximated \$570,000 and \$388,000, respectively. At September 30, 2013 and 2012, the current portion of notes receivables approximated \$160,000 and \$103,000, respectively, with the remaining portion reported as long-term. The notes receivable are net of provisions made by the Hospital for amounts estimated to be uncollectible of approximately \$246,000 and \$166,000 as of September 30, 2013 and 2012, respectively.

Temporarily Restricted Net Assets

Restricted net assets, the use of which is restricted by donors or grantors, are used to differentiate from unrestricted net assets on which donors or grantors place no restrictions or that arise as a result of the operations of the Hospital for its stated purposes. Restricted gifts and other restricted resources are recorded as additions to the appropriate restricted net assets at fair market value at the date of donation.

Resources restricted by donors for property and equipment replacement or expansion are added to unrestricted net assets to the extent expended within the period. Temporarily restricted net assets include property and equipment with a net book value of approximately \$165,000 and \$170,000 as of September 30, 2013 and 2012, respectively.

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. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue.

The Hospital's patient assistance policy reflects the current economic conditions and other factors unique to the Hospital's customer base. Patient assistance provided during 2013 and 2012, measured at established rates, was approximately \$1,616,000 and \$1,048,000, respectively. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The Hospital receives reimbursements from certain governmental payors to assist in the funding of patient assistance.

Of the Hospital's total expenses reported (approximately \$43,643,000 and \$42,333,000 during 2013 and 2012, respectively), an estimated \$761,000 and \$551,000 arose from providing services to charity patients during 2013 and 2012, respectively. The estimated costs of providing patient assistance 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 total expenses divided by gross patient service revenue.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair values at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Receipts of contributions which are conditional are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Income Taxes

The Hospital and CMO are not-for-profit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. As such, the Hospital and CMO are generally exempt from income taxes. However, the Hospital and CMO are required to file Federal Form 990 – Return of Organizations 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 CMO and recognize a tax liability if the Hospital or CMO have 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 CMO, and has concluded that as of September 30, 2013 and 2012, 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. The Hospital and CMO are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Hospital and CMO have filed their federal and state income tax returns for periods through September 30, 2012. 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).

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

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 30). 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. For Critical Access Hospitals, the payment calculation is based upon the net book value of the qualifying assets multiplied by the Medicare utilization using Medicare to total inpatient days plus 20%, not to exceed 100%. The total days are multiplied by a factor of total charges excluding charity care to total charges. Critical Access Hospitals can be reimbursed over a four year period for additional qualifying assets not claimed in the first year. The transitional factor ranges from 100% in the first payment year and decreases by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the consolidated financial statement effects of the grants must be both recognizable and measurable. During 2013 and 2012, the Hospital recognized approximately \$423,000 and \$460,000, respectively, in EHR incentive payments as grant income 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 revenue in the consolidated statements of operations and changes in net assets. 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 program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include a performance indicator, excess of revenues over expenses. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue, gains, support, and expenses. Transactions incidental to the provision of patient care services are reported as nonoperating income and expense. Changes in unrestricted net assets which are excluded from the performance indicator consistent with industry practice, include unrealized gains and losses on investments in other-than-trading securities and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets).

Reclassifications

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation. These reclassifications had no impact on net assets and changes in net assets for 2012, as previously reported.

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is December 20, 2013.

3. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). In February 2003, the Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. 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.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Medicaid and 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, Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by Centers for Medicare & Medicaid Services (CMS) retroactive to July 1, 2011. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana hospitals as reflected in the HAF Program expense reported in the consolidated statements of operations and changes in net assets. Previously, the State share was funded by governmental entities through intergovernmental transfers. 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 2013 and 2012, the Hospital recognized HAF Program expense of approximately \$966,000 and \$1,249,000, respectively, which resulted in increased Medicaid reimbursement of approximately \$1,660,000 and \$2,130,000, respectively. The HAF Program expense is included in other expenses and the associated increase in Medicaid reimbursement is included in net patient service revenue on the consolidated statements of operations and changes in net assets. The HAF Program is currently pending approval by CMS for extension through June 30, 2017.

