



STATE OF INDIANA
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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

March 25, 2010

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

We have reviewed the audit report prepared by Kerber, Eck & Braeckel, LLP, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Decatur County Memorial Hospital, as of December 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

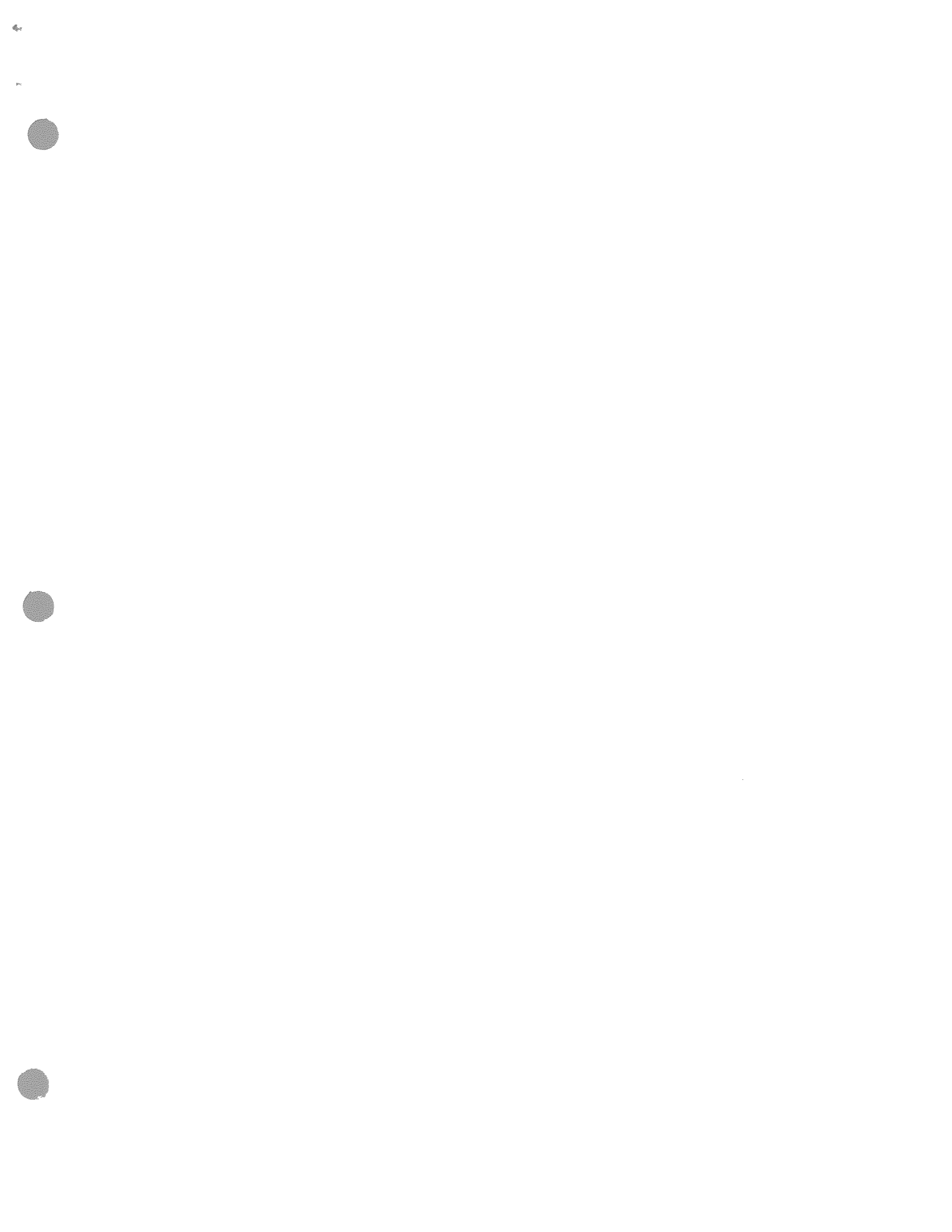
The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECATUR COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF
DECATUR COUNTY, INDIANA

Year Ended December 31, 2008



DECATUR COUNTY MEMORIAL HOSPITAL

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DECATUR COUNTY MEMORIAL HOSPITAL

