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STATE OF INDIANA

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August 21, 2013

Board of Directors
Health and Hospital Corporation of Marion County
3838 N. Rural Street
Indianapolis, IN 46205-2930

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2012 to December 31, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Health and Hospital Corporation of Marion County, as of December 31, 2012 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

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of
the Consolidated City of Indianapolis - Marion County)

Auditor's Report and Financial Statements

For the Year Ended December 31, 2012

Health and Hospital Corporation of Marion County, Indiana
(A Component Unit of the Consolidated City of Indianapolis - Marion County)
For the Year Ended December 31, 2012

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Health and Hospital Corporation of Marion County, Indiana
(A Component Unit of the Consolidated City of Indianapolis - Marion County)
For the Year Ended December 31, 2012

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Other Supplementary Information

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Health and Hospital Corporation of Marion County, Indiana
Indianapolis, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Health and Hospital Corporation of Marion County, Indiana (a component unit of the Consolidated City of Indianapolis - Marion County) (Corporation) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Health and Hospital Corporation of Marion County, Indiana as of December 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying schedule of expenditures of federal awards required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
June 28, 2013

Management's Discussion and Analysis (Unaudited)

As management of the Health and Hospital Corporation of Marion County, Indiana, (Corporation), we offer readers of this Corporation's Comprehensive Annual Financial Report this narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our transmittal letter at the front of this report along with the financial statements, including the footnotes that follow the basic financial statements.

Financial Highlights

- The assets of the Corporation exceeded its liabilities at the close of the most recent fiscal year by $585,538,112 (net position). Of this amount, $453,916,176 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Corporation's total net position increased by $178,841,025.
- As of the close of 2012, the Corporation's governmental funds reported combined ending fund balances of $322,467,323, an increase of $46,351,424 in comparison with the prior year.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was $227,495,914 or 283% of total general fund expenditures.
- The Corporation's total debt, excluding capital leases, decreased by $11,066,133 million or 4.7% during the current fiscal year. This reflects scheduled principal payments on outstanding bonds. The capital lease obligation increased by $96,061,264 or 26.7% in 2012. The due to local government increased by $186,999,903 or 137.8% in 2012.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Health and Hospital Corporation's basic financial statements. The Corporation's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Corporation's assets, deferred outflows, liabilities, and deferred inflows with the difference between these financial statement elements being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The statement of activities presents information showing how the Corporation's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Corporation that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Health and Hospital Corporation include those focused on public health: health improvement, communicable disease prevention, water quality and hazardous materials management, vector disease control, housing and neighborhood health, consumer and employee risk reduction, and administration and finance activities, including debt management. The business-type activities reflect the operations of Wishard Health Services, including a general acute care hospital, nine community health centers and the Transport Emergency Medical Services system for Marion County, Indiana (Indianapolis EMS); and the Corporation's Long-Term Care operations (LT Care), consisting of a system of long-term care facilities throughout the State of Indiana.

The government-wide financial statements include only the Health and Hospital Corporation of Marion County, Indiana (known as the primary government), which includes Lions Insurance Company, a blended component unit established in 2006. Since the Corporation's Board is appointed, not elected, under Governmental Accounting Standards Board (GASB) Statement No. 14, the Corporation is considered a component unit of the Consolidated City of Indianapolis - Marion County (Uni-Gov), and the financial statements of the Corporation are included in the Comprehensive Annual Financial Report of Uni-Gov. Management also considers all other units of government within Marion County to be separate from this Corporation, and they are not considered as component units within this report.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Corporation maintains three governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Debt Service Fund, and Capital Projects Fund, all of which are considered to be major funds.

The Corporation adopts an annual appropriated budget for its General, Debt Service, and a portion of its Capital Projects Fund. Budgetary comparison statements have been provided for these three funds to demonstrate compliance with this budget.

Proprietary Funds **-** The Corporation's proprietary fund consists of two enterprise funds. Enterprise funds report the same functions presented as business-type activities in the government-wide financial statements. The Corporation uses the enterprise fund to account for its Wishard Health Services Division (including Indianapolis EMS) and its LT Care Division.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information in the form of a budgetary comparison schedule for the General Fund. Also, budgetary schedules are provided for the Debt Service Fund and the Capital Projects Fund as other supplementary information.

Financial Analysis of the Corporation as a Whole

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Corporation, assets and deferred outflows (the Corporation had no deferred outflows at December 31, 2012) exceeded liabilities and deferred inflows (the Corporation had no deferred inflows at December 31, 2012) by $585,538,112 at December 31, 2012.

A portion of the Corporation's net position, 22.5%, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Corporation uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Corporation's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net position, $453,916,176, may be used to meet the government's ongoing obligations to citizens and creditors.

The Corporation's net position increased by $178,841,025 during the current fiscal year. The majority of the increase reported in connection with the Corporation's governmental activities resulted from the increase in Medicaid special revenue receipts, grant contributions from Eskenazi Health Foundation and reduced operating support to Wishard.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	$ 412,606,686	$ 340,965,307	$ 312,480,374	$ 271,486,313	$ 725,087,060	$ 612,451,620
Capital assets, net of accumulated depreciation	496,327,163	272,513,722	569,966,677	452,547,488	1,066,293,840	725,061,210
Total Assets	908,933,849	613,479,029	882,447,051	724,033,801	1,791,380,900	1,337,512,830
Liabilities						
Long-term liabilities	561,246,809	383,280,696	494,716,847	391,399,769	1,055,963,656	774,680,465
Other liabilities	64,994,488	57,001,025	84,884,644	99,134,253	149,879,132	156,135,278
Total Liabilities	626,241,297	440,281,721	579,601,491	490,534,022	1,205,842,788	930,815,743
Net Position						
Net investment in capital assets	10,475,308	19,442,084	121,146,628	98,753,758	131,621,936	118,195,842
Unrestricted	272,217,244	153,755,224	181,698,932	134,746,021	453,916,176	288,501,245
Total Net Position	$ 282,692,552	$ 173,197,308	$ 302,845,560	$ 233,499,779	$ 585,538,112	$ 406,697,087

Changes in Net Position

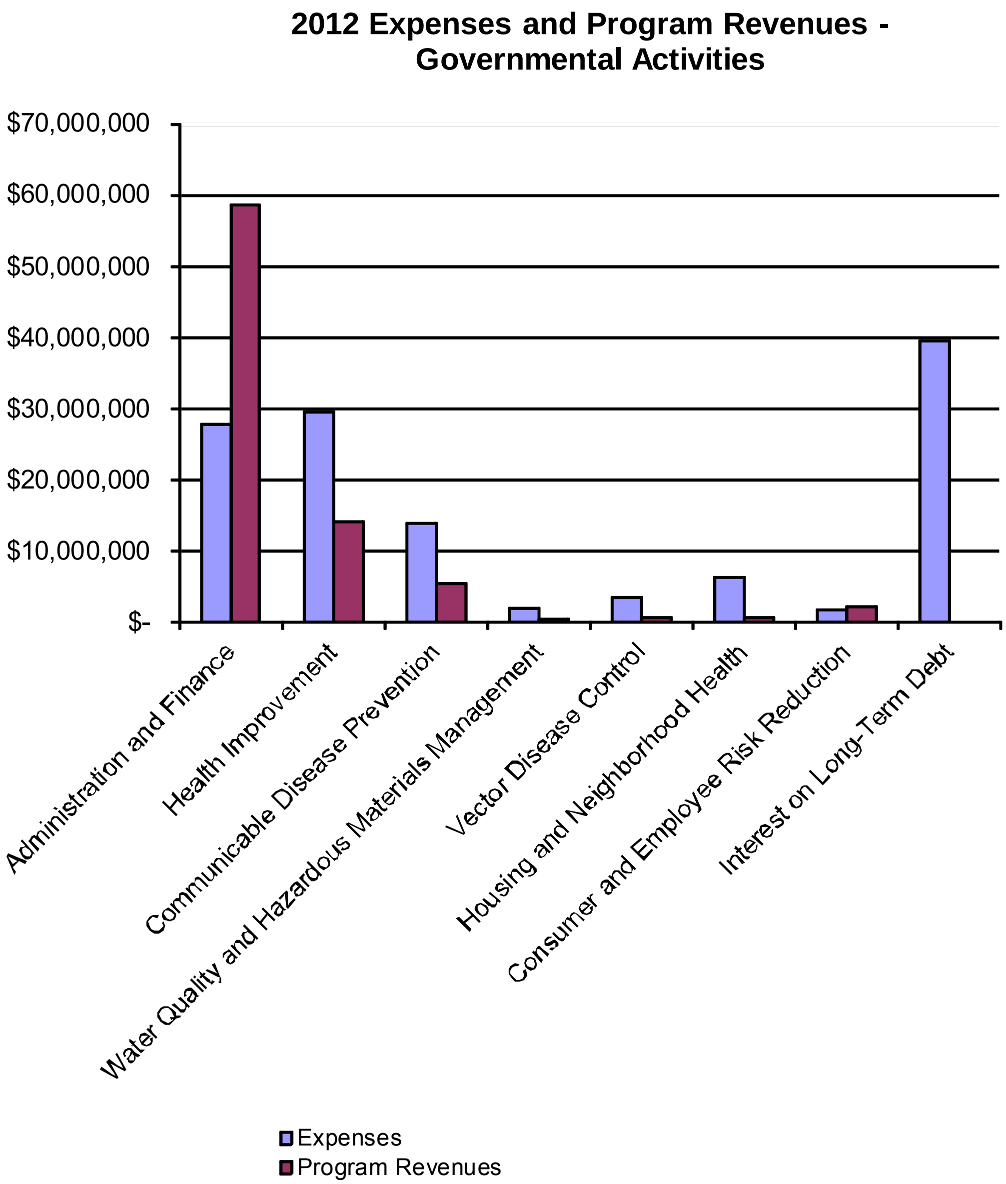
The Corporation's total revenue was $1,372,717,327 during the current fiscal year. Taxes represent 8.2% of the Corporation's revenue. Medicaid special revenue represents 5.4% of revenue, while 78.6% of revenue came from fees charged for services. The remaining 7.8% came from grants and contributions, interest earnings, Build America Bond subsidies, and miscellaneous revenues.