Other Payment Arrangements

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

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

A summary of net patient service revenue, contractual adjustments, and patient service revenue forgone for patient assistance, at standard charges, for 2013 and 2012 follows:

	2013	2012
Gross patient service revenue		
Routine services	\$ 5,456,206	\$ 4,261,285
Inpatient services	11,524,141	7,994,656
Outpatient services	75,704,246	68,309,195
Total gross patient service revenue	92,684,593	80,565,136
Less deductions from revenue		
Charity care	1,615,733	1,048,149
Contractual allowances	41,960,928	34,405,600
Total deductions from revenue	43,576,661	35,453,749
Net patient service revenue	49,107,932	45,111,387
Less provision for bad debts	4,891,286	4,357,268
Net patient service revenue net of provision for bad debts	\$ 44,216,646	\$ 40,754,119

4. CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are area residents and are insured under third-party payer agreements. The mix of receivables and revenue from patients and third-party payers at September 30 was:

	Receivables		Revenues	
	2013	2012	2013	2012
Medicare	28%	28%	29%	29%
Medicaid	8%	8%	11%	11%
Blue Cross	9%	10%	19%	20%
Other third-party payors	16%	18%	32%	31%
Self pay	39%	36%	9%	9%
	100%	100%	100%	100%

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

5. INVESTMENTS AND INVESTMENT INCOME

Assets Whose Use is Limited

Assets limited as to use at September 30 include:

	<u>2013</u>	<u>2012</u>
Donor restricted		
Cash and cash equivalents	\$ 196,726	\$ 199,854
Held by trustee		
Cash and cash equivalents	31,676,377	354,800
Board designated for capital improvements		
Mutual funds	1,880,453	1,853,188
Total assets whose use is limited	<u>\$ 33,753,556</u>	<u>\$ 2,407,842</u>

Long-term Investments

Long-term investments at September 30 include:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 224,600	\$ 2,378,997
Mutual funds	14,545,539	13,249,466
	<u>\$ 14,770,139</u>	<u>\$ 15,628,463</u>

Total investment income is comprised of the following:

	<u>2013</u>	<u>2012</u>
Interest and dividend income (net of fees of \$15,482 during 2013 and \$13,128 during 2012)	\$ 366,339	\$ 287,831
Realized gain on investments	742,287	66,621
Unrealized gain on investments	610,297	1,610,172
Total investment income	<u>\$ 1,718,923</u>	<u>\$ 1,964,624</u>

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Total investment income is reflected in the consolidated statements of operations and changes in net assets as follows:

	<u>2013</u>	<u>2012</u>
Unrestricted net assets	\$ 1,718,854	\$ 1,963,700
Temporarily restricted net assets	69	924
	<u>\$ 1,718,923</u>	<u>\$ 1,964,624</u>

6. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

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 September 30, 2013 and 2012:

- *Money market 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 the 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 measured at fair value on a recurring basis as of September 30, 2013 and 2012:

	September 30, 2013			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Cash and cash equivalents				
Money market funds	\$ 31,873,103	\$ -0-	\$ 31,873,103	\$ -0-
Mutual funds - fixed income	1,880,453	1,880,453	-0-	-0-
	<u>\$ 33,753,556</u>	<u>\$ 1,880,453</u>	<u>\$ 31,873,103</u>	<u>\$ -0-</u>
Investments				
Cash and cash equivalents				
Money market funds	\$ 224,600	\$ -0-	\$ 224,600	\$ -0-
Mutual funds				
Mid growth funds	720,139	720,139	-0-	-0-
Large growth funds	4,247,236	4,247,236	-0-	-0-
Large blend funds	4,547,204	4,547,204	-0-	-0-
Large value funds	650,101	650,101	-0-	-0-
Fixed income funds	4,380,859	4,380,859	-0-	-0-
Total mutual funds	<u>14,545,539</u>	<u>14,545,539</u>	<u>-0-</u>	<u>-0-</u>
	<u>\$ 14,770,139</u>	<u>\$ 14,545,539</u>	<u>\$ 224,600</u>	<u>\$ -0-</u>

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

	September 30, 2012			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Cash and cash equivalents				
Money market funds	\$ 554,654	\$ -0-	\$ 554,654	\$ -0-
Mutual funds - fixed income	1,853,188	1,853,188	-0-	-0-
	<u>\$ 2,407,842</u>	<u>\$ 1,853,188</u>	<u>\$ 554,654</u>	<u>\$ -0-</u>
Investments				
Cash and cash equivalents				
Money market funds	\$ 2,378,997	\$ -0-	\$ 2,378,997	\$ -0-
Mutual funds				
Mid growth funds	569,503	569,503	-0-	-0-
Large growth funds	3,457,345	3,457,345	-0-	-0-
Large blend funds	3,785,220	3,785,220	-0-	-0-
Large value funds	546,959	546,959	-0-	-0-
Fixed income funds	4,890,439	4,890,439	-0-	-0-
Total mutual funds	<u>13,249,466</u>	<u>13,249,466</u>	<u>-0-</u>	<u>-0-</u>
	<u>\$ 15,628,463</u>	<u>\$ 13,249,466</u>	<u>\$ 2,378,997</u>	<u>\$ -0-</u>

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2013 and 2012.