HOSPITAL OFFICIALS

Office	Official	Term
President/Treasurer	Mr. Bill Alloy	03-01-08 to 02-28-09
Vice President of Finance Co Treasurer	Mr. Michael R. Ruckel	03-01-08 to 02-28-09
Chairman of the Hospital Board	Ms. Toni Collins	03-01-08 to 02-28-09
President of the Board of County Commissioners	Mr. John Richards	01-01-08 to 12-31-08



CPAs and
Management Consultants

1116 W. Main Street
Carbondale, IL 62901-2335
ph 618.529.1040
fax 618.549.2311
www.kebcpa.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Decatur County Memorial Hospital
Decatur County, Indiana

We have audited the accompanying balance sheet of Decatur County Memorial Hospital as of December 31, 2008 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Decatur County Memorial Hospital as of December 31, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the hospital. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kerber, Eck & Braeckel LLP

Carbondale, Illinois
April 9, 2009

DECATUR COUNTY MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS

Decatur County Memorial Hospital (Hospital) located in Greensburg, Indiana was established in 1922. The Hospital is committed to improving the health of the people who live in the community. The values, standards of excellence and vision provide the framework for directing the actions of the Hospital.

This section of the Hospital's annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the fiscal year ended December 31, 2008. This MD&A should be read together with the financial statements included in this report.

OPERATING RESULTS AND FINANCIAL PERFORMANCE

During 2008, the Hospital derived most of its revenue from patient services and other related activities. Approximately 76% of the Hospital's patient revenue is dependent upon outpatient procedures as ordered by physicians. The Hospital has entered into agreements with third-party payers, including governmental programs, under which payments for healthcare services provided to patients are based upon discounts from gross charges and predetermined rates relating to a patient's diagnosis. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the gross charges for services and the actual or anticipated payment.

The Hospital derives a significant portion of its revenues caring for patients covered under government health programs, principally Medicare and Medicaid. In 2008, inpatient revenues derived from the Medicare and Medicaid programs were 61.6% of total inpatient revenues compared to 48.4% in 2007. Outpatient revenues derived from both programs were 45.0% in 2008 compared to 44.5% in 2007.

The table below presents the percentages of gross revenues for patient services, by payer, for the years ended December 31, 2007 and 2006, respectively:

	<u>2008</u>	<u>2007</u>
Medicare	39.1%	37.9%
Medicaid	10.1%	10.5%
Blue Cross	21.3%	20.7%
Other	22.2%	21.5%
Self Pay	7.3%	9.4%

FINANCIAL ANALYSIS

The Hospital's Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets along with the Statement of Cash Flows report the information about the Hospital's activities. A comparative summary of the Hospital's Balance Sheet as of December 31, 2008 and December 31, 2007 is presented below:

Assets:	<u>2008</u>	<u>2007</u>
Cash and equivalents	\$ 10,404,310	\$ 5,885,711
Long term investments	\$ 347,219	\$ 2,600,000
Other designated cash and equiv	\$ 4,829,953	\$ 2,953,791
Accounts Receivable	\$ 7,127,472	\$ 5,320,233
Other Current Assets	\$ 1,534,273	\$ 1,209,634
Net property and equipment	\$ 24,510,913	\$ 24,965,172
Other assets	\$ 153,801	\$ 170,850
Liabilities and Fund Balance:		
Current and other liabilities	\$ 4,633,946	\$ 4,640,055
Long-term obligations	\$ 5,064,784	\$ 6,051,458
Net assets	\$ 32,209,211	\$ 32,413,878

CAPITAL ASSETS

During 2008, the Hospital made the following significant capital acquisitions and improvements:

- Purchased a telemetry monitoring system for cardiac rehab department at a cost of \$43,000.
- Purchased and replaced heart monitors and defibrillators at a cost of \$60,000.
- Replaced various heating and air conditioning systems at a cost of \$163,000.
- Roof replacement at the recently acquired MAP building at a cost of \$77,000.
- Updated and renovated existing elevator at a cost of \$72,000.
- Began Phase 1 of the replacement of the Hospital's telecommunication system at a cost of \$118,000.
- Continued the process of replacing the older wooden windows in the Hospital at a cost of \$55,000.

