



## **Small Hospital. Big Medicine.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2014**

*CPAs / ADVISORS*



# WITHAM HEALTH SERVICES

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Witham Health Services  
Lebanon, Indiana

### Report on the Consolidated Financial Statements

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

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

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

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

Board of Trustees  
Witham Health Services  
Lebanon, Indiana

### Opinion

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

### Report on Summarized Comparative Information

We have previously audited the Hospital's 2013 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated June 30, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

### Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Blue & Co., LLC**

Indianapolis, Indiana  
May 27, 2015

**REQUIRED SUPPLEMENTARY INFORMATION**

# WITHAM HEALTH SERVICES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

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This section of Witham Health Services' (Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during the years ended December 31, 2014 and 2013. This MD&A does include a discussion and analysis of the activities and results of the Blended Component Units, Medical Office Properties, LLC, Creekside OB/GYN, Inc., Central Indiana Health Association, Inc. and the Discrete Component Unit, Witham Health Services Foundation, Inc. Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

### FINANCIAL HIGHLIGHTS

- The Hospital's net position increased approximately \$21,269,000 in 2014 compared to approximately \$17,522,000 in 2013.
- The Hospital reported operating income of approximately \$23,548,000 for the year 2014, representing an increase of approximately \$2,234,000 in comparison to 2013 results. Operating income for 2013 of approximately \$21,314,000 was \$7,338,000 less than 2012.
- Total revenues increased by approximately \$600,000 in 2014 compared to 2013. In 2013, total revenue increased \$11,667,000 over 2012.
- Long-term care services generated approximately \$209,943,000 and \$224,236,000 in gross patient service revenue during 2014 and 2013, respectively. In 2012, long-term care services generated approximately \$235,885,000 in gross patient service revenue.

### USING THIS ANNUAL REPORT

The Hospital's consolidated 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 consolidated financial statements and related notes provide information about the consolidated activities and the financial position of the Hospital.

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

All of the current year's revenue earned and expenses incurred are accounted for in the consolidated statement of revenues, expenses and changes in net position.

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

## WITHAM HEALTH SERVICES

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

#### THE CONSOLIDATED BALANCE SHEET AND CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

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

#### Consolidated Balance Sheets

	2014	2013	2014-2013 Change	2012	2013-2012 Change
<b>Assets</b>					
Current assets	\$ 135,872,820	\$ 124,595,320	\$ 11,277,500	\$ 105,482,840	\$ 19,112,480
Assets whose use is limited	7,503,213	7,413,424	89,789	7,104,069	309,355
Capital assets, net	90,783,733	80,409,533	10,374,200	80,734,529	(324,996)
Other assets	1,137,464	759,726	377,738	634,676	125,050
Total assets	<u>235,297,230</u>	<u>213,178,003</u>	<u>22,119,227</u>	<u>193,956,114</u>	<u>19,221,889</u>
<b>Deferred outflows</b>	1,821,599	1,984,728	(163,129)	2,147,856	(163,128)
Total assets and deferred outflows	<u>\$ 237,118,829</u>	<u>\$ 215,162,731</u>	<u>\$ 21,956,098</u>	<u>\$ 196,103,970</u>	<u>\$ 19,058,761</u>
<b>Liabilities</b>					
Current liabilities	\$ 50,001,266	\$ 44,748,403	\$ 5,252,863	\$ 38,554,844	\$ 6,193,559
Long-term debt	62,709,787	67,275,327	(4,565,540)	71,931,765	(4,656,438)
Total liabilities	<u>112,711,053</u>	<u>112,023,730</u>	<u>687,323</u>	<u>110,486,609</u>	<u>1,537,121</u>
<b>Net position</b>					
Net investment in capital assets	24,812,003	8,698,617	16,113,386	4,360,954	4,337,663
Restricted					
Trustee held for debt service and capital	10,027,317	9,981,253	46,064	9,978,987	2,266
Expendable for donor restriction	634,041	475,368	158,673	98,322	377,046
Total restricted	<u>10,661,358</u>	<u>10,456,621</u>	<u>204,737</u>	<u>10,077,309</u>	<u>379,312</u>
Unrestricted					
Designated for capital improvements	51,855	51,803	52	1,760	50,043
Undesignated	88,882,560	83,931,960	4,950,600	71,177,338	12,754,622
Total unrestricted	<u>88,934,415</u>	<u>83,983,763</u>	<u>4,950,652</u>	<u>71,179,098</u>	<u>12,804,665</u>
Total net position	<u>124,407,776</u>	<u>103,139,001</u>	<u>21,268,775</u>	<u>85,617,361</u>	<u>17,521,640</u>
Total liabilities and net position	<u>\$ 237,118,829</u>	<u>\$ 215,162,731</u>	<u>\$ 21,956,098</u>	<u>\$ 196,103,970</u>	<u>\$ 19,058,761</u>

Total assets and deferred outflows increased approximately \$21,956,000 over 2013 primarily due to activity in long-term care services and capital assets. Cash, investments, capital assets and assets whose use is limited increased in total by \$20,572,000 over 2013. Current assets, such as patient accounts receivable and other receivables, comprised the remainder of the 2014 increase.

## WITHAM HEALTH SERVICES

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

Total liabilities increased approximately \$687,000 over 2013 mainly due to additional accounts payable and accrued payroll and benefits related to increased activity in long-term care services.

Total assets and deferred outflows in 2013 increased approximately \$19,059,000 over 2012 primarily due to activity in long-term care services. Cash, investments and assets whose use is limited increased in total by approximately \$13,264,000 over 2012 while capital assets decreased by approximately \$325,000 over prior year. Current assets, such as patient accounts receivable and other receivables, comprised the remainder of the 2013 increase.

Total liabilities increased approximately \$1,537,000 over 2012 mainly as the result of accounts payable and accrued liabilities related to the addition of long-term care services in 2012.

#### Consolidated Statements of Revenues, Expenses and Changes in Net Position

	2014	2013	2014-2013 Change	2012	2013-2012 Change
<b>Revenues</b>					
Net patient service revenue	\$ 270,679,961	\$ 272,092,458	\$ (1,412,497)	\$ 258,811,635	\$ 13,280,823
Other operating revenue	5,846,293	3,834,150	2,012,143	5,448,126	(1,613,976)
Total revenues	276,526,254	275,926,608	599,646	264,259,761	11,666,847
<b>Expenses</b>					
Salaries and benefits	53,418,265	53,246,398	171,867	46,401,012	6,845,386
Supplies	62,816,039	64,679,284	(1,863,245)	24,765,320	39,913,964
Depreciation	6,577,575	6,196,960	380,615	6,224,194	(27,234)
Other operating expenses	130,166,397	130,489,672	(323,275)	158,216,674	(27,727,002)
Total expenses	252,978,276	254,612,314	(1,634,038)	235,607,200	19,005,114
Operating income	23,547,978	21,314,294	2,233,684	28,652,561	(7,338,267)
<b>Nonoperating revenue (expense), net</b>	(2,279,203)	(3,792,654)	1,513,451	(2,735,501)	(1,057,153)
Change in net position	21,268,775	17,521,640	3,747,135	25,917,060	(8,395,420)
<b>Net position</b>					
Beginning of year	103,139,001	85,617,361	17,521,640	59,700,301	25,917,060
End of year	\$ 124,407,776	\$ 103,139,001	\$ 21,268,775	\$ 85,617,361	\$ 17,521,640

The main component of the overall change in the Hospital's net position is operating income. In 2013, the Hospital reported operating income of approximately \$21,314,000 compared to 2014 of approximately \$23,548,000, which is an increase of approximately \$2,234,000 from 2013. The primary reason for the change in operating income was an increase in revenues of approximately \$600,000 combined with a decrease in operating expenses of approximately \$1,634,000. The changes can be attributed to utilization changes and long-term care services.