Realized gains and losses are reported in the consolidated statements of operations and changes in net assets as a component of investment income. Realized gains of approximately \$742,000 and \$67,000 were recorded during 2013 and 2012, respectively.

The market value of investments exceeded the cost by approximately \$620,000 and \$10,000 as of September 30, 2013 and 2012, respectively. The unrealized gains and losses are included in earnings for the period attributable to the change in unrealized gains and losses relating to assets held as of September 30, 2013 and 2012, and are reported in the consolidated statements of operations and changes in net assets as unrealized gain on trading securities. During 2013 and 2012, the Hospital recognized unrealized gains of approximately \$610,000 and \$1,610,000, respectively.

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.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

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

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

Long-term debt: Fair value of the Hospital's long-term debt, based on current quoted market value of similar debt instruments, has an approximate fair value of \$45,780,000 as of September 30, 2013.

7. PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost, and at September 30 consist of:

	2013	2012
Land	\$ 750,190	\$ 750,190
Land held for expansion	2,869,945	2,869,945
Buildings and building improvements	21,006,422	20,978,037
Fixed equipment	17,548,417	16,387,205
	<u>42,174,974</u>	<u>40,985,377</u>
Less accumulated depreciation	28,378,607	26,149,452
	<u>13,796,367</u>	<u>14,835,925</u>
Construction in progress	11,675,816	4,446,028
	<u>\$ 25,472,183</u>	<u>\$ 19,281,953</u>

Construction in progress as of September 30, 2013 relates to the construction of the new Hospital. The estimated cost to complete this project as of September 30, 2013 is approximately \$38,656,000, of which \$38,206,000 has been contractually committed.

8. LINE OF CREDIT

The Hospital has a \$2,000,000 revolving bank line of credit expiring in April 2014. At September 30, 2013 and 2012, there were no borrowings against this line. The line is unsecured. Interest varies with the bank's prime rate and is payable monthly. In connection with the line of credit, the entities are required to meet certain covenant requirements.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

9. LONG-TERM DEBT

The Hospital's long-term debt at September 30 consists of the following:

	2013	2012
Indiana Finance Authority Health Facility Revenue Bonds, Series 2009A, dated December 29, 2009 3.08%, payable in monthly installments of \$47,860 including interest, refinanced during 2013	\$ -0-	\$ 9,237,884
Indiana Finance Authority Health Facility Revenue Bonds, Series 2009B, dated December 29, 2009, 3.25%, payable in monthly installments of \$23,225 including interest, refinanced during 2013	-0-	4,409,353
Indiana Finance Authority Health Facility Revenue Bonds, Series 2013A, dated February 6, 2013, fixed interest of 2.20%, interest only payable in semi-annual installments until 2016, due in 2016	37,000,000	-0-
Indiana Finance Authority Health Facility Revenue Bonds, Series 2013B, dated February 6, 2013 variable interest rate, 3.25% as of September 30, 2013, interest only payable in semi-annual installments until 2017, principal and interest payable in semi-annual installments beginning 2017, due 2041	1,000,000	-0-
Indiana Finance Authority Health Facility Revenue Bonds, Series 2013C, dated February 6, 2013 variable interest rate, 3.25% as of September 30, 2013, interest only payable in semi-annual installments until 2017, principal and interest payable in semi-annual installments beginning 2017, due 2041	9,000,000	-0-
Various capital lease obligations, imputed interest rates ranging from 4.05% to 8.69%, expiring through 2017, collateralized by equipment	1,492,333	2,140,472
	48,492,333	15,787,709
Less unamortized bond discount	260,907	-0-
Less current portion	1,129,494	1,433,396
	\$ 47,101,932	\$ 14,354,313

In February 2013, the Hospital, through the Indiana Finance Authority (the Authority), issued the Series 2013A Bond Anticipation Notes (BANs) for \$37,000,000, the Series 2013B Bonds for \$1,000,000 and the Series 2013C Bonds for \$9,000,000 for construction of the replacement Hospital facility (the Project) and to refinance the Series 2009A and 2009B Bonds. The refinancing of the Series 2009A and 2009B Bonds resulted in a loss on bond defeasance of approximately \$59,000 in 2013.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

The Series 2013A BANs require interest only payments at 2.20% during construction and mature February 1, 2016. It is anticipated the Series 2013A BANs will be redeemed at or prior to the maturity date through the issuance of a United States Department of Agriculture (USDA) Direct Loan to be issued upon the completion of the Project. The USDA Direct Loan will have a term of 40 years at a fixed rate of 3.375%.