A summary of the Hospital's capital assets as of December 31, 2008 and 2007 is presented below:

	As of <u>12/31/08</u>	As of <u>12/31/07</u>
Land	\$ 905,928	\$ 905,928
Land Improvements	432,832	430,255
Buildings	24,815,095	24,739,207
Equipment	19,564,902	19,732,128
Construction in progress	<u>462,196</u>	<u>-</u>
Total capital assets	46,180,953	45,807,518
Less accumulated depreciation	<u>21,670,040</u>	<u>20,842,346</u>
Net capital assets	<u>\$ 24,510,913</u>	<u>\$ 24,965,172</u>

For additional information relating to capital assets of the hospital, please see the Notes to the Financial Statements.

LONG-TERM DEBT

The hospital has the following long-term debt at December 31, 2008:

<u>Description</u>	<u>Purpose</u>	
2002 Refunding Bonds	Hospital Construction	\$ 1,835,000
2002 Revenue Bonds	Hospital Construction	\$ 2,857,500
Capital Lease	MRI Equipment	\$ 307,495
Loan	Facility Renovation	\$ 188,099

The 2002 Refunding Bond issue defeased a Revenue Bond issue from 1994, which was for the purpose of adding approximately 36,000 sq ft of new space for the hospital. This included new surgery suites, new emergency room, new radiology and diagnostic areas, new patient registration area, new physical therapy area, as well as a renovated lab area. The hospital funds on a monthly basis to a restricted fund, the amount necessary for principal and interest due to the bondholders, in accordance with the bond ordinance.

The 2002 Revenue Bonds were issued for the purpose of funding additional construction to the existing hospital facility. Construction was completed in 2005 on the 30,000 sq ft addition, which included a new women's center, a new emergency room, new clinical areas, new conference areas, as well as renovation of existing hospital spaces. The hospital funds on a monthly basis to a restricted fund, the amount necessary for principal and interest due the bondholders, in accordance with the bond ordinance.

The Hospital entered in to a capital lease for the acquisition of new MRI equipment in 2006. This lease is scheduled to be paid off in 2011.

The Hospital entered in to a loan agreement for renovation costs to the existing facility, for installation of new MRI equipment. This loan is scheduled to be paid off in 2011.

For additional information on long-term debt of the hospital, please see the Notes to the Financial Statements.

FINANCIAL SUMMARY

A comparative summary of the Statement of Revenues, Expenses and Changes in Net Assets for the years ended December 31, 2008 and December 31, 2007 is presented below:

	<u>2008</u>	<u>2007</u>
Revenues:		
Net patient service revenue	\$ 46,890,348	\$ 36,000,998
Other	<u>638,655</u>	<u>566,133</u>
Total Revenues	47,529,003	36,567,131
Operating Expenses:		
Salaries and benefits	23,529,052	21,020,457
Supplies	7,020,518	5,460,359
Other	8,374,132	6,697,570
Depreciation	<u>2,320,724</u>	<u>2,298,406</u>
Total Operating Expenses	41,244,426	35,476,792
Operating income	6,284,577	1,090,339
Nonoperating income (net)	<u>581,919</u>	<u>478,693</u>
Excess of revenues over expenses	6,866,496	1,569,032
Net assets, beginning of year	32,413,878	30,618,286
Assets released from restriction	(127,252)	(28,927)
Capital grants and contributions	<u>56,089</u>	<u>255,487</u>
Net assets, end of year	<u>\$ 39,209,211</u>	<u>\$ 32,413,878</u>

Notes on Hospital's Statement of Revenues and Expenses:

- The Hospital's contractual adjustments for the year ended December 31, 2008 were 36.8% of gross patient revenue compared to 42.3% in 2007.

FUTURE OUTLOOK AND 2009 BUSINESS PLAN

Management believes the hospital industry will continue to be under significant pressure to continue to control costs and maintain reasonable rates while providing higher quality services. One of the Hospital's main challenges as a small rural hospital is to compete in the surrounding market for qualified and caring personnel. The Hospital must continue to look at opportunities for increasing staff efficiency and productivity while maintaining staff and enhancing patient care.

The hospital will continue to strive to reduce costs, and to increase the quality of patient services, with the ultimate goal to be able to continue to fund the hospital's mission.

As always, the hospital continuously strives to provide quality patient care. Plans and decisions made for the hospital in 2009 will always be made in the best interests of the patient.