Nonoperating revenue (expense) consists primarily of investment income, interest expense and Foundation revenue and expenses. The nonoperating items changed from a net expense of approximately \$3,793,000 in 2013 to a net expense of approximately \$2,279,000 in 2014. The change of approximately \$1,514,000 is primarily due to investment income, interest expense and loss on investment in affiliates.

Operating income in 2013 was approximately \$7,338,000 lower than 2012. The primary reason for the change in operating income was an increase in operating revenue of approximately \$11,667,000 offset by an increase in operating expenses of approximately \$19,005,000.

## WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2014  
(WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

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### CONSOLIDATED STATEMENT OF CASH FLOWS

The final required statement is the consolidated statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing and investing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

	2014	2013	2014-2013 Change	2012	2013-2012 Change
Cash flows from					
Operating	\$ 35,382,715	\$ 27,455,537	\$ 7,927,178	\$ 36,452,765	\$ (8,997,228)
Capital and related financing	(25,960,768)	(13,998,311)	(11,962,457)	(12,787,368)	(1,210,943)
Investing	(1,744,510)	7,008,400	(8,752,910)	2,884,399	4,124,001
Change in cash and equivalents	<u>\$ 7,677,437</u>	<u>\$ 20,465,626</u>	<u>\$ (12,788,189)</u>	<u>\$ 26,549,796</u>	<u>\$ (6,084,170)</u>

Operating activities generated cash of approximately \$35,383,000 in 2014. Capital and related financing activities used cash of approximately \$25,818,000 in 2014. Two significant components of capital and related financing activities include cash used to purchase of capital assets of approximately \$16,825,000 and cash paid for principal and interest of approximately \$8,994,000. Investing activities reduced cash of approximately \$1,887,000 in 2014 mainly due to classification changes between investments and cash equivalents.

2013 generated cash and cash equivalents of approximately \$20,466,000 compared to approximately \$26,550,000 in 2012. The main difference related to classification changes between investments and cash equivalents during the year.

### SOURCES OF REVENUE

During 2014, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 55% of the Hospital's gross revenues in 2014, 55% in 2013 and 53% in 2012.

Following is a table of major sources of gross patient revenues for 2014, 2013 and 2012:

	2014	2013	2012
Medicare	40%	39%	38%
Medicaid	15%	16%	15%
Commercial	37%	37%	39%
Self Pay	8%	8%	8%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

## WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2014  
(WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

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### CAPITAL ASSETS

At the end of 2014, the Hospital had approximately \$90,784,000 invested in capital assets, net of accumulated depreciation, as detailed below.

	2014	2013	2014-2013 Change	2012	2013-2012 Change
Land and improvements	\$ 12,992,304	\$ 7,721,719	\$ 5,270,585	\$ 7,269,626	\$ 452,093
Buildings and improvements	86,731,164	80,510,465	6,220,699	78,934,686	1,575,779
Equipment	46,961,013	41,884,462	5,076,551	39,545,615	2,338,847
Construction in progress	2,017,431	2,060,815	(43,384)	641,461	1,419,354
Total property and equipment	148,701,912	132,177,461	16,524,451	126,391,388	5,786,073
Less accumulated depreciation	57,918,179	51,767,928	6,150,251	45,656,859	6,111,069
Capital assets, net	<u>\$ 90,783,733</u>	<u>\$ 80,409,533</u>	<u>\$ 10,374,200</u>	<u>\$ 80,734,529</u>	<u>\$ (324,996)</u>

Net capital assets increased by approximately \$10,374,000 in 2014 compared to 2013 as current year additions outpaced depreciation expense. The change between 2013 and 2012 was approximately \$325,000 as depreciation expense outpaced 2013 property additions. More detailed information about the Hospital's capital assets is presented in the notes to the consolidated financial statements.

### DEBT

The Hospital's debt consists of revenue bonds, loans payable and capital lease obligations. There were no new borrowings or significant changes in long-term debt during 2014 and 2013. More detailed information about the Hospital's long-term debt is presented in the notes to the consolidated financial statements.

### ECONOMIC OUTLOOK

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The significant factor affecting the Hospital is finding the balance in maintaining and controlling labor costs in the face of declining volumes and pressures on pricing for its services in this increasingly competitive environment.

### CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide 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. If you have questions about this report or need additional financial information, contact the Hospital Controller's Office, at PO Box 1200, Lebanon, IN, 46052.

# WITHAM HEALTH SERVICES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

	2014			2013	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 66,571,081	\$ 2,827,033	\$ -0-	\$ 69,398,114	\$ 63,639,900
Investments	18,585,331	1,331,054	-0-	19,916,385	15,681,446
Patient accounts receivable, less allowance for uncollectible accounts of \$7,805,000 in 2014 and \$8,309,000 in 2013	28,357,647	-0-	-0-	28,357,647	26,834,386
Other receivables	12,413,496	1,242	-0-	12,414,738	11,123,235
Inventory and other current assets	2,509,249	66,687	-0-	2,575,936	4,221,353
Current portion of assets whose use is limited	3,210,000	-0-	-0-	3,210,000	3,095,000
Total current assets	131,646,804	4,226,016	-0-	135,872,820	124,595,320
<b>Assets whose use is limited</b>					
Held by trustee for debt service and capital	10,027,317	-0-	-0-	10,027,317	9,981,253
Designated for capital improvements	51,855	-0-	-0-	51,855	51,803
Donor restricted	-0-	634,041	-0-	634,041	475,368
Total assets whose use is limited	10,079,172	634,041	-0-	10,713,213	10,508,424
Less current portion	3,210,000	-0-	-0-	3,210,000	3,095,000
Noncurrent assets whose use is limited	6,869,172	634,041	-0-	7,503,213	7,413,424
<b>Capital assets</b>					
Land and improvements	12,992,304	-0-	-0-	12,992,304	7,721,719
Depreciable capital assets	133,692,177	-0-	-0-	133,692,177	122,394,927
Construction in progress	2,017,431	-0-	-0-	2,017,431	2,060,815
	148,701,912	-0-	-0-	148,701,912	132,177,461
Less accumulated depreciation	57,918,179	-0-	-0-	57,918,179	51,767,928
Capital assets, net	90,783,733	-0-	-0-	90,783,733	80,409,533
<b>Other assets</b>					
Investment in affiliates and other	342,377	-0-	-0-	342,377	211,411
Other	800,081	-0-	(4,994)	795,087	548,315
Total other assets	1,142,458	-0-	(4,994)	1,137,464	759,726
Total assets	230,442,167	4,860,057	(4,994)	235,297,230	213,178,003
<b>Deferred outflows</b>					
Deferred loss on bond refunding	1,821,599	-0-	-0-	1,821,599	1,984,728
Total assets and deferred outflows	<u>\$ 232,263,766</u>	<u>\$ 4,860,057</u>	<u>\$ (4,994)</u>	<u>\$ 237,118,829</u>	<u>\$ 215,162,731</u>

See accompanying notes to consolidated financial statements.