In conjunction with the issuance of the Series 2013A BANs, the Hospital, through the Authority, issued the Series 2013B Bonds and the Series 2013C Bonds, which were purchased by The Farmers & Merchants State Bank (Farmers & Merchants). Farmers & Merchants has agreed to hold the Series 2013B Bonds through the stated maturity date of February 1, 2041. Farmers & Merchants has agreed to hold the Series 2013C Bonds until at least February 1, 2026. Farmers & Merchants has the option to tender the Series 2013C Bonds on February 1, 2026, by giving not less than 120 days' notice of its exercise of such option prior to such date. The Series 2013C Bonds mature on February 1, 2041.

The Series 2013B Bonds and the Series 2013C Bonds bear interest: (i) prior to completion of the Project at the Farmers & Merchants' prime rate index (3.25% as of September 30, 2013), not to exceed a cap of 4.5% per annum, and (ii) following completion of the Project, at the Farmers & Merchants' prime rate index plus .25%, not to exceed a cap of 5.5% per annum. The Series 2013B and 2013C Bonds require interest only payments during the anticipated construction period. The Hospital and Farmers & Merchants anticipate that the USDA will issue a guarantee of the loan represented by the Series 2013C Bonds, upon completion of the Project.

The Hospital granted a security interest in its revenues and a mortgage on substantially all of its real property in order to secure obligations issued under the Master Trust Indenture among the Hospital and the Master Trustee. The Series 2013A BANs and the Series 2013B and 2013C Bonds are all secured on parity pursuant to notes issued under the Master Trust Indenture. In addition to various financial covenants, the Hospital has covenanted in the Master Trust Indenture that it will not permit any lien or security interest on the Hospital's property and equipment other than certain permitted encumbrances. The Hospital believes it was in compliance with the financial covenants as of September 30, 2013.

Property and equipment include the following property under capital leases:

	2013	2012
Equipment	\$ 6,812,451	\$ 5,764,610
Less accumulated depreciation	5,435,448	4,260,471
	<u>\$ 1,377,003</u>	<u>1,504,139</u>

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

For the following maturities disclosure, the scheduled maturities of the Series 2013A BANs have been replaced with the scheduled maturities of the USDA Direct Loan beginning in 2016. The aggregate annual maturities of long-term debt at September 30, 2013 are as follows:

Year Ending September 30,	
2014	\$ 1,129,494
2015	275,691
2016	987,359
2017	1,143,219
2018	1,129,230
Thereafter	43,827,340
	<u>\$ 48,492,333</u>

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30 are available for the following purpose:

	<u>2013</u>	<u>2012</u>
Health care services		
Magnetic Resonance Imaging housing addition	\$ 165,073	\$ 170,748
Home health care	196,726	199,854
	<u>361,799</u>	<u>370,602</u>
Funds for expansion, receivable due from Cameron Hospital Foundation, Inc.	214,527	536,015
	<u>\$ 576,326</u>	<u>\$ 906,617</u>

During 2013 and 2012, net assets were released from donor restrictions by incurring expenses or satisfying the restricted purposes of approximately of \$1,001,000 and \$13,000, respectively.

11. OPERATING LEASES

Noncancelable operating leases for certain diagnostic equipment and computer software and hardware expire in various years through 2018. Rental payments include minimum rentals, plus contingent rentals based on the number of procedures performed using the equipment.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Future minimum lease payments at September 30, 2013, were:

<u>Year Ending September 30,</u>	
2014	\$ 459,482
2015	185,064
2016	95,820
2017	43,253
2018	10,032
	<u>\$ 793,651</u>

Rental expense for all operating leases for 2013 and 2012 was approximately \$559,000 and \$538,000, respectively.