The total cost of all programs and services was $1,193,876,302. This resulted in an increase in net position for the year of $178,841,025.

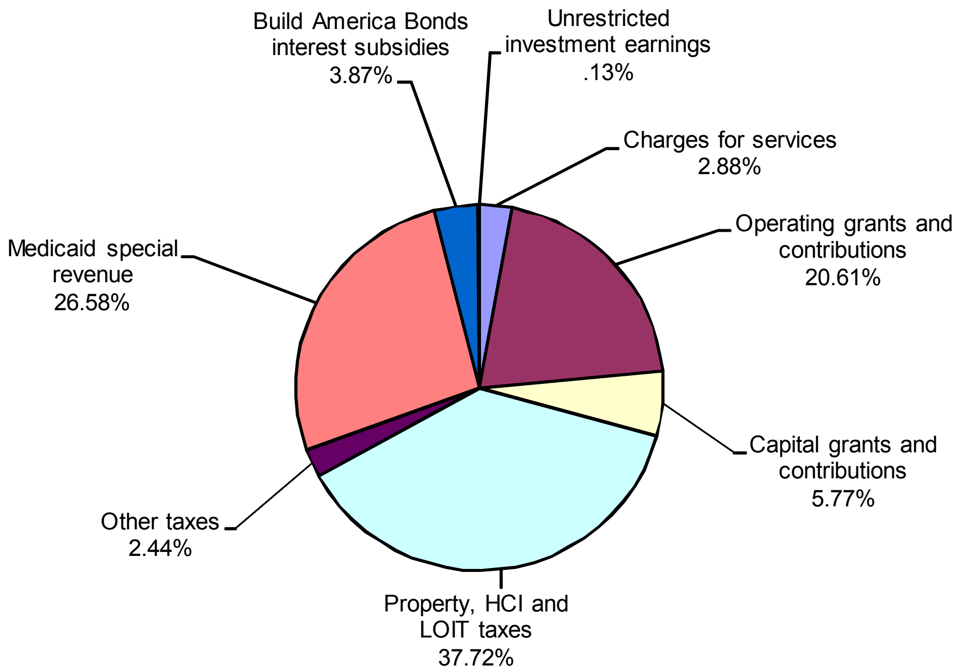
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	$ 8,064,588	$ 9,757,151	$ 1,071,192,619	$ 836,052,653	$ 1,079,257,207	$ 845,809,804
Operating grants and contributions	57,701,542	47,974,400	20,057,585	20,460,189	77,759,127	68,434,589
Capital grants and contributions	16,147,752	1,532,905	-	-	16,147,752	1,532,905
General revenues						
Property, HCI and local option income taxes	105,627,906	104,742,264	-	-	105,627,906	104,742,264
Other taxes	6,837,900	6,588,282	-	-	6,837,900	6,588,282
Medicaid special revenue	74,431,944	14,374,161	-	-	74,431,944	14,374,161
Build America Bonds interest subsidies	10,847,662	13,775,283	-	-	10,847,662	13,775,283
Unrestricted investment earnings	356,401	1,316,116	1,451,428	1,511,132	1,807,829	2,827,248
Total revenues	280,015,695	200,060,562	1,092,701,632	858,023,974	1,372,717,327	1,058,084,536
Expenses						
Administration and finance	27,704,061	23,045,390	-	-	27,704,061	23,045,390
Health improvement	29,487,312	28,917,502	-	-	29,487,312	28,917,502
Communicable disease prevention	13,909,736	14,388,516	-	-	13,909,736	14,388,516
Water quality and hazardous material management	1,984,465	2,005,942	-	-	1,984,465	2,005,942
Vector disease control	3,410,855	3,954,524	-	-	3,410,855	3,954,524
Housing and neighborhood health	6,365,433	6,986,843	-	-	6,365,433	6,986,843
Consumer and employee risk reduction	1,712,384	1,795,884	-	-	1,712,384	1,795,884
Interest on long-term debt	39,583,468	49,636,823	-	-	39,583,468	49,636,823
Wishard Health Services	-	-	520,310,998	519,774,867	520,310,998	519,774,867
Long-term care	-	-	549,407,590	426,846,568	549,407,590	426,846,568
Total expenses	124,157,714	130,731,424	1,069,718,588	946,621,435	1,193,876,302	1,077,352,859
Increase (Decrease) in Net Position Before Transfers	155,857,981	69,329,138	22,983,044	(88,597,461)	178,841,025	(19,268,323)
Transfers	(46,362,737)	(86,656,492)	46,362,737	86,656,492	-	-
Increase (Decrease) in Net Position	109,495,244	(17,327,354)	69,345,781	(1,940,969)	178,841,025	(19,268,323)
Net Position, Beginning of Year	173,197,308	190,524,662	233,499,779	235,440,748	406,697,087	425,965,410
Net Position, End of Year	$ 282,692,552	$ 173,197,308	$ 302,845,560	$ 233,499,779	$ 585,538,112	$ 406,697,087

Governmental activities - Governmental activities increased the Corporation's net position by $109,495,244 compared to the total $178,841,025 increase in net position of the Corporation. Medicaid special revenue increased due to more funding being received than anticipated for the 2012 year. Capital grants and contributions increased substantially from funding received from Eskenazi Health Foundation for the new hospital. Transfers were $46,362,737 (net), a decrease of $40,293,755 million from last year. Transfers reflect support to Wishard and equity transfers from long-term care.

The following charts provide comparisons of the Corporation's governmental program revenues and expenses by function, as well as revenues by source. As shown, interest on long-term debt is the largest function in expense. General revenues such as property tax are not shown by program; but are included in the revenues by source chart to show their significance. Taxes are used to support program activities for the entire Corporation.