# WITHAM HEALTH SERVICES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

	2014			2013	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>LIABILITIES AND NET POSITION</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 35,238,756	\$ -0-	\$ -0-	\$ 35,238,756	\$ 28,227,111
Accrued salaries and related liabilities	8,478,827	-0-	-0-	8,478,827	8,665,801
Accrued expenses and other current liabilities	2,267,787	5,202	(4,994)	2,267,995	2,495,932
Estimated third-party settlements	753,745	-0-	-0-	753,745	923,970
Current portion of long-term debt					
Capital lease obligation	-0-	-0-	-0-	-0-	1,042,000
Loans payable	51,943	-0-	-0-	51,943	298,589
Revenue bonds payable	3,210,000	-0-	-0-	3,210,000	3,095,000
Total current liabilities	50,001,058	5,202	(4,994)	50,001,266	44,748,403
<b>Long-term debt, net of current portion</b>					
Loans payable	450,175	-0-	-0-	450,175	1,647,325
Revenue bonds payable	62,259,612	-0-	-0-	62,259,612	65,628,002
Total long-term debt	62,709,787	-0-	-0-	62,709,787	67,275,327
 Total liabilities	 112,710,845	 5,202	 (4,994)	 112,711,053	 112,023,730
<b>Net position</b>					
Net investment in capital assets	24,812,003	-0-	-0-	24,812,003	8,698,617
Restricted					
Trustee held for debt service and capital	10,027,317	-0-	-0-	10,027,317	9,981,253
Expendable for donor restriction	-0-	634,041	-0-	634,041	475,368
Total restricted	10,027,317	634,041	-0-	10,661,358	10,456,621
Unrestricted					
Designated for capital improvements	51,855	-0-	-0-	51,855	51,803
Undesignated	84,661,746	4,220,814	-0-	88,882,560	83,931,960
Total unrestricted	84,713,601	4,220,814	-0-	88,934,415	83,983,763
Total net position	119,552,921	4,854,855	-0-	124,407,776	103,139,001
Total liabilities and net position	\$ 232,263,766	\$ 4,860,057	\$ (4,994)	\$ 237,118,829	\$ 215,162,731

See accompanying notes to consolidated financial statements.

## WITHAM HEALTH SERVICES

### CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

	2014			2013	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Operating revenues</b>					
Net patient service revenue	\$ 270,679,961	\$ -0-	\$ -0-	\$ 270,679,961	\$ 272,092,458
Other operating revenue	5,846,293	-0-	-0-	5,846,293	3,834,150
Total operating revenues	276,526,254	-0-	-0-	276,526,254	275,926,608
<b>Operating expenses</b>					
Salaries and wages	39,857,495	-0-	-0-	39,857,495	40,609,600
Employee benefits	13,560,770	-0-	-0-	13,560,770	12,636,798
Professional medical fees	5,327,424	-0-	-0-	5,327,424	5,103,081
Purchased services	86,365,884	-0-	-0-	86,365,884	89,051,205
Supplies	62,816,039	-0-	-0-	62,816,039	64,679,284
Repairs and maintenance	4,113,918	-0-	-0-	4,113,918	3,887,874
Equipment and facility rental	22,062,499	-0-	-0-	22,062,499	20,213,088
Utilities	5,420,370	-0-	-0-	5,420,370	5,455,997
Depreciation	6,577,575	-0-	-0-	6,577,575	6,196,960
Insurance	1,247,678	-0-	-0-	1,247,678	1,011,902
HAF Program	3,259,226	-0-	-0-	3,259,226	3,614,457
Other expenses	2,369,398	-0-	-0-	2,369,398	2,152,068
Total operating expenses	252,978,276	-0-	-0-	252,978,276	254,612,314
Operating income	23,547,978	-0-	-0-	23,547,978	21,314,294
<b>Nonoperating revenue (expense)</b>					
Investment income	376,333	82,864	-0-	459,197	108,880
Interest expense	(3,352,540)	-0-	-0-	(3,352,540)	(3,503,407)
Foundation revenue	-0-	503,859	-0-	503,859	460,166
Foundation expense	-0-	(244,221)	20,000	(224,221)	(164,450)
Gain (loss) on investment in affiliates	196,349	-0-	-0-	196,349	(782,729)
Other nonoperating revenue	158,153	-0-	(20,000)	138,153	88,886
Total nonoperating revenue (expense), net	(2,621,705)	342,502	-0-	(2,279,203)	(3,792,654)
Change in net position	20,926,273	342,502	-0-	21,268,775	17,521,640
<b>Net position</b>					
Beginning of year	98,626,648	4,512,353	-0-	103,139,001	85,617,361
End of year	<u>\$ 119,552,921</u>	<u>\$ 4,854,855</u>	<u>\$ -0-</u>	<u>\$ 124,407,776</u>	<u>\$ 103,139,001</u>

See accompanying notes to consolidated financial statements.