DECATUR COUNTY MEMORIAL HOSPITAL

STATEMENT OF NET ASSETS

December 31, 2008

Assets

Current assets	
Cash and cash equivalents	\$ 9,504,310
Short-term investments	900,000
Patient accounts receivable, net of estimated uncollectibles of \$6,641,715	7,127,472
Supplies and other current assets	924,101
Estimated third-party settlements	<u>610,172</u>
Total current assets	19,066,055
Noncurrent cash and investments	
Internally designated for capital improvements	3,269,909
Held by trustee for debt service	432,718
Other long-term investments	347,219
Restricted by bond agreements, contributors and grantors	<u>1,127,326</u>
	5,177,172
Capital assets	
Land and construction work in progress	1,368,124
Depreciable capital assets, net of accumulated depreciation	<u>23,142,789</u>
Total capital assets, net of accumulated depreciation	24,510,913
Other assets	<u>153,801</u>
Total assets	<u>\$ 48,907,941</u>
Current liabilities	
Current maturities of long-term debt	\$ 1,005,689
Accounts payable and accrued expenses	3,511,056
Other current liabilities	<u>117,201</u>
Total current liabilities	4,633,946
Long-term debt, net of current maturities	<u>5,064,784</u>
Total liabilities	9,698,730
Net assets	
Invested in capital assets, net of related debt	18,440,440
Restricted	
For debt service	1,403,309
Expendable for capital acquisitions	58,449
Expendable for specific operating activities	98,286
Unrestricted	<u>19,208,727</u>
Total net assets	<u>39,209,211</u>
Total liabilities and net assets	<u>\$ 48,907,941</u>

The accompanying notes are an integral part of these statements.

DECATUR COUNTY MEMORIAL HOSPITAL

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended December 31, 2008

Operating revenues	
Net patient service revenue (net of provision for bad debts of \$5,342,846)	\$ 46,890,348
Other	<u>638,655</u>
Total operating revenues	47,529,003
Operating expenses	
Salaries and benefits	23,529,052
Medical supplies and drugs	5,852,656
Insurance	305,306
Other supplies	1,167,862
Depreciation and amortization	2,320,724
Other expenses	<u>8,068,826</u>
Total operating expenses	<u>41,244,426</u>
Operating income	6,284,577
Nonoperating revenues (expenses)	
Investment income	181,187
Interest expense	(288,184)
Noncapital grants and contributions	287,001
Other nonoperating gains and losses	<u>401,915</u>
Total nonoperating revenues (expenses)	<u>581,919</u>
Excess of revenues over expenses	
before capital grants and contributions	6,866,496
Capital grants and contributions	56,089
Capital contributions released from restriction	<u>(127,252)</u>
Increase in net assets	6,795,333
Net assets at beginning of year	<u>32,413,878</u>
Net assets at end of year	<u>\$ 39,209,211</u>

The accompanying notes are an integral part of these statements.

DECATUR COUNTY MEMORIAL HOSPITAL

STATEMENT OF CASH FLOWS

Year Ended December 31

	<u>2008</u>
Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 45,083,109
Payments to suppliers and contractors	(6,880,796)
Payments to employees	(23,529,052)
Other receipts and payments, net	<u>(8,222,315)</u>
Net cash provided by operating activities	6,450,946
Cash flows from noncapital financing activities:	
Noncapital grants and contributions	287,001
Net assets released from restriction	(127,252)
Other	<u>401,915</u>
Net cash provided by noncapital financing activities	561,664
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,866,463)
Capital grants and contributions	56,089
Principal paid on long-term debt	(470,991)
Principal portion of capital lease contracts	(482,267)
Interest paid on long-term debt	<u>(288,184)</u>
Net cash used in capital and related financing activities	(3,051,816)
Cash flows from investing activities:	
Investment income	181,187
Cash invested in long-term investments	<u>2,352,781</u>
Net cash used in investing activities	<u>2,533,968</u>
Net increase in cash and cash equivalents	6,494,762
Cash and cash equivalents at beginning of year	<u>8,439,505</u>
Cash and cash equivalents at end of year	<u>14,934,267</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	13,674,223
Restricted cash and cash equivalents	<u>1,260,044</u>
Total cash and cash equivalents	<u>\$ 14,934,267</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 6,284,577
Adjustments to reconcile operating income to net cash flows used in operating activities:	
Depreciation and amortization	2,320,724
Provision for bad debts	5,342,846
Changes in:	
Patient accounts receivable	(7,150,085)
Supplies and other current assets	285,533
Other assets	17,049
Accounts payable and accrued expenses	159,495
Other current liabilities	(9,862)
Estimated third-party payor settlements	<u>(799,331)</u>
Net cash provided by operating activities	<u>\$ 6,450,946</u>

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE A – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

Decatur County Memorial Hospital (Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Decatur 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 Decatur County.