2012 Revenues by Source - Governmental Activities

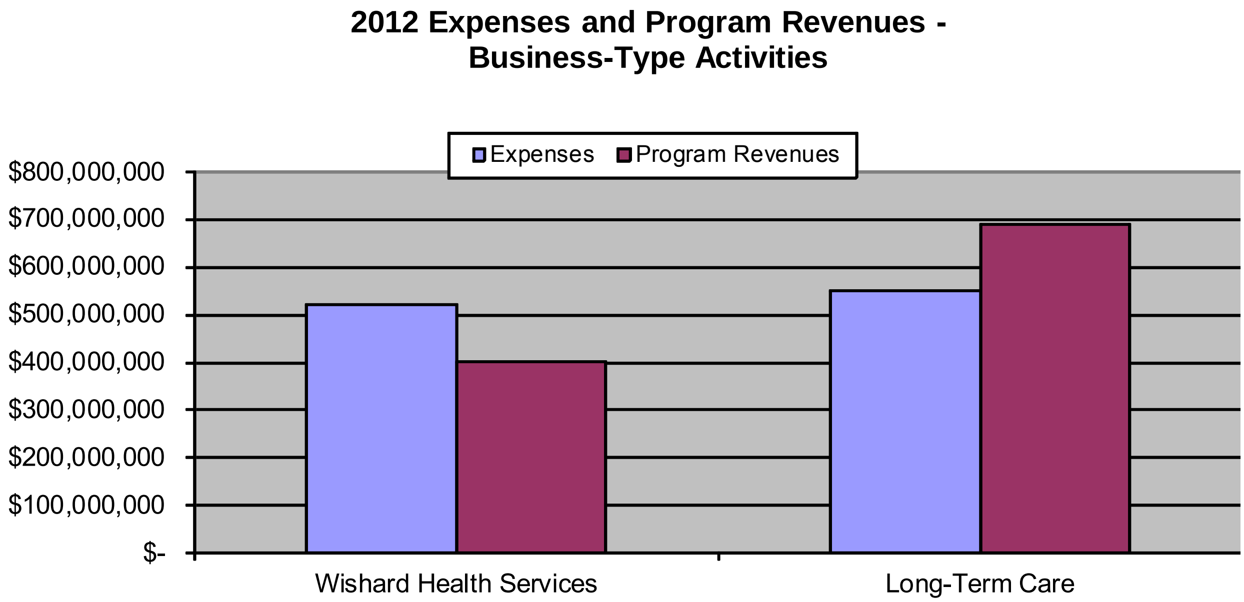


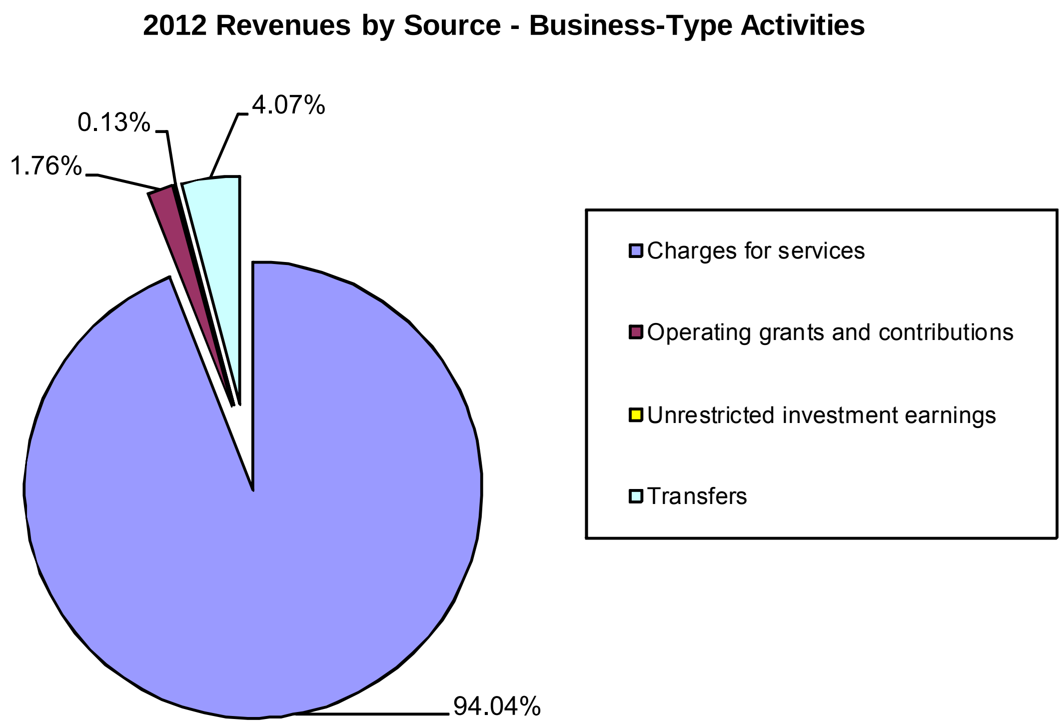
Business-type activities - Business-type activities increase the Corporation's net position by $69,345,781 compared to a decrease of $1,940,969 in 2011.

Wishard's net position increased by $35,096,759 in the current year. Net position invested in capital assets increased by $15,280,326 primarily due to increases in capital asset acquisition and construction in progress totaling $49.1 million reduced by ordinary depreciation of $24.1 million and an additional $9.9 million of accelerated depreciation to write down assets in accordance with the remaining useful life of the current Wishard facility. Wishard's unrestricted net position increased by $19.8 million. Operating revenues increased by $119,044,756 due to a $122.2 million increase in net patient services revenue and a $3.2 million decrease in other revenue. Operating expenses increased $536,131 due to increases in medical and professional fees, which was the result of a change in physician staffing contracts. Wishard incurred an operating loss of $139,447,006, which was offset by $111.5 million in transfers from the General Fund, $41.6 million in capital contributions, $20.1 million in mental health grants from various agencies, and $1.4 million in investment income.

LT Care net position was $150,908,464, which was an increase of $34,249,022 over 2011. Operating revenues increased $116,095,210 due to increased Medicare and Managed Care reimbursements and increased patient revenue related to new homes. Operating expenses increased $111,454,552. This was primarily due to the addition of several nursing homes in 2012. LT Care has $4,485,707 in net investment in capital assets. All 59 facilities are recorded as capital leases under noncurrent assets.

The following charts provide a comparison of revenues and expenses, and revenues by source for the Corporation's business activities.





Financial Analysis of the Corporation's Funds

As noted earlier, the Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

***Governmental Funds* -** The focus of the Corporation's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Corporation's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Corporation's governmental funds reported combined ending fund balances of $322,467,323, an increase of $46,351,424 in comparison with the prior year. Approximately 29% of this total amount, $94,493,040 constitutes restricted and assigned fund balance, which is related to capital outlays for the new hospital and money set aside for debt service. Approximately 70% of the total amount, or $227,495,914 is unassigned fund balance. The remaining 1% of fund balance is nonspendable.

The General Fund is the chief operating fund of the Corporation. At the end of the current fiscal year, the unassigned fund balance of the General Fund was $227,495,914, while the total fund balance increased to $230,226,593. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 283.2% of total general fund expenditures, while total fund balance represents 286.6% of that same amount.

The fund balance of the Corporation's General Fund increased by $94,697,368 during the current fiscal year, in comparison to a $17,628,676 decrease in 2011.

Intergovernmental revenue increased as additional medical education fees were received in 2012 vs. 2011. Medicaid special revenue increased from a settlement for State Fiscal Years 2012 and 2013. Expenses decreased as there were decreased capital expenditures and decreased grant expenditures. Transfers out reflect a decrease in support to Wishard of $83.7 million and an increase of $46 million from prior year to cover new debt service payments and dollars transferred to the capital projects fund for the new hospital.

***Debt Service Fund* -** The Debt Service Fund has a fund balance of $16,047,207 compared to a fund balance of $16,860,613 in the prior year. The net decrease in fund balance during the current year was $813,406. This decrease is due to debt service payments related to the 2010 General Obligation Bonds.

***Capital Projects Fund* -** The Capital Projects Fund has a total fund balance of $76,193,523. The net decrease in fund balance during the current year was $47,532,538 due to capital outlays related to the new hospital.

***Proprietary Funds* -** The Corporation's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of Wishard Health Services at the end of the year amounted to $35,276,175. Total net position for Wishard increased by $35,096,759. Other factors concerning the finances of Wishard have already been addressed in the discussion of the Corporation's business-type activities.

Unrestricted net position of LT Care at the end of the year was $146,422,757. The increase in net position was $34,249,022. Other information on LT Care operations can be found in the discussion of the Corporation's business-type activities.

General Fund Budgetary Highlights

The original budget of $263,037,000 was increased during 2012 to $293,037,000. Supplies and other charges and services were increased while capital outlays was decreased. The final General Fund budget of $293,037,000 included $116,413,000 in expenditures and approximately $177,000,000 in transfers. Actual expenditures and transfers out were $157,893,482. Of the total underspending, $387,000 related to personal services, $675,000 to supplies, $29.6 million to contractual services, and $1 million to capital outlays. Underspending for contractual service reflects a decrease in support paid to Wishard and not completing all planned spending. Additional underspending in other categories reflects potential year-end initiatives that did not occur. General revenues and other resources were estimated at $274,649,802 and actual was $159,826,462. Taxes collected were approximately $4.5 million over budget due to LOIT and other taxes being higher than expected. Medicaid special revenue was $142.8 million under budget because no 2012 DSH revenue was received and intergovernmental transfers for physician faculty and nursing facilities were larger than anticipated. Miscellaneous revenue was $24.6 million over budget due to increased medical education revenue from Indiana University.

Capital Asset and Debt Administration

Capital Assets **-** The Corporation's capital assets for its governmental and business-type activities as of December 31, 2012, amounts to $1,066,293,840 (net of accumulated depreciation), compared to $725,061,210 at the end of 2011. This investment in capital assets includes land, buildings, improvements, machinery and equipment, vehicles, and construction in progress.

Major capital asset events during 2012 included the following:

- Construction in progress related to Eskenazi Health

Additional information on the Corporation's capital assets can be found below and in Note 7 to the financial statements.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 4,114,896	$ 4,114,896	$ 1,189,878	$ 2,897,993	$ 5,304,774	$ 7,012,889
Land improvements	-	-	3,880,814	3,747,817	3,880,814	3,747,817
Buildings and improvements	17,115,876	17,357,516	493,671,162	380,147,213	510,787,038	397,504,729
Equipment	7,352,140	7,884,287	50,205,352	50,838,881	57,557,492	58,723,168
Vehicles	420,572	613,677	1,423,622	1,573,134	1,844,194	2,186,811
Construction in progress	467,323,679	242,543,346	19,595,849	13,342,450	486,919,528	255,885,796
Total assets	$ 496,327,163	$ 272,513,722	$ 569,966,677	$ 452,547,488	$ 1,066,293,840	$ 725,061,210

Long-Term Debt **-** At the end of 2012, the Corporation had total general obligation debt outstanding of $220,355,000. Moody's Investors Service rates the Corporation's general obligation debt "Aaa".

State statutes limit the amount of general obligation debt a governmental entity may issue to 0.67% of its total assessed valuation. The current debt limitation for the Corporation is $227,279,272. Outstanding debt at December 31, 2012 represents 97% of this limit.

Additional information on the Corporation's long-term debt can be found in Note 9 of this report.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
1988 renovation bonds	$ 12,495,000	$ 13,815,000	$ -	$ -	$ 12,495,000	$ 13,815,000
2005 general obligation bonds	21,295,000	22,570,000	-	-	21,295,000	22,570,000
2010 general obligation bonds	186,565,000	195,000,000	-	-	186,565,000	195,000,000
Deferred bond premiums	4,173,973	4,357,617	-	-	4,173,973	4,357,617
Deferred amount on refunding	(1,124,742)	(1,272,253)	-	-	(1,124,742)	(1,272,253)
Due to local government	322,659,705	135,659,802	-	-	322,659,705	135,659,802
Capital leases	7,487,632	6,452,687	448,820,049	353,793,730	456,307,681	360,246,417
Total long-term debt	$ 553,551,568	$ 376,582,853	$ 448,820,049	$ 353,793,730	$ 1,002,371,617	$ 730,376,583

Economic Factors and Next Year's Budgets and Rates

The 2013 original budget for all annually budgeted funds is $436,245,351. No revisions have been made through June 2013. The 2013 General fund budget is $317,957,800 a 8.5% increase from the 2012 final General fund budget of $293,037,000. The 2012 General fund expenditure budget is higher than 2012 to account for additional funding that the general fund will transfer to the capital projects fund for the new hospital project. The budget for the Corporation will continue to be challenged by increasing expenditures and declining revenue in the form of property tax caps and reduced Medicaid special revenue.