# WITHAM HEALTH SERVICES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

	2014			2013	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Operating activities</b>					
Cash received from patient services	\$ 265,727,249	\$ -0-	\$ -0-	\$ 265,727,249	\$ 263,485,542
Cash paid for salaries, wages and benefits	(53,605,239)	-0-	-0-	(53,605,239)	(53,195,308)
Cash paid to vendors and suppliers	(182,583,799)	-0-	-0-	(182,583,799)	(186,579,462)
Other receipts, net	5,846,293	(1,789)	-0-	5,844,504	3,744,765
Net cash flows from operating activities	35,384,504	(1,789)	-0-	35,382,715	27,455,537
<b>Capital and related financing activities</b>					
Acquisition and construction of capital assets	(16,967,102)	-0-	-0-	(16,967,102)	(5,927,836)
Cash paid for interest on long-term debt	(3,412,871)	-0-	-0-	(3,412,871)	(3,566,207)
Principal payments for long-term debt	(5,580,795)	-0-	-0-	(5,580,795)	(4,504,268)
Net cash flows from capital and related financing activities	(25,960,768)	-0-	-0-	(25,960,768)	(13,998,311)
<b>Investing activities</b>					
Investment income	376,333	82,864	-0-	459,197	108,880
Purchase of investments	(7,715,673)	(202,813)	-0-	(7,918,486)	(8,401,625)
Proceeds from sale of investments	5,250,060	268,370	-0-	5,518,430	16,083,874
Cash from (to) investments in affiliates, net	196,349	-0-	-0-	196,349	(782,729)
Net cash flows from investing activities	(1,892,931)	148,421	-0-	(1,744,510)	7,008,400
Net change in cash and cash equivalents	7,530,805	146,632	-0-	7,677,437	20,465,626
<b>Cash and cash equivalents</b>					
Beginning of year	67,945,886	3,314,442	-0-	71,260,328	50,703,743
End of year	<u>\$ 75,476,691</u>	<u>\$ 3,461,074</u>	<u>\$ -0-</u>	<u>\$ 78,937,765</u>	<u>\$ 71,169,369</u>
<b>Reconciliation of cash and cash equivalents to the consolidated balance sheets</b>					
Cash and cash equivalents					
Included in current assets	\$ 66,571,081	\$ 2,827,033	\$ -0-	\$ 69,398,114	\$ 63,639,900
In investments	324,263	-0-	-0-	324,263	-0-
In assets whose use is limited - held by trustee	8,529,492	-0-	-0-	8,529,492	7,002,298
In assets whose use is limited - designated	51,855	-0-	-0-	51,855	51,803
In assets whose use is limited - donor restricted	-0-	634,041	-0-	634,041	475,368
Total cash and cash equivalents	<u>\$ 75,476,691</u>	<u>\$ 3,461,074</u>	<u>\$ -0-</u>	<u>\$ 78,937,765</u>	<u>\$ 71,169,369</u>
<b>Reconciliation of operating income to net cash flows from operating activities</b>					
Operating income	\$ 23,547,978	\$ -0-	\$ -0-	\$ 23,547,978	\$ 21,314,294
Adjustment to reconcile operating income to net cash flows from operating activities					
Depreciation	6,577,575	-0-	-0-	6,577,575	6,196,960
Provision for bad debts	14,622,047	-0-	-0-	14,622,047	15,149,909
Changes in operating assets and liabilities					
Patient accounts receivable	(16,145,308)	-0-	-0-	(16,145,308)	(19,565,431)
Other receivables	(1,291,314)	(189)	-0-	(1,291,503)	(6,315,586)
Inventory and other current assets	1,635,322	10,095	-0-	1,645,417	4,532,471
Accounts payable	7,011,645	-0-	-0-	7,011,645	6,909,444
Accrued salaries and related liabilities	(186,974)	-0-	-0-	(186,974)	51,090
Accrued expenses and other current liabilities	(216,242)	(11,695)	-0-	(227,937)	(193,927)
Estimated third-party settlements	(170,225)	-0-	-0-	(170,225)	(623,687)
Net cash flows from operating activities	<u>\$ 35,384,504</u>	<u>\$ (1,789)</u>	<u>\$ -0-</u>	<u>\$ 35,382,715</u>	<u>\$ 27,455,537</u>

See accompanying notes to consolidated financial statements.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

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#### 1. SIGNIFICANT ACCOUNTING POLICIES

##### Organization and Reporting Entity

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

In 2000, the Board of County Commissioners of Boone County, upon written request of the Hospital Board of Trustees, created the Boone County Hospital Association (Association). The Association was created pursuant to the provisions of IC 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

For financial reporting purposes, the Hospital's reporting entity consists of the primary government and component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government.

The consolidated financial statements include certain prior year summarized comparative information in total but not by discrete component unit. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Hospital's consolidated financial statements as of December 31, 2013 and for the year ended, from which the summarized information was derived.

##### Blended Component Units

Blended component units, although legally separate entities are in substance part of the government's operations and exist solely to provide services for the government; data from these units is consolidated with data of the primary government. The Hospital appoints a voting majority of the Medical Office Properties, LLC (MOP, LLC), Creekside OB/GYN, Inc. (Creekside), and Central Indiana Health Association, Inc. (CIHA) boards and is able to impose its will and a financial benefit/burden relationship exists between the Hospital and MOP, LLC, Creekside, and CIHA. Although they are legally separate from the Hospital, MOP, LLC, Creekside, and CIHA are reported as if they were part of the Hospital because the boards are substantively the same and they provide services entirely or almost entirely to the Hospital. The Hospital is 100% owner of MOP, LLC and Creekside and is the sole corporate member of CIHA. Thus, there is no non-controlling interest that is required to be disclosed.

The Association is a blended component unit consolidated within the Hospital's activities for financial reporting purposes. All significant transactions between the Hospital, MOP, LLC, Creekside, CIHA and the Association have been eliminated for financial reporting purposes.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

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#### Discrete Component Units

Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the consolidated financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Witham Health Services Foundation, Inc. (Foundation) is considered a discrete component unit for reporting purposes. All significant transactions between the Hospital and the Foundation have been eliminated for financial reporting purposes.

#### Long-Term Care Services

The Hospital owns the operations of various long-term care facilities through arrangements with multiple managers (the Managers) of the long-term care facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the Managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

The Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital pays the Managers a management fee to manage the facilities on behalf of the Hospital in accordance with the terms of the agreements. The agreements expire at various times through March 2027. All parties involved can terminate the agreements without cause with 90 days written notice.

#### 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. Actual results could differ from those estimates.

#### Enterprise Fund Accounting

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

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

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### Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include all demand deposits and investments in highly liquid debt instruments with an original maturity date of three months.

### Investments

Nonparticipating certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at contract value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or an United States Government Agency. Debt securities are reported at fair value. Mutual funds are reported at fair value based on the fund's market price. Other investments are generally reported at fair value. Investment income, including changes in the fair value of investments, is reported as non-operating income in the consolidated statements of revenues, expenses and changes in net position.

### Patient Accounts Receivable and Net Patient Service Revenue

The Hospital provides services to patients who reside primarily in the local geographic region. Patient accounts receivable and patient service revenues are recorded when patient services are performed and are reported based on gross charges, net of certain deductions from those charges. 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). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue.

At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2012.

Amounts for unresolved cost reports for 2013 through 2014 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2014 and 2013, the Hospital recognized an increase in net patient service revenue and net position of approximately \$127,000 for 2014 and a decrease of approximately \$157,000 for 2013 in the consolidated statements of revenues, expenses and changes in net position, 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 extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

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

#### Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net practice revenue. The charity care charges foregone during 2014 and 2013 were approximately \$5,458,000 and \$5,762,000, respectively.

Of the Hospital's total expenses reported, an estimated \$1,867,000 and \$1,984,000 arose from providing services to charity patients during 2014 and 2013, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses, which includes interest expense and excludes Hospital Assessment Fee Program expense, to gross patient service revenue.

#### Other Receivables

Other receivables consist mainly of amounts due for reimbursement for long-term care services and are classified as current as they are expected to be received during 2015.

#### Inventory and Other Current Assets

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

Other current assets consist of prepaid expenses and various other current items. These assets are classified as current as they are expected to be utilized during 2015.

#### Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes, investments held by trustees for debt service and capital improvements and assets that are donor restricted. These investments consist primarily of cash and cash equivalents, certificates of deposit, United States government securities and mutual funds. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenue (expense) in the consolidated statements of revenues, expenses and changes in net position.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

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#### Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed \$500 and which meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred.

The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The range of useful lives in computing depreciation is as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	5 to 20 years
Buildings and improvements	10 to 40 years
Fixed equipment	10 to 40 years
Major moveable equipment	3 to 15 years
Minor equipment	3 to 15 years

#### Deferred Loss on Bond Refunding

In 2005, the Hospital recorded a deferred loss on bond refunding of approximately \$3,400,000 which is amortized through the 2026 as a component of interest expense.

#### Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted includes net position held by trustee for debt service requirements and capital or donor restrictions. Unrestricted net position includes designated for capital improvements and undesignated net position that does not meet the definition of invested in capital assets net of related debt or restricted.

#### Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Hospital's consolidated statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenue and expense. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions such as investment activities are reported as nonoperating revenue and expense.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

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

The Hospital recognizes EHR incentive payments as revenue 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 financial statement effects of the grants must be both recognizable and measurable. During 2014 and 2013, the Hospital recognized approximately \$1,424,000 and \$221,000, respectively, in EHR incentive payments as revenue using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other operating revenue in the consolidated statements of revenues, expenses and changes in net position. EHR incentive income recognized is based on management’s estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

#### Grants and Contributions

From time to time, the reporting entity receives contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all requirements are met. Grants may be restricted for either specific operation purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue.

#### Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

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## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

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#### Federal or State Income Taxes

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

The Association is a governmental instrumentality organized under IC 16-22-6 and is exempt from Federal income tax under Section 115 of the Internal Revenue. As such, the Association is generally exempt from income taxes and is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

The Foundation and CIHA are tax-exempt organizations under section 501(c)(3). As such, they are generally exempt from income taxes. However, they are required to file Federal Form 990 – Return of Organization from Income Tax.

MOP, LLC is organized as a limited liability company, whereby net taxable income is taxed directly to the members and not the entity. Thus, the consolidated financial statements do not include any provision for Federal or state income taxes.

Creekside is organized as a Subchapter S corporation, whereby net taxable income is taxed directly to the shareholders and not the entity. Thus, the consolidated financial statements do not include any provision for Federal or state income taxes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital (and its affiliates) and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various Federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and has concluded that as of December 31, 2014 and 2013, 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 is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

These entities have filed their Federal and state income tax returns for periods through December 31, 2013. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

#### Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. The estimated amount of unused time off is reported as a liability in the consolidated financial statements.

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## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

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#### 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; employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

#### Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. The Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Indiana Patient Compensation Fund.

On July 1, 2006, the Hospital became a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund the Hospital's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage.

This provides protection from liability in an amount not to exceed \$250,000 per incident and aggregate liability protection not to exceed \$7,500,000 per year. In addition, the Hospital maintains a commercial umbrella/excess liability policy with a limit of \$1,000,000 each occurrence, \$1,000,000 fire legal liability, \$1,000,000 personal and advertising injury, and a \$3,000,000 total policy aggregate.

#### Litigation

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

#### Advertising

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expense was approximately \$531,000 and \$534,000 for 2014 and 2013, respectively.

#### Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the current year presentation. The reclassifications had no effect on the previously reported consolidated net position and consolidated change in net position.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

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#### Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to 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 May 27, 2015.

## 2. NET PATIENT SERVICE REVENUE

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

#### Medicare

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

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

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

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During 2014 and 2013, the Hospital recognized HAF Program expense of approximately \$3,259,000 and \$3,614,000, respectively. The HAF Program expense is included in operating expenses in the consolidated statements of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program are included in patient service revenue in the consolidated statements of revenues, expenses and changes in net position. The HAF Program was approved for extension through June 30, 2017.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$1,775,000 and \$2,967,000 during 2014 and 2013, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

#### Other Payors

The Hospital also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates. The following is a summary of net patient service revenue for 2014 and 2013:

	2014	2013
Inpatient routine services	\$ 17,279,025	\$ 15,035,863
Inpatient ancillary services	39,640,770	38,698,901
Outpatient ancillary services	221,446,704	212,375,358
Long-term care	209,943,055	224,235,798
Gross patient service revenue	<u>488,309,554</u>	<u>490,345,920</u>
Contractual allowances	197,549,080	197,341,138
Charity care	5,458,466	5,762,415
Provision for bad debts	14,622,047	15,149,909
Deductions from revenue	<u>217,629,593</u>	<u>218,253,462</u>
Net patient service revenue	<u>\$ 270,679,961</u>	<u>\$ 272,092,458</u>

### 3. INVESTMENTS

Investments are recorded at fair value and consist of the following as of December 31:

	2014	2013
Cash and cash equivalents	\$ 324,263	\$ -0-
Certificates of Deposit	2,950,000	2,950,000
Mutual funds	1,331,054	1,136,973
US Government securities	15,311,068	11,594,473
	<u>\$ 19,916,385</u>	<u>\$ 15,681,446</u>

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## WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014  
(WITH COMPARATIVE TOTALS FOR 2013)

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### 4. ASSETS WHOSE USE IS LIMITED

Held by trustee for debt service and capital – Amounts deposited with a trustee and limited to use in accordance with the requirements of a trust indenture and funds from long-term debt borrowings to be expended for debt service and capital.

Designated for capital improvements – Amounts designed internally for capital improvements.

Donor restricted – Amounts designated by donor restrictions.

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited includes the following as of December 31:

	<u>2014</u>	<u>2013</u>
Held by trustee for debt service and capital		
Cash and cash equivalents	\$ 8,529,492	\$ 7,002,298
US Government securities	<u>1,497,825</u>	<u>2,978,955</u>
Total held by trustee for debt service and capital	10,027,317	9,981,253
Designated for capital improvements		
Cash and cash equivalents	51,855	51,803
Donor restricted		
Cash and cash equivalents	<u>634,041</u>	<u>475,368</u>
Total assets whose use is limited	<u><u>\$ 10,713,213</u></u>	<u><u>\$ 10,508,424</u></u>

### 5. DEPOSITS AND INVESTMENTS

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

Investments are carried at fair market value except for certificates of deposit and money market deposit funds which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. The Hospital's investments generally are reported at fair value.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

As of December 31, 2014 and 2013, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

December 31, 2014					
Investment Maturities (in years)					
Carrying Amount	Less than 1	1-5	6-10	More than 10	
US Government securities	\$ 16,808,893	\$ -0-	\$ 12,112,838	\$ 4,696,055	\$ -0-
Certificates of deposit	2,950,000	-0-	2,950,000	-0-	-0-
Mutual funds	1,331,054	1,331,054	-0-	-0-	-0-
	\$ 21,089,947	\$ 1,331,054	\$ 15,062,838	\$ 4,696,055	\$ -0-

  