The Hospital and CMO own a medical office building and an oncology facility adjacent to the Hospital facility, along with an assisted living facility. The medical office building and equipment are included in property and equipment, with a cost of approximately \$1,564,000 and accumulated depreciation of \$1,564,000 at September 30, 2013 and 2012. The oncology facility is included in property and equipment with a cost of approximately \$1,347,000 and \$1,297,000 and accumulated depreciation of \$447,000 and \$381,000 at September 30, 2013 and 2012, respectively. The assisted living facility is also included in property and equipment, with a cost of approximately \$4,795,000 and \$4,791,000 and accumulated depreciation of \$1,669,000 and \$1,537,000 at September 30, 2013 and 2012, respectively. The entities lease space in the medical office building and a portion of the oncology facility to physicians and tenants under various operating leases, with terms of three years with three-year renewal options. The entities also operate an assisted living facility which leases apartments under cancellable month-to-month lease terms. Rental income under the term of these leases is included in other revenue and was approximately \$1,808,000 and \$1,873,000 in 2013 and 2012, respectively.

Future minimum lease payments to be received at September 30, 2013, were:

<u>Year Ending September 30,</u>	
2014	\$ 42,233
2015	35,470
2016	36,776
	<u>\$ 114,479</u>

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

12. PENSION PLAN

The Hospital has a defined contribution pension plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was approximately \$473,000 and \$495,000 for 2013 and 2012, respectively.

13. MEDICAL MALPRACTICE

The Hospital and CMO participate in the Indiana Medical Malpractice Act which limits the maximum recovery for qualified medical malpractice claims to \$1,250,000 per occurrence, the first \$250,000 of which would be the responsibility of the entities, with the balance paid by the state of Indiana Patient Compensation Fund. 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 claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

14. SELF-INSURED EMPLOYEE HEALTH CLAIMS

The Hospital's employee health care insurance is provided through a combination of self-insurance and purchased re-insurance coverage from a commercial carrier. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. The specific annual attachment point for an individual is \$100,000 with a policy period maximum of \$2,000,000. The aggregate stop loss as of September 30, 2013 was approximately \$4,100,000. Total expense was approximately \$3,224,000 during 2013 and \$4,393,000 during 2012, respectively.

The liability for employee health claims represents management's estimate of all incurred and reported claims plus estimated incurred but not reported claims based on the Hospital's reporting system. The carrying amount of the liability was approximately \$350,000 and \$700,000 as of September 30, 2013 and 2012, respectively. The liability is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. It is reasonably possible that the Hospital's estimate of losses will change by a material amount in the near term.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

15. FUNCTIONAL EXPENSES

The Hospital and CMO provide general health care services to residents within their geographic location including pediatric care, cardiac intensive care and outpatient surgery. Expenses related to providing these services are as follows:

	<u>2013</u>	<u>2012</u>
Health care services	\$ 37,096,927	\$ 35,982,667
General and administrative	6,546,517	6,349,883
	<u>\$ 43,643,444</u>	<u>\$ 42,332,550</u>

Certain costs have been allocated among health care services and general and administrative categories based on the actual direct expenditures and cost allocations based upon time spent by the Hospital's personnel. Although the methods used were appropriate, alternative methods may provide different results.

16. RELATED PARTY TRANSACTIONS

The Hospital and Cameron Hospital Foundation, Inc. (Foundation) are related parties that are not financially interrelated organizations. The Foundation was established to solicit contributions from the general public and to help support community and health care related educational events. In the absence of donor restrictions, funds are distributed as determined by the Foundation's Board of Directors, which are separately appointed from that of the Hospital. The Hospital provides accounting and financial management services to the Foundation and billed the Foundation \$20,000 and \$16,000 during 2013 and 2012, respectively. Excluding capital campaign contributions, the Foundation contributed approximately \$40,000 and \$49,000 to the Hospital in fiscal years 2013 and 2012, respectively.

The Foundation is conducting a capital campaign for the construction of the new Hospital facility where all funds collected are raised specifically for the Hospital's capital campaign. As a result, the Hospital recorded a receivable from the Foundation for approximately \$215,000 and \$536,000 at September 30, 2013 and 2012, respectively. The Foundation made capital contributions to the Hospital of approximately \$650,000 and \$230,000 during 2013 and 2012, respectively. There were no significant intercompany payables at September 30, 2013 and 2012.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

17. COMMITMENTS AND CONTINGENCIES

Regulatory Investigations

The U.S. Department of Justice, the Internal Revenue Service, and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The Hospital is subject to these regulatory efforts. Management believes that any liability resulting from these matters will not have a material impact on the financial position, results of operations or cash flows of the Hospital.

Legal Matters

The Hospital is involved in various legal actions in the normal course of its operations. Management believes that any liability resulting from these matters will not have a material impact on the financial position, results of operations or cash flows of the Hospital.