Requests for Information

This financial report is designed to provide a general overview of the Health and Hospital Corporation's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Treasurer, 3838 N. Rural, Indianapolis, Indiana, 46205.

Basic Financial Statements

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Statement of Net Position
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 155,395,110	$ 103,645,113	$ 259,040,223
Investments	-	4,588,799	4,588,799
Receivables, net:			
Patient services	-	87,730,139	87,730,139
Medicaid special revenue	90,917,091	35,714,178	126,631,269
Grants	3,780,564	4,964,659	8,745,223
Interest	-	30,979	30,979
Taxes	9,500,000	-	9,500,000
Other	14,065,590	3,581,267	17,646,857
Internal balances	2,269,666	(2,269,666)	-
Inventories	-	3,847,712	3,847,712
Prepaid costs and other assets	478,369	7,951,977	8,430,346
Restricted cash and cash equivalents	91,024,629	-	91,024,629
Restricted investments	20,937,275	-	20,937,275
Bond issuance costs	1,873,116	-	1,873,116
Lease acquisition costs (net of accumulated amortization)	-	31,633,043	31,633,043
Joint venture investments	22,365,276	18,147,753	40,513,029
Other long-term assets	-	12,914,421	12,914,421
Capital assets (net of accumulated depreciation):			
Land	4,114,896	1,189,878	5,304,774
Land improvements	-	3,880,814	3,880,814
Buildings and improvements	17,115,876	493,671,162	510,787,038
Equipment	7,352,140	50,205,352	57,557,492
Vehicles	420,572	1,423,622	1,844,194
Construction in progress	467,323,679	19,595,849	486,919,528
Total assets	908,933,849	882,447,051	1,791,380,900
Liabilities			
Accounts payable	15,755,557	57,583,943	73,339,500
Restricted accounts payable	47,059,823	-	47,059,823
Accrued liabilities	1,205,731	19,618,567	20,824,298
Unearned revenue	973,377	2,857,132	3,830,509
Estimated Medicare/Medicaid settlements	-	1,573,233	1,573,233
Medical claims incurred but not reported	-	3,251,769	3,251,769
Long-term liabilities			
Due within one year	19,450,835	53,245,114	72,695,949
Due in more than one year	541,795,974	441,471,733	983,267,707
Total liabilities	626,241,297	579,601,491	1,205,842,788
Net Position			
Net investment in capital assets	10,475,308	121,146,628	131,621,936
Unrestricted	272,217,244	181,698,932	453,916,176
Total net position	$ 282,692,552	$ 302,845,560	$ 585,538,112

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Statement of Activities
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental Activities							
Administration and finance	$ 27,704,061	$ 982,203	$ 41,598,895	$ 16,000,000	$ 30,877,037	$ -	$ 30,877,037
Health improvement	29,487,312	3,055,130	11,063,684	-	(15,368,498)	-	(15,368,498)
Communicable disease prevention	13,909,736	556,999	4,862,454	-	(8,490,283)	-	(8,490,283)
Water quality and hazardous materials management	1,984,465	356,262	79,509	-	(1,548,694)	-	(1,548,694)
Vector disease control	3,410,855	551,975	-	-	(2,858,880)	-	(2,858,880)
Housing and neighborhood health	6,365,433	413,012	97,000	147,752	(5,707,669)	-	(5,707,669)
Consumer and employee risk reduction	1,712,384	2,149,007	-	-	436,623	-	436,623
Interest on long-term debt	39,583,468	-	-	-	(39,583,468)	-	(39,583,468)
Total governmental activities	124,157,714	8,064,588	57,701,542	16,147,752	(42,243,832)	-	(42,243,832)
Business-Type Activities							
Wishard Health Services	520,310,998	380,863,992	20,057,585	-	-	(119,389,421)	(119,389,421)
LT Care	549,407,590	690,328,627	-	-	-	140,921,037	140,921,037
Total business-type activities	1,069,718,588	1,071,192,619	20,057,585	-	-	21,531,616	21,531,616
Total	$ 1,193,876,302	$ 1,079,257,207	$ 77,759,127	$ 16,147,752	(42,243,832)	21,531,616	(20,712,216)
General revenues:							
Property and local option income taxes					67,627,906	-	67,627,906
HCI taxes from State of Indiana					38,000,000	-	38,000,000
Excise taxes					5,551,960	-	5,551,960
Financial institution taxes					1,285,940	-	1,285,940
Medicaid special revenue (unrestricted)					74,431,944	-	74,431,944
Build America Bonds interest subsidies					10,847,662	-	10,847,662
Unrestricted investment earnings					356,401	1,451,428	1,807,829
Transfers					(46,362,737)	46,362,737	-
Total general revenues and transfers					151,739,076	47,814,165	199,553,241
Change in net position					109,495,244	69,345,781	178,841,025
Net position - beginning of year					173,197,308	233,499,779	406,697,087
Net position - end of year					$ 282,692,552	$ 302,845,560	$ 585,538,112

See Notes to Basic Financial Statements

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Balance Sheet - Governmental Funds
December 31, 2012

	General	Debt Service	Capital Projects	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 128,056,461	$ 12,015	$ 27,326,634	$ 155,395,110
Restricted cash and cash equivalents	-	87,982	90,936,647	91,024,629
Restricted investments	-	15,947,210	4,990,065	20,937,275
Receivables (net of allowance for uncollectibles)				
Grants	4,096,966	-	-	4,096,966
Medicaid special revenue	90,917,091	-	-	90,917,091
Taxes	9,500,000	-	-	9,500,000
Other	8,641,759	5,423,831	-	14,065,590
Due from other funds	8,078,822	-	-	8,078,822
Prepaid costs and other assets	478,369	-	-	478,369
Total assets	$ 249,769,468	$ 21,471,038	$ 123,253,346	$ 394,493,852
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 15,755,557	$ -	$ 47,059,823	$ 62,815,380
Salaries and related benefits	1,205,731	-	-	1,205,731
Deferred and unearned revenue	1,558,646	-	-	1,558,646
Due to other funds	701,727	5,423,831	-	6,125,558
Accrued self-insurance claims	321,214	-	-	321,214
Total liabilities	19,542,875	5,423,831	47,059,823	72,026,529
Fund Balances				
Nonspendable	478,369	-	-	478,369
Restricted	-	16,035,192	62,633,749	78,668,941
Assigned	2,252,310	12,015	13,559,774	15,824,099
Unassigned	227,495,914	-	-	227,495,914
Total fund balances	230,226,593	16,047,207	76,193,523	322,467,323
Total liabilities and fund balances	$ 249,769,468	$ 21,471,038	$ 123,253,346	

Amounts reported for governmental activities in the statement of net position are different because:	
Net capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the funds statement.	496,327,163
Joint venture investments are not financial resources and, therefore, are not reported in the funds statement.	22,365,276
Deferred revenues not meeting availability criteria in funds statement are not in the statement of net position.	585,269
Bond issuance costs are reported in the governmental activities but are not reported in the funds statement.	1,873,116
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds statement.	(560,925,595)
Net assets of governmental activities	$ 282,692,552

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended December 31, 2012

	General	Debt Service	Capital Projects	Total Governmental Funds
Revenues				
Taxes	$ 107,969,247	$ 4,295,220	$ 201,339	$ 112,465,806
Licenses and permits	3,901,841	-	-	3,901,841
Intergovernmental	58,176,574	-	-	58,176,574
Charges for services	1,147,540	-	-	1,147,540
Medicaid special revenue	74,198,308	-	-	74,198,308
Investment income	70,590	222,426	63,385	356,401
Build America Bonds interest subsidies	-	10,847,662	-	10,847,662
Contributions	-	-	16,000,000	16,000,000
Miscellaneous	2,748,262	-	-	2,748,262
Total revenues	248,212,362	15,365,308	16,264,724	279,842,394
Expenditures				
Current:				
Administrative	24,867,451	-	-	24,867,451
Population health	22,599,355	-	-	22,599,355
Environmental health	12,791,408	-	-	12,791,408
Health center program	1,154,921	-	-	1,154,921
Data processing	3,233,840	-	-	3,233,840
Grant programs	15,090,143	-	-	15,090,143
Capital outlays	591,803	-	285,783,430	286,375,233
Debt service:				
Principal	-	13,300,000	-	13,300,000
Interest and fiscal charges	-	39,583,468	-	39,583,468
Total expenditures	80,328,921	52,883,468	285,783,430	418,995,819
Excess (Deficiency) of Revenues Over (Under) Expenditures	167,883,441	(37,518,160)	(269,518,706)	(139,153,425)
Other Financing Sources (Uses)				
Transfers in	106,700,000	36,704,754	31,681,319	175,086,073
Transfers out	(179,886,073)	-	-	(179,886,073)
Other debt issued	-	-	190,304,849	190,304,849
Total other financing sources and uses	(73,186,073)	36,704,754	221,986,168	185,504,849
Net change in fund balances	94,697,368	(813,406)	(47,532,538)	46,351,424
Fund balances - beginning of year	135,529,225	16,860,613	123,726,061	276,115,899
Fund balances - end of year	$ 230,226,593	$ 16,047,207	$ 76,193,523	$ 322,467,323

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Governmental Activities For the Year Ended December 31, 2012