December 31, 2013					
Investment Maturities (in years)					
Carrying Amount	Less than 1	1-5	6-10	More than 10	
US Government securities	\$ 14,573,428	\$ -0-	\$ 11,722,348	\$ 2,851,080	\$ -0-
Certificates of deposit	2,950,000	-0-	2,950,000	-0-	-0-
Mutual funds	1,136,973	1,136,973	-0-	-0-	-0-
	\$ 18,660,401	\$ 1,136,973	\$ 14,672,348	\$ 2,851,080	\$ -0-

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

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

Concentration of credit risk – The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

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Deposits and investments consist of the following as of December 31:

	<u>2014</u>	<u>2013</u>
Carrying amount		
Deposits	\$ 78,937,765	\$ 71,169,369
Investments	21,089,947	18,660,401
	<u>\$ 100,027,712</u>	<u>\$ 89,829,770</u>
Included in the balance sheets		
Cash and cash equivalents	\$ 69,398,114	\$ 63,639,900
Investments	19,916,385	15,681,446
Held by trustee	10,027,317	9,981,253
Designated	51,855	51,803
Donor restricted	634,041	475,368
	<u>\$ 100,027,712</u>	<u>\$ 89,829,770</u>

## 6. FAIR VALUE MEASUREMENTS

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2014 and 2013.

- *Money market mutual funds:* Valued based at the subscription and redemption activity at a \$1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of securities.
- *Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price.
- *US Government securities:* Valued at the closing price reported on the active market on which the individual securities are traded, when available. The fair value of the securities for which quoted market price is not available are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

The following table sets forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013.

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments				
Mutual funds				
Growth & income	\$ 420,660	\$ 420,660	\$ -0-	\$ -0-
Income	489,093	489,093	-0-	-0-
Aggressive	51,757	51,757	-0-	-0-
Growth	201,530	201,530	-0-	-0-
International equity	168,014	168,014		
Total mutual funds	1,331,054	1,331,054	-0-	-0-
Money market mutual funds	324,263		324,263	
US Government securities				
Federal Home Loan Mortgage	10,572,638	-0-	10,572,638	-0-
FNMA	4,738,430	-0-	4,738,430	-0-
Total US Government securities	15,311,068	-0-	15,311,068	-0-
	16,966,385	\$ -0-	\$ 15,635,331	\$ -0-
Certificates of deposit	2,950,000			
Total investments	<u>\$ 19,916,385</u>			
<b>Assets whose use is limited</b>				
Cash and cash equivalents				
Money market mutual funds	\$ 9,215,388	\$ -0-	\$ 9,215,388	\$ -0-
US Government securities				
Federal Home Loan Mortgage	1,497,825	-0-	1,497,825	-0-
Total assets whose use is limited	<u>\$ 10,713,213</u>	<u>\$ -0-</u>	<u>\$ 10,713,213</u>	<u>\$ -0-</u>

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments				
Mutual funds				
Growth & income	\$ 285,893	\$ 285,893	\$ -0-	\$ -0-
Income	468,314	468,314	-0-	-0-
Aggressive	51,358	51,358	-0-	-0-
Growth	161,463	161,463	-0-	-0-
International equity	169,945	169,945	-0-	-0-
Total mutual funds	1,136,973	1,136,973	-0-	-0-
US Government securities				
Federal Home Loan Mortgage	6,582,576	-0-	6,582,576	-0-
FNMA	5,011,897	-0-	5,011,897	-0-
Total US Government securities	11,594,473	-0-	11,594,473	-0-
	12,731,446	\$ 1,136,973	\$ 11,594,473	\$ -0-
Certificates of deposit	2,950,000			
Total investments	<u>\$ 15,681,446</u>			
Assets whose use is limited				
Cash and cash equivalents				
Money market mutual funds	\$ 7,529,469	\$ -0-	\$ 7,529,469	\$ -0-
US Government securities				
Federal Home Loan Mortgage	2,978,955	-0-	2,978,955	-0-
Total assets whose use is limited	<u>\$ 10,508,424</u>	<u>\$ -0-</u>	<u>\$ 10,508,424</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 2014 and 2013.

Realized gains and losses are included in the consolidated statements of revenues, expenses and changes in net position as a component of investment income. Market value of investments and assets whose use is limited exceeded cost by approximately \$380,000 and \$310,000 as of December 31, 2014 and 2013, respectively. The changes in unrealized gains and losses relating to assets held at year end are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment income.

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

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

Cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements: The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements approximate fair value based on short term maturity.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

Long-term debt: Fair value of the Hospital fixed rate revenue bonds is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2014, the carrying value of the fixed rate long-term revenue bond was \$63,405,000 with a fair value of approximately \$67,004,000. The carrying value of loans payable and capital lease obligations approximates fair value based on incremental borrowing rates of similarly rated entities.

#### 7. CAPITAL ASSETS

A summary of property and equipment for 2014 and 2013 follow:

	December 31, 2013	Additions	Disposals	Transfers	December 31, 2014
Land and improvements	\$ 7,721,719	\$ 5,270,585	\$ -0-	\$ -0-	\$ 12,992,304
Buildings and improvements	80,510,465	4,337,553	-0-	1,883,146	86,731,164
Equipment	41,884,462	5,519,202	(442,651)	-0-	46,961,013
Construction in progress	2,060,815	1,839,762	-0-	(1,883,146)	2,017,431
Total capital assets	<u>132,177,461</u>	<u>16,967,102</u>	<u>(442,651)</u>	<u>-0-</u>	<u>148,701,912</u>
Less accumulated depreciation					
Land improvements	1,558,957	224,777	-0-	-0-	1,783,734
Buildings and improvements	18,198,339	2,169,727	-0-	-0-	20,368,066
Equipment	32,010,632	4,183,071	(427,324)	-0-	35,766,379
Total accumulated depreciation	<u>51,767,928</u>	<u>6,577,575</u>	<u>(427,324)</u>	<u>-0-</u>	<u>57,918,179</u>
Capital assets, net	<u>\$ 80,409,533</u>	<u>\$ 10,389,527</u>	<u>\$ (15,327)</u>	<u>\$ -0-</u>	<u>\$ 90,783,733</u>

  

	December 31, 2012	Additions	Disposals	Transfers	December 31, 2013
Land and improvements	\$ 7,269,626	\$ 452,093	\$ -0-	\$ -0-	\$ 7,721,719
Buildings and improvements	78,934,686	1,047,155	(1,301)	529,925	80,510,465
Equipment	39,545,615	2,352,230	(140,462)	127,079	41,884,462
Construction in progress	641,461	2,076,358	-0-	(657,004)	2,060,815
Total capital assets	<u>126,391,388</u>	<u>5,927,836</u>	<u>(141,763)</u>	<u>-0-</u>	<u>132,177,461</u>
Less accumulated depreciation					
Land improvements	1,342,627	216,330	-0-	-0-	1,558,957
Buildings and improvements	15,844,410	2,353,929	-0-	-0-	18,198,339
Equipment	28,469,822	3,626,701	(85,891)	-0-	32,010,632
Total accumulated depreciation	<u>45,656,859</u>	<u>6,196,960</u>	<u>(85,891)</u>	<u>-0-</u>	<u>51,767,928</u>
Capital assets, net	<u>\$ 80,734,529</u>	<u>\$ (269,124)</u>	<u>\$ (55,872)</u>	<u>\$ -0-</u>	<u>\$ 80,409,533</u>