On December 27, 1993, the Board of County Commissioners of Decatur County, upon written request of the Hospital Board of Trustees, created the Decatur County Memorial Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

The accompanying financial statements present the activities of the Hospital and its significant component units. The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. 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 combined with data of the primary government. 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 basic financial statements to emphasize that it is legally separate from the Hospital.

Blended Component Units. The Decatur County Memorial Hospital Foundation is a significant blended component unit of the Hospital. It would be misleading to exclude the Foundation from the Hospital's financial statements because of its relationship with the Hospital. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

Enterprise Fund Accounting. The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

2. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE A – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Short-term investments are investments with remaining maturities of up to ninety days.

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 U.S. Government or U.S. Government Agency obligations.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair 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 any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investments in affiliated companies are reported using the equity method of accounting, or at cost, as applicable.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the statement of revenues, expenses, and changes in net assets.

3. Use of Estimates

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

4. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

DECATUR COUNTY MEMORIAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE A – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
 ACCOUNTING POLICIES - CONTINUED

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land improvements	\$ 500	Straight-line	5 to 25 years
Buildings and improvements	500	Straight-line	5 to 40 years
Fixed equipment	500	Straight-line	5 to 25 years
Major moveable equipment	500	Straight-line	3 to 25 years
Vehicles	500	Straight-line	4 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Hospital during the current year was \$ 288,184.

5. Net Assets

Net assets of the Hospital are classified in three components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowing used to finance the purchase or construction of those assets.

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note G.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

6. Grants and Contributions

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

7. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. If a donor has not provided specific instructions, state law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds.

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE A – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

9. Operating Revenues and Expenses

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

10. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid days off, to a maximum of thirty days.

Paid days off are accrued when incurred and reported as a liability.

11. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disaster.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disaster are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

NOTE B – DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by either the Federal Depository Insurance Fund (FDIC) or the Public Deposit Insurance Fund (PDIF). Any deposit accounts issued or offered by a qualifying financial institution are included.

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE B – DEPOSITS AND INVESTMENTS – CONTINUED

The Hospital's investments are categorized below to give an indication of the level of risk assumed by the Hospital at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department of agent but not in the Hospital's name.

	Category			Reported Amount	Fair Value
	1	2	3		
Corporate debt instruments	\$ -	\$ -	\$ 447,219	\$ 447,219	\$ 447,219
Corporate equity instruments	-	-	-	-	-
Certificate of deposits	<u>1,100,000</u>	<u>-</u>	<u>-</u>	<u>1,100,000</u>	<u>1,100,000</u>
Totals	<u>\$ 1,100,000</u>	<u>\$ -</u>	<u>\$ 447,219</u>	<u>\$ 1,547,219</u>	<u>\$ 1,547,219</u>
Total investments				<u>\$ 1,547,219</u>	<u>\$ 1,547,219</u>

NOTE C – ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 9,653,570
Receivable from Medicare	3,059,312
Receivable from Medicaid	<u>1,056,305</u>

Total patient accounts receivable 13,769,187

Less allowance for uncollectible amounts 6,641,715

Patient accounts receivable, net \$ 7,127,472

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 1,657,041
Payable to suppliers	<u>1,854,015</u>