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	$ 46,351,424
Depreciation expense is not reported in the funds statement, but is reported as a decrease in net position in the statement of activities.	(2,839,778)
Capital outlays are reported as expenditures in the funds statement, but are reported as additions to capital assets in the statement of net position.	286,375,233
Transfers of capital assets from governmental activities to the business type activities not shown in the fund statements.	(41,562,737)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds statement.	(619,148)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences (as applicable) in the treatment of long-term debt and related items.	(177,057,960)
Compensated absences that do not require the use of current financial resources are not reported as expenditures in the funds statement.	(674,156)
Asserted and unasserted self-insurance claims that do not require the use of current financial resources are not reported as expenditures in the funds statement	27,080
The increase in the net pension obligation is not reported in the funds statement, but is reported as a decrease in net position in the statement of activities.	(504,714)
Change in net position of governmental activities	$ 109,495,244

Health and Hospital Corporation of Marion County, Indiana
(A Component Unit of the Consolidated City of Indianapolis - Marion County)
Statement of Net Position - Proprietary Funds
December 31, 2012

	Wishard Health Services	LT Care	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 44,414,426	$ 59,230,687	$ 103,645,113
Investments	4,588,799	-	4,588,799
Receivables (net of allowance for uncollectibles):			
Patient services	38,290,796	49,439,343	87,730,139
Medicaid special revenue	-	35,714,178	35,714,178
Grants	4,648,257	-	4,648,257
Interest	30,979	-	30,979
Other	3,581,267	-	3,581,267
Inventories	3,847,712	-	3,847,712
Due from other funds	701,730	-	701,730
Prepaid costs and other assets	5,558,782	2,393,195	7,951,977
Total current assets	105,662,748	146,777,403	252,440,151
Noncurrent assets:			
Lease acquisition cost (net of accumulated amortization)	-	31,633,043	31,633,043
Joint venture investments	18,147,753	-	18,147,753
Other long-term assets	-	12,914,421	12,914,421
Capital assets (net of accumulated depreciation)			
Land	1,189,878	-	1,189,878
Land improvements	1,181,089	2,699,725	3,880,814
Building and improvements	81,486,060	412,185,102	493,671,162
Equipment	18,180,162	32,025,190	50,205,352
Vehicles	1,421,637	1,985	1,423,622
Construction in progress	13,202,095	6,393,754	19,595,849
Total capital assets (net accumulated depreciation)	116,660,921	453,305,756	569,966,677
Total noncurrent assets	134,808,674	497,853,220	632,661,894
Total assets	240,471,422	644,630,623	885,102,045
Liabilities			
Current liabilities:			
Accounts payable	34,768,616	22,815,327	57,583,943
Accrued liabilities	9,165,421	10,453,146	19,618,567
Due to other funds	2,654,994	-	2,654,994
Capital lease obligation - current	-	27,275,502	27,275,502
Estimated Medicare/Medicaid settlements	746,512	826,721	1,573,233
Unearned revenue	2,857,132	-	2,857,132
Medical claims incurred but not reported	3,251,769	-	3,251,769
Accrued compensated absences - current	17,846,657	-	17,846,657
Asserted and unasserted self-insurance claims - current	4,933,166	3,189,789	8,122,955
Total current liabilities	76,224,267	64,560,485	140,784,752
Noncurrent liabilities:			
Asserted and unasserted self-insurance claims	4,696,812	7,617,127	12,313,939
Accrued compensated absences	2,433,635	-	2,433,635
Net pension liability	5,179,612	-	5,179,612
Capital lease payable	-	421,544,547	421,544,547
Total noncurrent liabilities	12,310,059	429,161,674	441,471,733
Total liabilities	88,534,326	493,722,159	582,256,485
Net Position			
Net investment in capital assets	116,660,921	4,485,707	121,146,628
Unrestricted	35,276,175	146,422,757	181,698,932
Total net position	$ 151,937,096	$ 150,908,464	$ 302,845,560

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds

For the Year Ended December 31, 2012

	Wishard Health Services	LT Care	Total
Operating revenues:			
Net patient service revenue	$ 362,801,092	$ 534,791,819	$ 897,592,911
Medicaid special revenue	-	153,550,441	153,550,441
Other revenue	18,062,900	1,986,367	20,049,267
Total operating revenues	380,863,992	690,328,627	1,071,192,619
Operating expenses:			
Salaries	198,425,251	-	198,425,251
Employee benefits	63,839,524	-	63,839,524
Contract labor	403,117	281,252,403	281,655,520
Medical and professional fees	72,759,583	28,858,568	101,618,151
Purchased services	32,130,914	38,489,482	70,620,396
Supplies	43,989,488	37,864,430	81,853,918
Pharmaceuticals	35,082,824	21,366,362	56,449,186
Repairs and maintenance	3,906,965	3,160,445	7,067,410
Utilities	8,089,223	11,562,482	19,651,705
Equipment rental	4,865,135	4,194,804	9,059,939
Depreciation and amortization	34,052,526	55,697,358	89,749,884
Hospital assessment fee	15,060,130	-	15,060,130
Other	7,706,318	25,688,154	33,394,472
Total operating expenses	520,310,998	508,134,488	1,028,445,486
Operating income (loss)	(139,447,006)	182,194,139	42,747,133
Nonoperating revenue (expenses):			
Noncapital gifts and grants	20,057,585	-	20,057,585
Loss on termination of lease	-	(5,845,500)	(5,845,500)
Investment income	1,423,443	27,985	1,451,428
Interest expense	-	(35,427,602)	(35,427,602)
Total nonoperating revenue (expense)	21,481,028	(41,245,117)	(19,764,089)
Income (loss) before capital contributions and transfers	(117,965,978)	140,949,022	22,983,044
Capital contributions	41,562,737	-	41,562,737
Transfers - General Fund	111,500,000	(106,700,000)	4,800,000
Changes in net position	35,096,759	34,249,022	69,345,781
Total net position at beginning of year	116,840,337	116,659,442	233,499,779
Total net position at end of the year	$ 151,937,096	$ 150,908,464	$ 302,845,560

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Statement of Cash Flows - Proprietary Funds
For the Year Ended December 31, 2012

	Wishard Health Services	LT Care	Total
Cash Flows From Operating Activities			
Receipts from patient services	$ 364,096,745	$ 521,981,420	$ 886,078,165
Receipts from other operations	19,117,131	1,986,367	21,103,498
Medicaid special revenue	-	150,127,051	150,127,051
Payments to suppliers	(228,024,836)	(106,583,115)	(334,607,951)
Payments to employees and contract labor	(261,147,534)	(349,250,888)	(610,398,422)
Net cash provided by (used in) operating activities	(105,958,494)	218,260,835	112,302,341
Cash Flows From Noncapital Financing Activities			
Cash receipts from noncapital gifts and grants	19,186,112	-	19,186,112
Transfers to the General Fund	-	(106,700,000)	(106,700,000)
Transfers from the General Fund	111,500,000	-	111,500,000
Net cash provided by (used in) noncapital financing activities	130,686,112	(106,700,000)	23,986,112
Cash Flows From Capital and Related Financing Activities			
Purchases of capital assets	(11,145,131)	(32,767,847)	(43,912,978)
Proceeds from sale of capital assets	3,498,506	-	3,498,506
Deposits paid	-	(10,131,690)	(10,131,690)
Deposits returned	-	814,415	814,415
Lease acquisition cost payments	-	(6,870,530)	(6,870,530)
Lease termination costs	-	-	-
Payment of capital lease obligations	-	(25,869,472)	(25,869,472)
Interest expense payments	-	(35,427,602)	(35,427,602)
Net cash used in capital and related financing activities	(7,646,625)	(110,252,726)	(117,899,351)
Cash Flows From Investing Activities			
Proceeds from sale and maturities of investments	(1,669,949)	-	(1,669,949)
Purchases of investments	2,497,679	-	2,497,679
Interest and dividends received	170,303	27,985	198,288
Net cash provided by investing activities	998,033	27,985	1,026,018
Net Increase in Cash and Cash Equivalents	18,079,026	1,336,094	19,415,120
Cash and Cash Equivalents (Including Restricted), January 1	26,335,400	57,894,593	84,229,993
Cash and Cash Equivalents (Including Restricted), December 31	$ 44,414,426	$ 59,230,687	$ 103,645,113
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Operating income (loss)	$ (139,447,006)	$ 182,194,139	$ 42,747,133
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	34,052,526	55,697,358	89,749,884
Gain on disposal of assets	(123,490)	-	(123,490)
Changes in operating assets and liabilities:			
Patient service receivables	1,291,226	(13,240,441)	(11,949,215)
Other receivables	1,054,231	(3,423,390)	(2,369,159)
Inventories	1,039,041	-	1,039,041
Prepaid costs and other assets	301,469	277,305	578,774
Net pension asset/liability	2,464,187	-	2,464,187
Accounts payable	(2,119,317)	(910,554)	(3,029,871)
Accrued liabilities and compensation absences	(1,686,037)	(2,446,364)	(4,132,401)
Estimated Medicare/Medicaid settlements	24,153	430,042	454,195
Asserted and unasserted self-insurance claims	(284,698)	(317,260)	(601,958)
Medical claims incurred but not reported	(2,524,779)	-	(2,524,779)
Total adjustments	33,488,512	36,066,696	69,555,208
Net cash provided by (used in) operating activities	$ (105,958,494)	$ 218,260,835	$ 112,302,341
Noncash investing, capital and financing activities:			
Lease acquisition costs included in accounts payable	$ -	$ 468,000	$ 468,000
Purchase of assets held under capital lease	-	120,895,791	120,895,791
Purchase of capital assets included in accounts payable	-	824,412	824,412
Transfer of capital assets from general fund	41,562,737	-	41,562,737
Increase in carrying value of joint venture investment	1,266,423	-	1,266,423
Unrealized loss on investment, net	13,283	-	13,283

Nature of Operations and Summary of Significant Accounting Policies

Financial Reporting Entity

The Health and Hospital Corporation of Marion County, Indiana (Corporation) was created under Chapter 287 of the Acts of 1951 enacted by the General Assembly of the State of Indiana. The Corporation is a municipal corporation and a political subdivision of the State of Indiana under Indiana Code §16-22-8-6, §6-1.1-1-12 and §36-1-2-23.