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

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

#### 8. LONG TERM DEBT

A summary of long-term debt is as follows:

- The Hospital issued Lease Rental Revenue Bonds, Series 2010, in the amount of \$40 million through the Association. The proceeds from the Series 2010 Bonds were used for the acquisition, construction, renovation and equipping of certain improvements to the Hospital facilities. The Series 2010 Bond payments are due in semiannual installments through January 2030 ranging from \$650,000 to \$1,485,000, with interest rates between 2% and 5.25%. The Series 2010 Bonds are secured by net revenues and certain assets held by the trustee.
- Revenue Bonds, Series 2005 with annual principal payments ranging from \$1,305,000 to \$2,995,000, plus fixed interest ranging from 3.5% to 5.5% due in 2027 secured by net revenues of the Hospital.
- Loan payable with local financial institutions, due in monthly installments at a fixed interest rate of 4.50%, due through 2023, secured by property with net book value of approximately \$2,300,000 and \$2,500,000 as of December 31, 2014 and 2013, respectively.
- Capital lease obligation, due in monthly installments with interest at 3.85% through December 2014 secured by equipment. The total cost of the equipment was approximately \$5,963,000 as of December 31, 2014 and 2013 with accumulated amortization of approximately \$4,902,000 and \$3,644,000, respectively.

Certain long-term debt agreements require the Hospital to maintain certain financial ratios. As of December 31, 2014, the Hospital believed it was in compliance with the ratios.

The following represents a progression of long-term debt for 2014 and 2013:

	December 31, 2013	Additional Borrowings	Payments	December 31, 2014	Current Portion
2005 Revenue bonds	\$ 30,775,000	\$ -0-	\$ 1,540,000	\$ 29,235,000	\$ 1,620,000
2010 Revenue bonds	35,725,000	-0-	1,555,000	34,170,000	1,590,000
Loans payable	1,945,915	-0-	1,443,795	502,120	51,943
Capital lease obligation	1,042,000	-0-	1,042,000	-0-	-0-
	<u>69,487,915</u>	<u>\$ -0-</u>	<u>\$ 5,580,795</u>	63,907,120	<u>\$ 3,261,943</u>
Unamortized bond premium	2,223,001			2,064,610	
	<u>\$ 71,710,916</u>			<u>\$ 65,971,730</u>	

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

	December 31, 2012	Additional Borrowings	Payments	December 31, 2013	Current Portion
2005 Revenue bonds	\$ 32,235,000	\$ -0-	\$ 1,460,000	\$ 30,775,000	\$ 1,540,000
2010 Revenue bonds	37,240,000	-0-	1,515,000	35,725,000	1,555,000
Loans payable	2,203,417	-0-	257,502	1,945,915	298,589
Capital lease obligation	2,313,766	-0-	1,271,766	1,042,000	1,042,000
	<u>73,992,183</u>	<u>\$ -0-</u>	<u>\$ 4,504,268</u>	69,487,915	<u>\$ 4,435,589</u>
Unamortized bond premium	2,381,392			2,223,001	
	<u>\$ 76,373,575</u>			<u>\$ 71,710,916</u>	

Scheduled principal and interest repayments on long-term debt and payments on loans payable for the years succeeding December 31, 2014 are as follows:

Year Ending December 31,	Principal	Interest	Total
2015	\$ 3,261,943	\$ 3,070,219	\$ 6,332,162
2016	3,409,605	2,919,516	6,329,121
2017	3,566,593	2,767,006	6,333,599
2018	3,724,543	2,611,578	6,336,121
2019	3,897,318	2,437,509	6,334,827
2020-2024	22,462,116	9,096,378	31,558,494
2025-2029	22,045,002	3,045,820	25,090,822
2030	1,540,000	38,500	1,578,500
	<u>\$ 63,907,120</u>	<u>\$ 25,986,526</u>	<u>\$ 89,893,646</u>

## 9. OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating expenses as incurred. Equipment and facility rental expense for leases for 2014 and 2013 approximated \$2,301,000 and \$2,250,000, respectively. The following is a schedule of future minimum non-cancelable lease payments expiring through 2017 for the years succeeding December 31, 2014:

Year Ending December 31,	
2015	\$ 7,800
2016	7,800
2017	2,300
	<u>\$ 17,900</u>

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

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Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$19,762,000 and \$17,959,000 for 2014 and 2013, respectively. Annual rent expense for the next five years will approximate \$20,000,000 under these leases.

#### 10. PENSION PLAN

##### Plan Description

The Hospital has a defined contribution pension plan named Witham Health Services Contribution Plan (Plan) as authorized by IC 16-22-3-11. The Plan provides retirement, disability and death benefits to plan members and beneficiaries who meet the eligibility requirements for age and hours worked. The Plan was established by written agreement between the Hospital Board of Trustees and Transamerica Retirement Solutions (Plan Administrator). The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the Plan. The report is available by contacting the Hospital's accounting department.

##### Funding Policy

The contribution requirements of Plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. There are two parts to the Plan, the Money Purchase Base Contribution and the Matching Contribution. Plan members are not required to contribute to the Money Purchase Base Contribution portion of the Plan. The Hospital contributes either 2% or 3% based on the number of years of service for this portion of the Plan. Plan members may contribute to the Matching Contribution portion of the Plan up to the maximum allowed by the Internal Revenue Service. The Hospital matches up to either 3% or 4% of the employee's annual salary based on years of service and employee contributions. Pension expense was approximately \$1,531,000 and \$1,396,000 for 2014 and 2013, respectively.

#### 11. CONCENTRATION OF CREDIT RISK

The Hospital is located in Lebanon, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and revenues from patients and third-party payors as of and for the years ended December 31, 2014 and 2013 was as follows:

	<u>Receivables</u>		<u>Revenues</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Medicare	22%	24%	40%	39%
Medicaid	14%	12%	15%	16%
Commercial	37%	36%	37%	37%
Self-Pay and other	27%	28%	8%	8%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

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Under the long-term care leases, the Hospital recorded expenses related to purchased services from the Managers of the facilities of approximately \$80,921,000 and \$83,487,000 during 2014 and 2013, respectively. Amounts due to the Managers, included in current liabilities, as of December 31, 2014 and 2013 approximated \$31,288,000 and \$24,757,000 respectively.

#### 12. INVESTMENTS IN AFFILIATED COMPANIES

##### Witham St. Vincent Cancer Institute, LLC

The Hospital has a 33%-equity interest in Witham St. Vincent Cancer Institute, LLC. The investment is recorded on the equity method at approximately \$180,000 and \$201,000 as of December 31, 2014 and 2013, respectively.

##### Suburban Health Organization Captive

The Hospital has an equity interest in its captive insurance company, Suburban Health Organization Captive recorded on the equity method at approximately \$163,000 and \$11,000 as of December 31, 2014 and 2013, respectively.