Total accounts payable and accrued expenses \$ 3,511,056

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE D – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 905,928	\$ -	\$ -	\$ 905,928
Construction in progress	<u>-</u>	<u>669,896</u>	<u>207,700</u>	<u>462,196</u>
Total capital assets, not being depreciated	<u>905,928</u>	<u>669,896</u>	<u>207,700</u>	<u>1,368,124</u>
Capital assets, being depreciated:				
Land improvements	430,255	2,577	-	432,832
Buildings	24,739,207	100,924	25,036	24,815,095
Fixed equipment	2,375,899	210,242	491,546	2,094,595
Major moveable equipment	17,322,165	1,074,471	960,393	17,436,243
Vehicles	<u>34,064</u>	<u>-</u>	<u>-</u>	<u>34,064</u>
Totals	<u>44,901,590</u>	<u>1,388,214</u>	<u>1,476,975</u>	<u>44,812,829</u>
Less accumulated depreciation for:				
Land improvements	351,707	13,302	-	365,009
Buildings	6,381,362	659,223	25,036	7,015,549
Fixed equipment	1,859,941	63,588	490,829	1,432,700
Major moveable equipment	12,217,021	1,543,813	938,117	12,822,717
Vehicles	<u>32,315</u>	<u>1,750</u>	<u>-</u>	<u>34,065</u>
Totals	<u>20,842,346</u>	<u>2,281,676</u>	<u>1,453,982</u>	<u>21,670,040</u>
Total capital assets, being depreciated, net	<u>24,059,244</u>	<u>(893,462)</u>	<u>22,993</u>	<u>23,142,789</u>
Total primary government capital assets, net	<u>\$24,965,172</u>	<u>\$ (223,566)</u>	<u>\$ 230,693</u>	<u>\$ 24,510,913</u>

At December 31, 2008, construction in process consisted primarily of expenses related to an elevator modernization project. The estimated cost to complete the project was approximately \$100,000.

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE E – LEASES

Capital Leases

The Hospital continues to lease certain equipment under capital leases with interest rates at 3.67% to 4.64%. Future minimum lease payments and present values of the net minimum lease payments under the capital leases at of year end are as follows:

2009		\$ 425,423
2010		241,226
2011		<u>93,535</u>
Total minimum lease payments		760,184
Less amount representing interest		<u>50,464</u>
Present value of net minimum lease payments		<u>\$ 709,720</u>

NOTE F – LONG-TERM LIABILITIES

Revenue Bonds

The Hospital issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at December 31, 2008 are as follows:

Purpose	Interest Rates	Amount
2002 refunding bonds	3.6% to 5.0%	\$ 2,095,000
2002 revenue bonds, building addition	3.5% to 5.0%	<u>3,100,000</u>
Total		<u>\$ 5,195,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31,	Principal	Interest
2009	502,500	225,340
2010	527,500	206,499
2011	547,500	185,604
2012	567,500	163,143
2013	592,500	145,141
2014-2016	1,590,000	236,561
2017-2019	<u>867,500</u>	<u>65,796</u>
Total	<u>\$ 5,195,000</u>	<u>\$ 1,228,084</u>

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE F – LONG-TERM LIABILITIES – CONTINUED

Advance Refunding

In prior years the Hospital defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Hospital's financial statements. The following outstanding bonds, at December 31, 2008, were considered defeased:

	<u>Amount</u>
Hospital	<u>\$ 1,970,000</u>

Note Payable

During 2006 the Hospital authorized a \$500,000 note payable to a bank to finance the expansion of the Hospital's MRI Suite. The Note bears an interest rate of 4.5% per annum, payable in monthly installments of \$9,337 through 2011.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Revenue					
Hospital association	\$ 5,685,000	\$ -	\$ 490,000	\$ 5,195,000	\$ 502,500
Less deferred amount on refunding	<u>142,320</u>	<u>-</u>	<u>19,010</u>	<u>123,310</u>	<u>-</u>
Total bonds payable	5,542,680	-	470,990	5,071,690	502,500
Loan from bank	385,486		96,423	289,063	100,964
Capital leases	<u>1,095,564</u>	<u>-</u>	<u>385,844</u>	<u>709,720</u>	<u>402,225</u>
Total long-term liabilities	<u>\$ 7,023,730</u>	<u>\$ -</u>	<u>\$ 953,257</u>	<u>\$ 6,070,473</u>	<u>\$1,005,689</u>

DECATUR COUNTY MEMORIAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE G – RESTRICTED NET ASSETS

Restricted, expendable net assets are available for the following purposes:

	<u>2008</u>
Debt service:	
Debt Service Fund	\$ 970,591
Funds held by Trustee	432,718
Capital acquisitions:	
Foundation	58,449
Specific operating activities:	
Federal Grant Funds	66,388
Colsher Trust	28,252
Foundation	<u>3,646</u>
Total expendable, restricted net assets	<u>\$ 1,560,044</u>

NOTE H – CHARITY CARE

Charges excluded from revenue under the Hospital's charity care policy were \$621,344 for 2008.