SUPPLEMENTARY INFORMATION

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATING BALANCE SHEETS SEPTEMBER 30, 2013

	Cameron Memorial Community Hospital, Inc.	Cameron Medical Outreach, Inc.	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 5,189,524	\$ 1,224,077	\$ -0-	\$ 6,413,601
Patient accounts receivable, net	6,436,118	-0-	-0-	6,436,118
Other receivables	946,713	336,553	(682,114)	601,152
Inventory	880,562	-0-	-0-	880,562
Prepaid expenses	411,378	-0-	-0-	411,378
Notes receivable, current portion	160,226	-0-	-0-	160,226
Total current assets	<u>14,024,521</u>	<u>1,560,630</u>	<u>(682,114)</u>	<u>14,903,037</u>
Assets whose use is limited				
Donor restricted	196,726	-0-	-0-	196,726
Held by trustee	31,676,377	-0-	-0-	31,676,377
Board designated for capital improvements	1,880,453	-0-	-0-	1,880,453
Total assets whose use is limited	<u>33,753,556</u>	<u>-0-</u>	<u>-0-</u>	<u>33,753,556</u>
Investments	18,099,160	-0-	(3,329,021)	14,770,139
Property and equipment, net	22,333,883	3,138,300	-0-	25,472,183
Other assets				
Deferred financing costs	730,921	-0-	-0-	730,921
Notes receivable, less current portion	409,572	-0-	-0-	409,572
Receivable from Cameron Hospital Foundation, Inc.	214,527	-0-	-0-	214,527
Total other assets	<u>1,355,020</u>	<u>-0-</u>	<u>-0-</u>	<u>1,355,020</u>
Total assets	<u>\$ 89,566,140</u>	<u>\$ 4,698,930</u>	<u>\$ (4,011,135)</u>	<u>\$ 90,253,935</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 1,742,961	\$ 348,226	\$ (682,114)	\$ 1,409,073
Accrued wages and related liabilities	1,765,820	-0-	-0-	1,765,820
Accrued expenses and other liabilities	901,548	-0-	-0-	901,548
Estimated third-party settlements	2,527,258	-0-	-0-	2,527,258
Current portion of long-term debt	1,129,494	-0-	-0-	1,129,494
Total current liabilities	<u>8,067,081</u>	<u>348,226</u>	<u>(682,114)</u>	<u>7,733,193</u>
Long-term liabilities				
Long-term debt, less current portion	47,101,932	-0-	-0-	47,101,932
Total liabilities	<u>55,169,013</u>	<u>348,226</u>	<u>(682,114)</u>	<u>54,835,125</u>
Net assets				
Unrestricted	33,820,801	4,350,704	(3,329,021)	34,842,484
Temporarily restricted	576,326	-0-	-0-	576,326
Total net assets	<u>34,397,127</u>	<u>4,350,704</u>	<u>(3,329,021)</u>	<u>35,418,810</u>
Total liabilities and net assets	<u>\$ 89,566,140</u>	<u>\$ 4,698,930</u>	<u>\$ (4,011,135)</u>	<u>\$ 90,253,935</u>

See Report of Independent Auditors on Pages 1 - 3.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATING BALANCE SHEETS SEPTEMBER 30, 2012