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

#### 13. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its Blended Component Units, MOP, LLC, Creekside and CIHA as of and for the years ended December 31, 2014 and 2013:

	2014			
	MOP, LLC	Creekside	CIHA	Total
<b>Balance sheet</b>				
Assets and deferred outflows				
Current assets	\$ 216,568	\$ 481,135	\$ 25,797,888	\$ 26,495,591
Capital assets	3,181,434	384,325	-0-	3,565,759
Other assets	-0-	-0-	22,506	22,506
Total assets and deferred outflows	<u>\$ 3,398,002</u>	<u>\$ 865,460</u>	<u>\$ 25,820,394</u>	<u>\$ 30,083,856</u>
Liabilities				
Current liabilities	\$ 12,322	\$ 6,007,801	\$ 6,531	\$ 6,026,654
Net position	3,385,680	(5,142,341)	25,813,863	24,057,202
Total liabilities and net position	<u>\$ 3,398,002</u>	<u>\$ 865,460</u>	<u>\$ 25,820,394</u>	<u>\$ 30,083,856</u>
<b>Statement of revenue, expenses and changes in net position</b>				
Revenues				
Net patient service revenue	\$ -0-	\$ 1,577,496	\$ -0-	\$ 1,577,496
Other revenue	733,444	33,988	308,521	1,075,953
Total revenues	<u>733,444</u>	<u>1,611,484</u>	<u>308,521</u>	<u>2,653,449</u>
Expenses				
Depreciation	140,271	34,035	-0-	174,306
Other expenses	423,274	2,485,913	268,279	3,177,466
Total expenses	<u>563,545</u>	<u>2,519,948</u>	<u>268,279</u>	<u>3,351,772</u>
Operating income (loss)	169,899	(908,464)	40,242	(698,323)
Nonoperating	(34,222)	(2)	-0-	(34,224)
Excess revenue over (under) expenses	135,677	(908,466)	40,242	(732,547)
Transfers	<u>1,167,354</u>	<u>-0-</u>	<u>25,000,000</u>	<u>(766,771)</u>
Change in net position	1,303,031	(908,466)	25,040,242	(1,499,318)
Net position				
Beginning of year	2,082,649	(4,233,875)	773,621	(1,377,605)
End of year	<u>\$ 3,385,680</u>	<u>\$ (5,142,341)</u>	<u>\$ 25,813,863</u>	<u>\$ 24,057,202</u>
<b>Statement of cash flows</b>				
Cash provided by (used in)				
Operating activities	\$ 1,474,302	\$ 166,217	\$ 25,084,080	\$ 26,724,599
Capital and related financing activities	(1,428,389)	(32,051)	-0-	(1,460,440)
Investing activities	-0-	-0-	-0-	-0-
Change	<u>45,913</u>	<u>134,166</u>	<u>25,084,080</u>	<u>25,264,159</u>
Cash equivalents				
Beginning of year	159,687	117,842	713,808	991,337
End of year	<u>\$ 205,600</u>	<u>\$ 252,008</u>	<u>\$ 25,797,888</u>	<u>\$ 26,255,496</u>

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

	2013			
	MOP, LLC	Creekside	CIHA	Total
<b>Balance sheet</b>				
Assets and deferred outflows				
Current assets	\$ 193,585	\$ 343,337	\$ 713,808	\$ 1,250,730
Capital assets	3,321,705	386,310	-0-	3,708,015
Other assets	-0-	-0-	85,592	85,592
Total assets and deferred outflows	<u>\$ 3,515,290</u>	<u>\$ 729,647</u>	<u>\$ 799,400</u>	<u>\$ 5,044,337</u>
Liabilities				
Current liabilities	\$ 287,433	\$ 4,963,522	\$ 25,779	\$ 5,276,734
Long-term liabilities	1,145,208	-0-	-0-	1,145,208
Total liabilities	<u>1,432,641</u>	<u>4,963,522</u>	<u>25,779</u>	<u>6,421,942</u>
Net position	<u>2,082,649</u>	<u>(4,233,875)</u>	<u>773,621</u>	<u>(1,377,605)</u>
Total liabilities and net position	<u>\$ 3,515,290</u>	<u>\$ 729,647</u>	<u>\$ 799,400</u>	<u>\$ 5,044,337</u>
<b>Statement of revenue, expenses and changes in net position</b>				
Revenues				
Net patient service revenue	\$ -0-	\$ 1,516,983	\$ -0-	\$ 1,516,983
Other revenue	700,397	47,576	542,201	1,290,174
Total revenues	<u>700,397</u>	<u>1,564,559</u>	<u>542,201</u>	<u>2,807,157</u>
Expenses				
Depreciation	139,429	35,939	-0-	175,368
Other expenses	363,415	2,291,325	471,480	3,126,220
Total expenses	<u>502,844</u>	<u>2,327,264</u>	<u>471,480</u>	<u>3,301,588</u>
Operating income (loss)	197,553	(762,705)	70,721	(494,431)
Nonoperating	<u>(34,690)</u>	<u>(3)</u>	<u>-0-</u>	<u>(34,693)</u>
Change in net position	162,863	(762,708)	70,721	(529,124)
Net position				
Beginning of year	1,919,786	(3,471,167)	702,900	(848,481)
End of year	<u>\$ 2,082,649</u>	<u>\$ (4,233,875)</u>	<u>\$ 773,621</u>	<u>\$ (1,377,605)</u>
<b>Statement of cash flows</b>				
Cash provided by (used in)				
Operating activities	\$ 300,076	\$ 6,478	\$ 199,436	\$ 505,990
Capital and related financing activities	(260,651)	(34,275)	-0-	(294,926)
Investing activities	-0-	-0-	-0-	-0-
Change	<u>39,425</u>	<u>(27,797)</u>	<u>199,436</u>	<u>211,064</u>
Cash equivalents				
Beginning of year	120,262	145,639	514,372	780,273
End of year	<u>\$ 159,687</u>	<u>\$ 117,842</u>	<u>\$ 713,808</u>	<u>\$ 991,337</u>

## WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014  
(WITH COMPARATIVE TOTALS FOR 2013)

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### 14. RISK MANAGEMENT

#### Medical Benefits to Employees and Dependents

The Hospital is self-funded for medical and related health benefits provided to employees and their families. A third-party administrator has been retained to process and present all benefit claims to the Hospital for payment. Under a stop/loss agreement, the Hospital is responsible for the funding of all claims and related administrative costs up to \$200,000 per individual per policy year. There is no aggregate limit for the Plan under the stop loss agreement.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Self-funded health insurance and related expenses were approximately \$8,386,000 and \$7,506,000 in 2014 and 2013, respectively. Changes in health claim liabilities for 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Unpaid claims, beginning of year	\$ 923,824	\$ 897,032
Incurred claims and changes in estimates	8,386,485	7,505,500
Claim payments	<u>(8,070,518)</u>	<u>(7,478,708)</u>
Unpaid claims, end of year	<u>\$ 1,239,791</u>	<u>\$ 923,824</u>