NOTE I – INTERNALLY DESIGNATED ASSETS

Noncurrent cash and investments internally designated include the following:

Designated Funds – Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

	<u>2008</u>
Internally designated	
Board designation:	
Cash and cash equivalents	<u>\$ 3,269,909</u>

NOTE J – GENERAL OBLIGATION BONDS PAID BY COUNTY

The 2002 Revenue Bonds included in the Balance Sheet of the Hospital are half of the total bond issue. Decatur County assumed liability for a total amount of \$4,000,000 for Hospital Construction. The bonds and interest thereon are being paid by tax levy revenues and are not an obligation of the Hospital. At December 31, 2008, bonds outstanding totaled \$3,100,000.

NOTE K – MEDICAL BENEFITS TO EMPLOYEES, RETIREES AND DEPENDENTS

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. The risk financing fund is accounted for in the General Fund where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$100,000 per year, per covered person. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE L – CONTINGENT LIABILITIES

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the 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 or results from operations.

NOTE M – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Cash and Cash Equivalents

The carrying amount reported in the statement of net assets for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the statement of net assets is the investment's fair value on the day it becomes a short-term investment.

Investments

Fair values, which are the amounts reported in the statement of net assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the statement of net assets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the statement of net assets for estimated third-party payor settlements approximates its fair value.

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE N – PENSION PLAN

Plan Description

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

VALIC Financial Advisors, Inc.
630 W. Carmel Dr., Suite 140
Carmel, IN 46032

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital is required to contribute at an actuarially determined rate. The current rate is 3% of annual covered payroll. Employer contributions to the plan were \$548,250 for 2008.

NOTE O – NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from the established rate structure. A summary of the payment arrangements with major third party payors follows:

Medicare

Effective December 1, 2005, the Hospital was granted status as a Critical Access Hospital (CAH) under the Medicare program. As a CAH, the Hospital receives cost reimbursement for the majority of Medicare patient care services. The Hospital is reimbursed for services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Prior to December 1, 2005, inpatient acute care services rendered to Medicare program beneficiaries were paid at prospectively determined rates per discharge. These rates varied according to a patient classification system that was based on clinical, diagnostic and other factors. Certain outpatient service costs related to Medicare beneficiaries were paid based on a cost reimbursement methodology and prospectively determined rates. The Hospital was reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

DECATUR COUNTY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE O – NET PATIENT SERVICE REVENUE - CONTINUED

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient services are reimbursed based upon defined allowable rates.

The Hospital has also 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.

A significant portion of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital recorded the following contractual allowances:

	<u>2008</u>
Gross patient service revenue	\$ 82,547,214
Contractual allowances	<u>(30,314,020)</u>
Net patient service revenue	<u>\$ 52,233,194</u>

The Hospital has recorded \$5,855,000 of revenue during the year from payments received from the Indiana State's Health Care for the Indigent program. The program requires payments to certain hospitals to account for the disproportionate number of low income patients served. Funding for the program comes from Federal (Medicare) and State (Medicaid) appropriations as well as intergovernmental transfers. Transfers to the program by the Hospital were approximately \$2,185,000 in 2008. The program has sunset in 2008. It is uncertain whether the program will be re-enacted or not significantly modified.

NOTE P – DEFERRED COMPENSATION PLAN

The Hospital has also adopted a discretionary 457(f) deferred compensation plan for one of its officers. The benefit provided under the plan is conditional and determined solely by the Hospital Board of Trustees upon annual review. The benefit becomes vested upon the future performance of substantial services and subject to substantial risk of forfeiture.

At December 31, 2008 the value of the plan benefit was approximately \$47,000. The deferred compensation plan is unfunded.