	Cameron Memorial Community Hospital, Inc.	Cameron Medical Outreach, Inc.	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,486,769	\$ 911,393	\$ -0-	\$ 3,398,162
Patient accounts receivable, net	6,678,333	-0-	-0-	6,678,333
Other receivables	642,915	337,622	(811,171)	169,366
Inventory	933,543	-0-	-0-	933,543
Prepaid expenses	102,852	-0-	-0-	102,852
Notes receivable, current portion	304,185	-0-	-0-	304,185
Total current assets	<u>11,148,597</u>	<u>1,249,015</u>	<u>(811,171)</u>	<u>11,586,441</u>
Assets whose use is limited				
Donor restricted	199,854	-0-	-0-	199,854
Held by trustee	354,800	-0-	-0-	354,800
Board designated for capital improvements	1,853,188	-0-	-0-	1,853,188
Total assets whose use is limited	<u>2,407,842</u>	<u>-0-</u>	<u>-0-</u>	<u>2,407,842</u>
Investments	18,941,561	-0-	(3,313,098)	15,628,463
Property and equipment, net	16,027,574	3,254,379	-0-	19,281,953
Other assets				
Deferred financing costs	58,708	-0-	-0-	58,708
Notes receivable, less current portion	285,456	-0-	-0-	285,456
Receivable from Cameron Hospital Foundation, Inc.	536,015	-0-	-0-	536,015
Total other assets	<u>880,179</u>	<u>-0-</u>	<u>-0-</u>	<u>880,179</u>
Total assets	<u>\$ 49,405,753</u>	<u>\$ 4,503,394</u>	<u>\$ (4,124,269)</u>	<u>\$ 49,784,878</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 1,689,585	\$ 477,283	\$ (811,171)	\$ 1,355,697
Accrued wages and related liabilities	1,679,228	-0-	-0-	1,679,228
Accrued expenses and other liabilities	922,591	-0-	-0-	922,591
Estimated third-party settlements	311,105	-0-	-0-	311,105
Current portion of long-term debt	1,433,396	-0-	-0-	1,433,396
Total current liabilities	<u>6,035,905</u>	<u>477,283</u>	<u>(811,171)</u>	<u>5,702,017</u>
Long-term liabilities				
Long-term debt, less current portion	14,354,313	-0-	-0-	14,354,313
Total liabilities	<u>20,390,218</u>	<u>477,283</u>	<u>(811,171)</u>	<u>20,056,330</u>
Net assets				
Unrestricted	28,108,918	4,026,111	(3,313,098)	28,821,931
Temporarily restricted	906,617	-0-	-0-	906,617
Total net assets	<u>29,015,535</u>	<u>4,026,111</u>	<u>(3,313,098)</u>	<u>29,728,548</u>
Total liabilities and net assets	<u>\$ 49,405,753</u>	<u>\$ 4,503,394</u>	<u>\$ (4,124,269)</u>	<u>\$ 49,784,878</u>

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED SEPTEMBER 30, 2013

	Cameron Memorial Community Hospital, Inc.	Cameron Medical Outreach, Inc.	Eliminations	Total
Unrestricted revenue, gains and other support				
Net patient service revenue	\$49,107,932	\$ -0-	\$ -0-	\$49,107,932
Less provision for bad debts	4,891,286	-0-	-0-	4,891,286
Net patient service revenue net of provision for bad debts	44,216,646	-0-	-0-	44,216,646
Other revenue	1,268,590	1,854,006	(336,553)	2,786,043
Net assets released from restrictions	8,872	-0-	-0-	8,872
Total revenue, gains and other support	45,494,108	1,854,006	(336,553)	47,011,561
Expenses				
Salaries and wages	15,232,244	581,649	-0-	15,813,893
Employee benefits	5,032,891	-0-	-0-	5,032,891
Purchased services and professional fees	10,231,767	52,159	-0-	10,283,926
Supplies	3,903,849	-0-	-0-	3,903,849
Repair and maintenance	1,275,835	45,800	-0-	1,321,635
Utilities	513,687	119,954	-0-	633,641
Equipment rent	887,234	8,220	(336,553)	558,901
Insurance	361,640	-0-	-0-	361,640
Interest	305,316	-0-	-0-	305,316
Depreciation and amortization	2,373,312	132,001	-0-	2,505,313
Other	2,316,886	605,553	-0-	2,922,439
Total expenses	42,434,661	1,545,336	(336,553)	43,643,444
Operating income	3,059,447	308,670	-0-	3,368,117
Nonoperating income (expense)				
Investment income	1,718,854	-0-	-0-	1,718,854
Loss on bond defeasance	(58,707)	-0-	-0-	(58,707)
Total nonoperating income (expense)	1,660,147	-0-	-0-	1,660,147
Excess of revenues over expenses	4,719,594	308,670	-0-	5,028,264
Other changes in net assets				
Net assets released from restrictions for property	992,289	-0-	-0-	992,289
Change in unrestricted net assets	5,711,883	308,670	-0-	6,020,553
Temporarily restricted net assets				
Contributions	670,801	-0-	-0-	670,801
Investment income	69	-0-	-0-	69
Net assets released from restrictions	(1,001,161)	-0-	-0-	(1,001,161)
Change in temporarily restricted net assets	(330,291)	-0-	-0-	(330,291)
Transfers				
	-0-	15,923	(15,923)	-0-
Change in net assets	5,381,592	324,593	(15,923)	5,690,262
Net assets				
Beginning of year	29,015,535	4,026,111	(3,313,098)	29,728,548
End of year	<u>\$34,397,127</u>	<u>\$ 4,350,704</u>	<u>\$ (3,329,021)</u>	<u>\$35,418,810</u>