The Corporation's duties include the administration of the Divisions of Public Health and Public Hospitals. The Division of Public Health does business as the Marion County Public Health Department (MCPHD), and the Division of Public Hospitals does business as Wishard Health Services (Wishard). The Corporation operates three service divisions: MCPHD, Wishard and a Long-Term Care (LT Care) operation.

The MCPHD operates two service bureaus, which provide preventive and diagnostic health programs, health education, immunization and epidemiological programs, environmental health regulation, and code enforcement. The MCPHD division is accounted for using governmental funds.

Wishard comprises Wishard Memorial Hospital, a general acute care facility with 281 staffed beds; nine community health centers, Midtown Community Mental Health Center, Regenstrief Health Center, Wishard Emergency Trauma Service, Wishard Ambulance Service, and the Richard M. Fairbanks Burn Center. On December 26, 2010, the Corporation entered into an interlocal agreement with the Department of Public Safety for the City of Indianapolis to own, manage and operate the Transport Emergency Medical Services system for Marion County, Indiana (Indianapolis EMS). The activities of Indianapolis EMS are therefore included in the Wishard division. For purposes of financial reporting, the Wishard division is accounted for as a separate enterprise fund.

The Corporation operates 59 long-term care facilities through capital leases. The homes are operated as part of the LT Care operations. LT Care supports the Corporation's mission and goal to provide quality care and services to elderly and disabled people. For purposes of financial reporting, the LT Care division is accounted for as a separate enterprise fund.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the Corporation is considered a component unit of the Consolidated City of Indianapolis - Marion County (Uni-Gov). Accordingly, the financial statements of the Corporation are required to be included in the comprehensive annual financial report of Uni-Gov.

The Corporation is governed by a seven-member Board of Trustees, appointed by the Mayor of Indianapolis (3), Commissioners of Marion County (2) and City-County Council (2). Of those members appointed by the City-County Council, one serves a two-year term, and one serves a four-year term. All other appointments serve a term of four years. The Board of Trustees is bi-partisan by statute. The Corporation is responsible for all of its fiscal matters including budget (subject to the final authority of the City-County Council and the State of Indiana Department of Local Government Finance (DLGF), operating deficits and debt. The Corporation's executive and legislative powers include the power to levy taxes and incur debt. The Corporation's ordinances have the effect of local law governing health matters.

Component Unit

The Corporation has established a nonprofit entity, Lions Insurance Company, Inc. (Lions), which is legally separate from the Corporation and whose purpose is to provide insurance covering the professional (malpractice) and general liability exposures of the nursing homes operated by the Corporation. Lions is considered a blended component unit and is therefore reported as if it is a part of the LT Care Enterprise Fund because its primary purpose is to provide services solely to the LT Care Enterprise Fund. Complete financial statements for Lions may be obtained from Health and Hospital Corporation at 3838 N. Rural Street, Indianapolis, Indiana 46205.

Financial Statement Presentation, Measurement Focus and Basis of Accounting

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Corporation. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Following the government-wide financial statements are separate financial statements for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Corporation has determined that all governmental funds are considered major funds. The total fund balances for all governmental funds are reconciled to total net position for governmental activities as shown on the statement of net position. The net change in fund balances for all governmental funds is reconciled to the total change in net position as shown on the statement of activities in the government-wide statements. As mentioned previously, the Corporation has two enterprise funds (business-type activities), Wishard and LT Care, which are also considered major funds.

The fund financial statements of the Corporation are organized on the basis of funds, each of which is considered a separate accounting entity with self-balancing accounts that comprise its assets, liabilities, fund balances/net position, revenues, and expenditures or expenses. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by fund type in the basic financial statements. The following fund types are used by the Corporation:

Governmental Fund Types

Governmental funds are those through which most governmental functions are financed. The Corporation reports the following governmental funds:

The following are the Corporation's major governmental funds:

The General Fund is the Corporation's primary operating fund. It accounts for all financial resources of the Corporation, including grants, except those required to be accounted for in another fund.

The Debt Service Fund is used to account for and report the accumulation of financial resources that are restricted, committed or assigned to expenditure for principal, interest and related costs on outstanding general obligation bond and other long-term debt of the Corporation’s governmental activities. Debt service requirements are generally funded from other operating revenues and ad valorem taxes.

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Such resources are derived principally from general obligation bonds, capital lease obligations and ad valorem taxes.

Proprietary Fund Type

Proprietary funds are used to account for activities that are similar to those found in the private sector.

As mentioned previously, the Corporation has two enterprise funds: (1) The Wishard Health Services Enterprise Fund, which accounts for the activities of Wishard (including Indianapolis EMS) and (2) the LT Care Enterprise Fund, which accounts for the activities of the 59 leased long-term care facilities that receive no funding from ad valorem taxes. An enterprise fund is used to account for operations that are financed and operated in a similar manner to a private business - where the intent of the governing body is that the costs (including depreciation) of operations are financed primarily through user charges. Certain administrative expenses of Wishard and LT Care are accounted for by the General Fund. Because the capital outlay for Wishard is funded through ad valorem taxes, long-term debt interest expense relating to Wishard is accounted for by the Debt Service Fund and is not allocated to the Wishard Health Services Enterprise Fund. Only debt intended to be repaid by operations of Wishard are included in the Wishard Enterprise Fund. At December 31, 2012, no such debt existed. At December 31, 2012, the LT Care Enterprise Fund had capital leases, which are to be repaid from revenues from operations, and are therefore shown as long-term debt in the LT Care Enterprise Fund.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year the levy and tax rates are certified. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers property taxes to be available if they are collected and distributed within 60 days of the end of the current fiscal period. For all other revenue items, the Corporation considers revenue to be available if collected within 90 days of the end of the current fiscal period. Significant revenues susceptible to accrual include property and other taxes, grants and interest. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

GASB Statement No. 33, *Accounting and Reporting for Nonexchange Transactions,* (GASB 33), groups nonexchange transactions into four classes, based upon their principal characteristics: derived tax revenues, imposed nonexchange revenues, government-mandated nonexchange transactions, and voluntary nonexchange transactions.

In the governmental fund statements, the Corporation recognizes assets from derived tax revenue transactions in the period when the underlying exchange transaction on which the tax is imposed occurs or when the assets are received, whichever occurs first. Revenues are recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred in the fund financial statement. Resources received in advance are reported as deferred revenues until the period of the exchange in both the government-wide and fund financial statements.

The Corporation recognizes assets from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. Revenues are recognized in the period when the resources are required to be used or the first period that use is permitted. The Corporation recognizes revenues from property taxes, net of estimated refunds and uncollectible amounts, in the period in which the tax levy and rates are certified. Imposed nonexchange revenues also include permits.

Voluntary nonexchange transactions, such as grants and assistance received from other governmental units and Build America Bonds interest subsidies, are generally recognized as revenues in the period when all eligibility requirements, as defined by GASB 33, have been met. Any resources received before eligibility requirements are met are reported as deferred revenues.

Government-mandated nonexchange transactions are accounted for in the same manner as voluntary nonexchange transactions.

Charges for services in the governmental funds, which are exchange transactions and are therefore not subject to the provisions of GASB 33, are recognized as revenues when received in cash because they are generally not measurable until actually received.

Under the accrual basis of accounting for proprietary fund types, revenues are recognized in the period earned and expenses are recognized in the period incurred. Patient services accounts receivable and revenue are recorded at standard billing rates, net of contractual adjustments, when patient services are performed. Wishard and LT Care provide services under the Medicare and Medicaid programs for which they may be reimbursed at amounts different from the standard billing rates. Amounts reimbursed or estimated to be reimbursed by these programs are generally determined in accordance with a prospective price-per-case payment system or under the provisions of cost-reimbursement formulas. In addition, Wishard and LT Care provide services in accordance with various contractual agreements entered into with state and local governmental agencies and other third-party health insurance companies.

The differences between standard billing rates and the amount reimbursed or estimated to be reimbursed by Medicare, Medicaid and other contractual payers are included in the financial statements as contractual adjustments. Patient accounts receivable for services provided under contractual arrangements are also adjusted to reflect these differences.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All transactions deemed by management to be ongoing, major, or central to the provision of healthcare services for Wishard and LT Care are considered to be operating activities and are reported as operating revenue and operating expenses. Intergovernmental revenues, investment income, interest expense, and peripheral or incidental transactions are reported as nonoperating revenue and expenses. Other changes in net position that are excluded from operating income (loss) principally consist of contributions of capital assets funded by governmental activities, grantors and donors.

When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed. Additionally, when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, it is the Corporation's policy to utilize such resources in the following order of priority: committed, assigned and then unassigned.