DECATUR COUNTY MEMORIAL HOSPITAL

COMBINING STATEMENT OF NET ASSETS

Year Ended December 31, 2008

	<u>Hospital</u>	<u>Foundation</u>	Total Reporting Entity
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 9,207,146	\$ 297,164	\$ 9,504,310
Short-term investments	900,000	-	900,000
Patient accounts receivable	7,127,472	-	7,127,472
Supplies and other current assets	924,101	-	924,101
Estimated third-party settlements	<u>610,172</u>	<u>-</u>	<u>610,172</u>
Total current assets	18,768,891	297,164	19,066,055
Noncurrent cash and investments:			
Internally designated for capital improvements	3,269,909	-	3,269,909
Held by trustee for debt service and construction	432,718	-	432,718
Other long-term investments	347,219	-	347,219
Restricted by bond agreements, contributors and grantors	<u>1,065,231</u>	<u>62,095</u>	<u>1,127,326</u>
	5,115,077	62,095	5,177,172
Capital assets:			
Land and construction work in progress	1,368,124	-	1,368,124
Depreciable capital assets, net of accumulated depreciation	<u>23,142,789</u>	<u>-</u>	<u>23,142,789</u>
Total capital assets, net of accumulated depreciation	24,510,913	-	24,510,913
Other assets	<u>153,801</u>	<u>-</u>	<u>153,801</u>
Total assets	<u>\$ 48,548,682</u>	<u>\$ 359,259</u>	<u>\$ 48,907,941</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Current maturities of long-term debt	\$ 1,005,689	\$ -	\$ 1,005,689
Accounts payable and accrued expenses	3,511,056	-	3,511,056
Other current liabilities	<u>105,644</u>	<u>11,557</u>	<u>117,201</u>
Total current liabilities	4,622,389	11,557	4,633,946
Long-term debt, net of current maturities	<u>5,064,784</u>	<u>-</u>	<u>5,064,784</u>
Total liabilities	9,687,173	11,557	9,698,730
Net assets:			
Invested in capital assets, net of related debt	18,440,440	-	18,440,440
Restricted:			
For debt service	1,403,309	-	1,403,309
Expendable for capital acquisitions	-	58,449	58,449
Expendable for specific operating activities	94,640	3,646	98,286
Unrestricted	<u>18,923,120</u>	<u>285,607</u>	<u>19,208,727</u>
Total net assets	<u>38,861,509</u>	<u>347,702</u>	<u>39,209,211</u>
Total liabilities and net assets	<u>\$ 48,548,682</u>	<u>\$ 359,259</u>	<u>\$ 48,907,941</u>

DECATUR COUNTY MEMORIAL HOSPITAL

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended December 31, 2008

	<u>Primary Hospital</u>	<u>Foundation</u>	<u>Total Reporting Entity</u>
Operating revenues:			
Net patient service revenue	\$46,890,348	-	\$46,890,348
Other	<u>638,655</u>	<u>-</u>	<u>638,655</u>
Total operating revenues	47,529,003	-	47,529,003
Operating expenses:			
Salaries and benefits	23,529,052	-	23,529,052
Medical supplies and drugs	5,852,656	-	5,852,656
Insurance	305,306	-	305,306
Other supplies	1,167,862	-	1,167,862
Depreciation and amortization	2,320,724	-	2,320,724
Other expenses	<u>8,068,826</u>	<u>-</u>	<u>8,068,826</u>
Total operating expenses	<u>41,244,426</u>	<u>-</u>	<u>41,244,426</u>
Operating Income	6,284,577	-	6,284,577
Nonoperating revenues (expenses)			
Investment income	232,914	(51,727)	181,187
Interest expense	(288,184)	-	(288,184)
Noncapital grants and contributions	91,391	195,610	287,001
Other	<u>478,552</u>	<u>(76,637)</u>	<u>401,915</u>
Total nonoperating revenues (expenses)	<u>514,673</u>	<u>67,246</u>	<u>581,919</u>
Excess of revenues over expenses before capital grants and contributions	6,799,250	67,246	6,866,496
Capital grants and contributions	45,988	10,101	56,089
Capital contributions released from restriction	<u>(60,824)</u>	<u>(66,428)</u>	<u>(127,252)</u>
Increase in net assets	6,784,414	10,919	6,795,333
Net assets, beginning of year	<u>32,077,095</u>	<u>336,783</u>	<u>32,413,878</u>
Net assets, end of year	<u>\$38,861,509</u>	<u>\$ 347,702</u>	<u>\$39,209,211</u>

DECATUR COUNTY MEMORIAL HOSPITAL

AUDIT RESULTS AND COMMENTS

During our audit we noted certain matters and other comments and observations that we reported to the Hospital's management in a separate letter dated April 9, 2009.

DECATUR COUNTY MEMORIAL HOSPITAL

EXIT CONFERENCE

The contents of this report were discussed on February 27, 2009, with Mr. William Alloy, Chief Executive Officer and Mr. Michael R. Ruckel, Vice President of Finance. The officials concurred with our audit findings.

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