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED SEPTEMBER 30, 2012

	Cameron Memorial Community Hospital, Inc.	Cameron Medical Outreach, Inc.	Eliminations	Total
Unrestricted revenue, gains and other support				
Net patient service revenue	\$45,111,387	\$ -0-	\$ -0-	\$45,111,387
Less provision for bad debts	4,357,268	-0-	-0-	4,357,268
Net patient service revenue net of provision for bad debts	40,754,119	-0-	-0-	40,754,119
Other revenue	1,391,415	1,900,437	(337,622)	2,954,230
Net assets released from restrictions	8,066	-0-	-0-	8,066
Total revenue, gains and other support	42,153,600	1,900,437	(337,622)	43,716,415
Expenses				
Salaries and wages	14,238,247	567,501	-0-	14,805,748
Employee benefits	6,155,390	-0-	-0-	6,155,390
Purchased services and professional fees	8,720,778	41,207	-0-	8,761,985
Supplies	3,246,707	-0-	-0-	3,246,707
Repair and maintenance	1,244,739	35,547	-0-	1,280,286
Utilities	512,496	118,236	-0-	630,732
Equipment rent	865,424	9,823	(337,622)	537,625
Insurance	398,524	-0-	-0-	398,524
Interest	399,374	-0-	-0-	399,374
Depreciation and amortization	2,776,400	128,374	-0-	2,904,774
Other	2,582,248	629,157	-0-	3,211,405
Total expenses	41,140,327	1,529,845	(337,622)	42,332,550
Operating income	1,013,273	370,592	-0-	1,383,865
Nonoperating income (expense)				
Investment income	1,963,700	-0-	-0-	1,963,700
Contributions	48,978	-0-	-0-	48,978
Total nonoperating income (expense)	2,012,678	-0-	-0-	2,012,678
Excess of revenues over expenses	3,025,951	370,592	-0-	3,396,543
Other changes in net assets				
Net assets released from restrictions for property	5,025	-0-	-0-	5,025
Change in unrestricted net assets	3,030,976	370,592	-0-	3,401,568
Temporarily restricted net assets				
Contributions	231,849	-0-	-0-	231,849
Investment income	924	-0-	-0-	924
Net assets released from restrictions	(13,091)	-0-	-0-	(13,091)
Change in temporarily restricted net assets	219,682	-0-	-0-	219,682
Transfers	-0-	(190,601)	190,601	-0-
Change in net assets	3,250,658	179,991	190,601	3,621,250
Net assets				
Beginning of year	25,764,877	3,846,120	(3,503,699)	26,107,298
End of year	<u>\$29,015,535</u>	<u>\$ 4,026,111</u>	<u>\$ (3,313,098)</u>	<u>\$29,728,548</u>

See Report of Independent Auditors on Pages 1 - 3.

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2013

<u>Program</u>	<u>Grant ID #</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Major program			
United States Department of Agriculture Community Facilities Loans and Grants	N/A	10.766	\$ 6,224,598
Non-major program			
Department of Health and Human Services Pass through the Indiana State Department of Health Pass through District 3 Hospital Corporation National Bioterrorism Hospital Preparedness Program	BHP 988-2	93.074	<u>11,924</u>
Total federal expenditures			<u>\$ 6,236,522</u>

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hospital under programs of the federal government for the year ended September 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The basic consolidated financial statement classifications may include other financial activity for reporting purposes. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.



Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Cameron Memorial Community Hospital, Inc.
Angola, Indiana

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

We have audited, in accordance with the 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 consolidated financial statements of Cameron Memorial Community Hospital, Inc. (the Hospital) which comprise the consolidated balance sheet as of September 30, 2013, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 20, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 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 consolidated 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.

Board of Directors
Cameron Memorial Community Hospital Inc.
Angola, Indiana

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free from 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 consolidated 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*.

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 Hospital'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

Blue & Co., LLC

Indianapolis, Indiana
December 20, 2013



Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Cameron Memorial Community Hospital, Inc.
Angola, Indiana

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Cameron Memorial Community Hospital, Inc. (the Hospital) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended September 30, 2013. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the Hospital's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
December 20, 2013

CAMERON MEMORIAL COMMUNITY HOSPITAL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED SEPTEMBER 30, 2013

Summary of Auditor's Results

Consolidated Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes none reported

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes none reported

Federal Awards

Internal controls over major programs:

Material weakness(es) identified? yes none reported

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none noted

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.766	United States Department of Agriculture Community facilities loans and grants

Dollar threshold used to distinguish between type A and B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

Section II – Findings related to financial statements reported in accordance with Government Auditing Standards:

No matters reported

Section III – Findings and questioned costs relating to Federal awards:

No matters reported

Section IV – Summary schedule of prior audit findings:

No matters reported