Cash, Cash Equivalents and Investments

The Corporation's cash and cash equivalents (including those that are restricted) are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of purchase.

Investments for the Corporation are reported at fair value. The Corporation also invests in an external investment pool held by the State of Indiana. Consistent with the provisions of a 2a-7 like pool as defined by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, the portfolio securities are valued at amortized cost, which approximates fair value. The amortized cost valuation methods involve initially valuing a security at its cost on the date of purchase and thereafter accreting to maturity and discount or amortizing to maturity any premium. The Corporation records its investment in the external pool at its share value. The Indiana Treasurer of State has been designated by State statute as the administrator of the pool and has general oversight over the daily operation of the pool.

Receivables and Payables

In the fund financial statements, all outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

All receivables are shown, net of an allowance, if any, for uncollectible balances.

Inventories

Purchases of materials and supplies in the governmental fund types are charged to expenditures as incurred. Amounts of inventories in such governmental funds are immaterial. For the enterprise fund type, pharmaceutical inventories of the Wishard Fund are determined by physical count of items on hand and are priced at weighted-average cost or at fair value, whichever is less. Inventory in the LT Care Fund is immaterial.

Prepaid Costs and Other Assets

Prepaid costs and other assets for the governmental funds include prepaid insurance, and other miscellaneous assets. Prepaid costs and other assets of the proprietary fund consist of prepaid insurance, prepaid service contracts, prepaid rent and other miscellaneous assets.

Capital Assets

Capital assets, which include buildings, improvements, equipment, and vehicles are reported in the applicable governmental or business-type activities column in the government-wide financial statements and within the proprietary fund financial statements. Capital assets are defined by the Corporation as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years.

Purchased or constructed assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the estimated useful life of the asset are not capitalized.

Depreciation, including depreciation recognized on assets acquired through government grants and other aid, is computed on the straight-line method over the estimated useful lives of the various classes of assets. Assets held under capital leases and leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of the asset.

Estimated useful lives used to compute depreciation are as follows:

	Years
Building and improvements	10 - 50
Equipment	5 - 20
Vehicles	4

Capitalization of Interest

Net interest costs on funds borrowed to finance the construction of capital assets are capitalized and depreciated over the life of the related asset for business-type activities and proprietary fund types. Interest is not capitalized for governmental fund types.

Other Long-Term Assets

Other long-term assets consist of deposits made related to the leasing of nursing homes. The deposits will be returned in full if the leased buildings are returned in an acceptable condition by the holder of the deposit at the end of the respective lease terms.

Deferred and Unearned Revenue

Deferred revenue is recorded in the governmental fund financial statements for receivables that are not considered either measurable or available at December 31, 2012. Unearned revenue is recorded when the related revenues have not been earned for enterprise fund activities. Deferred revenue for governmental funds in the fund statements is recognized as revenue when it is earned and considered measurable and available.

Unearned revenue is reported in the government-wide financial statements. The availability period does not apply; however, amounts may not be earned due to eligibility requirements or other reasons.

Risk Share Payable

Risk share payable relates to undistributed profits and withholdings that are due to other providers who participate in Wishard's network as part of the risk-based Medicaid program. At December 31, 2012, there were no amounts due to other providers.

Accrued Compensated Absences

Corporation employees are paid for vacation and other absences by prescribed formulas based primarily on length of service and staff classification. In accordance with the vesting method provided under GASB Statement No. 16, *Accounting for Compensated Absences*, accumulated vacation and other absences are accrued based on assumptions concerning the probability that certain employees will become eligible to receive these benefits in the future. A liability for the cost of accumulated earned but unused vacation and other absences is recognized in the government-wide statements and in the statement of net position of the proprietary funds. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the respective bonds using the effective interest method. Deferred losses on refundings are amortized as a component of interest expense over the remaining life of the old bonds or the remaining life of the refunding bonds, whichever is shorter, using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Payments to an escrow agent to defease debt are reported as other financing uses, while issuance costs, whether or not withheld from the actual debt proceeds received, and repayments of principal and interest are reported as debt service expenditures.

Lease Acquisition Costs

The Corporation allocates the purchase price of properties acquired under capital leases to net tangible and identified intangible assets based on their respective fair values. The allocation to tangible assets (primarily equipment) is based upon management's determination of the value of the property. The remaining purchase price is allocated to lease acquisition costs. These costs are amortized over the life of the related lease.

Interfund Transactions

In the fund financial statements, the Corporation has the following types of transactions among funds:

Transfers

Legally authorized transfers are reported when incurred as transfers in by the recipient fund and as transfers out by the disbursing fund.

Contribution of Capital Assets

The General and Capital Project Funds make contributions of capital assets to the Wishard Health Services Enterprise Fund from time to time. The enterprise fund reports these transactions as capital contributions; however, the General or Capital Project Funds do not report the event because there has been no flow of current financial resources for the governmental fund statements other than the expenditures incurred during the year on capital outlay. In the government-wide statement of activities, both sides of the capital asset transfer are reported as transfers.

Interfund Services Provided/Used

Charges or collections for services rendered by one fund for another are recognized as revenues (interfund services provided) of the recipient fund and expenditures or expenses (interfund services used) of the disbursing fund. These transactions are recorded as interfund services because they would be treated as revenues and expenditures or expenses if they involved organizations external to the Corporation.

Within the statement of activities, direct expenses are not eliminated from the various functional categories. However, indirect expenses are eliminated from the various functional categories.

Certain internal payments are treated as a reduction of expense, such as reimbursements. Elimination of interfund activity has been made for governmental activities in the government-wide financial statements.

Net Position/Fund Balances

The government-wide and proprietary fund financial statements utilize a net position presentation. The components of net position are categorized as follows:

- *Net investment in capital assets* - This category groups all capital assets into one component of net position. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category. Governmental activities debt related to business-type activities is not recorded in this category; rather, this debt is included in unrestricted net position.
- *Restricted* - This category represents resources that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This category represents resources of the Corporation not restricted for any project or other purpose.

In the governmental fund financial statements, fund balance classifications reflect a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The Corporation's fund balances include the following:

- **Nonspendable fund balances** include amounts that cannot be spent because they are either (a) not in spendable form (such as inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact.
- **Restricted fund balances** are reported when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed fund balances** represent resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the Corporation's Board of Trustees, whereby such constraints can only be modified through formal action (by ordinance) of the Board of Trustees.
- **Assigned fund balances** include resources for which it is the intent of the Corporation, through action of the President or Treasurer/CFO, that they be used for specific purposes. The Board of Trustees has by ordinance authorized such individuals to assign fund balances. Such constraints can be modified or rescinded without formal action of the Board of Trustees as long as they do not result in an additional budgetary appropriation.
- **Unassigned fund balances** represent the residual portion of the General Fund that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund.

The Corporation's policy is to apply expenditures to restricted resources first, then committed, then assigned, and finally to unassigned, as applicable.

Indigent Care Services

Under Indiana Code (§16-22-8-39), the services provided by Wishard are for the benefit of the residents of Marion County, Indiana and for every person falling sick or being injured or maimed within its limits. Certain services to patients are classified as indigent care based on established policies of Wishard. Because Wishard does not expect amounts determined to qualify as indigent care to result in cash collections, they are not reported as net patient service revenue.

Wishard maintains records to identify and monitor the level of indigent care it provides. These records include the amount of charges forgone for services and supplies furnished under its indigent care policy.

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as amounts are no longer subject to such audits and reviews.

New Accounting Standard

During 2012, the Corporation adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This Statement has been applied retrospectively and had no impact on the Corporation's net position, changes in net position or financial reporting disclosures. Upon adoption of GASB 63, the Corporation currently has no deferred outflows of resources or deferred inflows of resources to report.

Deposits and Investments

As of December 31, 2012, the Corporation had the following cash deposits and investments:

Cash deposits	$ 292,543,534
Negotiable certificates of deposit	2,133,352
Repurchase agreements	13,457,397
State external investment pool	44,063,920
U.S. Government obligations	157,990
U.S. Government-sponsored enterprises	22,907,288
Money market mutual funds	327,445
	$ 375,590,926

Deposits and investment securities included in the statement of net position are classified as follows:

	2012
Carrying value	
Deposits	$ 292,543,534
Investments	83,047,392
	$ 375,590,926
Cash and cash equivalents	
Unrestricted	$ 259,040,223
Restricted	91,024,629
	350,064,852
Investments	
Unrestricted	4,588,799
Restricted	20,937,275
	$ 375,590,926

Deposits

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

The Corporation's cash deposits are insured up to $250,000 at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits in excess of the $250,000 FDIC limits are partially or fully collateralized by the depository institution and insured by the Indiana Public Deposits Insurance Fund (Fund) via the pledged collateral from the institutions securing deposits of public funds. The Fund is a multiple financial institution collateral pool as provided under Indiana Code, Section 5-13-12-1.

Investments

Indiana statutes authorize the Corporation to invest in United States obligations and issues of federal agencies, Indiana municipal securities, secured repurchase agreements fully collateralized by U.S. Treasury or U.S. agency obligations, certificates of deposit and open-end money market mutual funds.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Corporation is limited to investing in securities with a stated maturity of not more than two years after the date of purchase or entry into a repurchase agreement, as defined by Indiana Code, Section 5-13-9-5.6. The Corporation's investment policy for interest rate risk requires investments to be invested in a prudent manner to achieve maximum yield return available from approved government obligations with due regard to the specific purpose for which the funds are intended and needed. The Corporation's self-insurance trust for general and professional liability and workers' compensation is not subject to such limitations.

Below is a table of segmented time distribution for the Corporation's debt investments at December 31, 2012:

		Investment Activities (in years)			
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
Repurchase agreements	$ 13,457,397	$ 13,457,397	$ -	$ -	$ -
State external investment pool	44,063,920	44,063,920	-	-	-
U.S. Government-sponsored enterprises	22,907,288	21,041,884	686,583	1,065,108	113,713
Money market mutual funds	327,445	327,445	-	-	-
	$ 80,756,050	$ 78,890,646	$ 686,583	$ 1,065,108	$ 113,713

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Corporation's investment policy for credit risk requires compliance with the provisions of Indiana statutes. Further, Indiana Code Section 5-13-9-2.5 requires that if the Corporation invests in money market mutual funds that the underlying securities be rated AAA by Standard and Poor's or Aaa by Moody's Investor's Service.

At December 31, 2012, the Corporation's investments were rated by Standard & Poor's or Moody's as follows:

	Fair Value	AAA/Aaa	Aa	A	Not Rated
Repurchase agreements	$ 13,457,397	$ 13,457,397	$ -	$ -	$ -
State external investment pool	44,063,920	-	-	-	44,063,920
U.S. Government obligations	157,990	157,990	-	-	-
U.S. Government-sponsored enterprises	22,907,288	19,985,294	2,921,994	-	-
Money market mutual funds	327,445	327,445	-	-	-
	$ 80,914,040	$ 33,928,126	$ 2,921,994	$ -	$ 44,063,920

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Corporation will not be able to recover the value of its investments or collateral that are in the possession of an outside party. At December 31, 2012, all of the Corporation's investments in overnight repurchase agreements (which are secured by U.S. Government or U.S. agency obligations) were exposed to custodial credit risk. These investments were uninsured and the collateral was held by the pledging financial institution's trust department or agent in the Corporation's name. The Corporation's investments in money market mutual funds and the state external investment pool were not subject to custodial credit risk at December 31, 2012, as their existence is not evidenced by securities that exist in physical book entry form. The Corporation's investment policy does not address how investment securities and securities underlying repurchase agreements are to be held.

Concentration of Credit Risk

The Corporation places no limit on the amount that may be invested in any one issuer. At December 31, 2012, 5% or more of the Corporation's investments are in repurchase agreements with PNC Bank, Federal National Mortgage Association securities, and Federal Home Loan Mortgage Corporation securities. These investments represent 13.7%, 5.3% and 20.9%, respectively, of the Corporation's total investments. Additionally, all of the investments reported in the Corporation's Debt Service and Capital Projects funds are government-sponsored enterprise securities.

Foreign Currency Risk

This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Corporation's investment policy prohibits investments in foreign investments.

Investment Income

Investment income for the year ended December 31, 2012 consisted of:

	Governmental Fund-Types	Proprietary Fund-Types
Interest income	$ 1,580,929	$ 1,438,145
Unrealized gain (loss) on investments, net	(1,224,528)	13,283
Investment income	$ 356,401	$ 1,451,428

Property Taxes

Property taxes levied for all governmental entities located within Marion County are collected by the Marion County Treasurer. On or before August 1 each year, the Marion County Auditor must submit to each underlying taxing unit a statement of (i) the estimated assessed value of the taxing unit as of March 1 of that year, and (ii) an estimate of the taxes to be distributed to the taxing unit during the last six months of the current budget year. The estimated value is based on property tax lists delivered to the Marion County Auditor by the Marion County Assessor on or before July 1.

The estimated value is used when the Corporation's Board meets to establish its budget for the next fiscal year (January 1 through December 31), and to set tax rates and levies. The budget, tax rates and levy must be adopted no later than November 1. The budget, tax levy and tax rate are subject to review and revision by the Indiana Department of Local Government Finance (the "DLGF") which, under certain circumstances, may revise, reduce or increase the budget, tax rate, or levy of the Corporation. The DLGF may increase the tax rate and levy if the tax rate and levy proposed by the Corporation is not sufficient to make its debt service or lease rental payments. The DLGF must complete its actions on or before February 15 of the year following the property tax assessment.

Taxes are distributed by the Marion County Auditor to the Corporation by June 30 and December 31 of each year. The Corporation can request advances of its share of collected taxes from the Marion County Treasurer once the levy and tax rates are certified by the DLGF.

As noted above, the assessment (or lien) date for Indiana property taxes is March 1 of each year; however, the Corporation does not recognize a receivable on the assessment date since the amount of property taxes to be collected cannot be measured until the levy and tax rates are certified in the subsequent year.

Typically, property tax bills are mailed in April and October of each year and are due and payable by the property owners in May (spring) and November (fall), respectively. Property tax billings are considered delinquent if they are not paid by the respective due date, at which time the applicable property is subject to lien, and penalties and interest are assessed. Appeals may be filed within 45 days following the date the bills are mailed.

Changes in assessed values of real property occur periodically as a result of general reassessments required by the State legislature, as well as when changes occur in the property value due to new construction or demolition of improvements.

The Corporation allocates property tax revenues, as considered necessary, to fund public health programs and provide care for the indigent.

Patient Services Receivables

Net patient services receivables consist of the following as of December 31, 2012:

	Wishard	LT Care	Total
Gross patient services receivables	$ 195,572,201	$ 56,030,947	$ 251,603,148
Allowance for estimated contractual adjustment	(93,295,844)	-	(93,295,844)
Allowance for uncollectible accounts	(63,985,561)	(6,591,604)	(70,577,165)
Net patient services receivables	$ 38,290,796	$ 49,439,343	$ 87,730,139

Interfund Balances and Transfers

Individual due to/from other funds as of December 31, 2012 are as follows:

Interfund Receivables	Interfund Payables	Amount
Debt Service Fund	General Fund	$ 5,423,831
General Fund	Wishard	2,654,991
Enterprise Fund - Wishard	General Fund	701,730

These interfund balances are due to the time lag between the dates that reimbursable expenditures occur and payments between funds are made, as well as pass-through grant activity. The interfund balances are expected to be repaid during the fiscal year ending December 31, 2013.

Interfund transfers for the year ended December 31, 2012 on the fund statements consisted of the following:

	Transfer In:				
	General Fund	Debt Service Fund	Cap Projects Fund	Enterprise Fund - Wishard	Total
Transfer out:					
General Fund	$ -	$ 36,704,754	$ 31,681,319	$ 111,500,000	$ 179,886,073
Enterprise Fund - LTC	106,700,000	-	-	-	106,700,000
Total	$ 106,700,000	$ 36,704,754	$ 31,681,319	$ 111,500,000	$ 286,586,073

Interfund transfers were generally used for the following: 1) to move revenues from the funds that are required by ordinance or budget to collect them to the funds that will ultimately expend them or 2) to cover deficits of other funds. For the government-wide statements, capital contributions received by the Wishard Health Services Fund from other funds (if any) are reported as transfers; however, for the fund statements, such transfers are shown as capital contributions since they represent the actual transfer of capital assets.

Deferred and Unearned Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are unavailable to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At December 31, 2012, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Grant advances prior to meeting all eligibility requirements	$ -	$ 973,377
Grant reimbursements not received within 90 days	351,633	-
Other revenues not received within 90 days	233,636	-
Total General Fund	$ 585,269	$ 973,377

In addition, the Wishard Health Services Enterprise Fund had $2,857,132 of unearned revenue recorded at December 31, 2012 of which $2,132,435 related to the Healthy Indiana Plan and $724,697 related to both fee for service grants and advances received on Federal grants that had not met eligibility requirements.

Capital Assets

Following is a summary of the changes in capital assets - governmental activities for the year ended December 31, 2012:

	January 1, 2012	Transfers/ Additions	Transfers/ Disposals	December 31, 2012
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 4,114,896	$ -	$ -	$ 4,114,896
Construction in progress	242,543,346	267,486,958	(42,706,625)	467,323,679
Total capital assets not being depreciated	246,658,242	267,486,958	(42,706,625)	471,438,575
Capital assets being depreciated:				
Buildings and improvements	28,347,998	1,318,001	(7,656)	29,658,343
Equipment	22,227,372	710,326	(356,166)	22,581,532
Vehicles	5,055,264	45,586	-	5,100,850
Total capital assets being depreciated	55,630,634	2,073,913	(363,822)	57,340,725
Less accumulated depreciation for:				
Buildings and improvements	10,990,482	1,551,985	-	12,542,467
Equipment	14,343,085	1,242,260	(355,953)	15,229,392
Vehicles	4,441,587	238,691	-	4,680,278
Total accumulated depreciation	29,775,154	3,032,936	(355,953)	32,452,137
Total capital assets being depreciated, net	25,855,480	(959,023)	(7,869)	24,888,588
Governmental activities capital assets, net	$ 272,513,722	$ 266,527,935	$ (42,714,494)	$ 496,327,163

The following is a summary of changes in capital assets - business-type activities for the year ended December 31, 2012:

	January 1, 2012	Transfers/ Additions	Transfers/ Disposals	December 31, 2012
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 2,897,993	$ -	$ (1,708,115)	$ 1,189,878
Construction in progress	13,342,450	32,604,697	(26,351,298)	19,595,849
Total capital assets not being depreciated	16,240,443	32,604,697	(28,059,413)	20,785,727
Capital assets being depreciated:				
Land improvements	9,713,231	756,219	-	10,469,450
Buildings and improvements	722,332,158	176,280,291	-	898,612,449
Equipment	224,858,547	21,855,510	-	246,714,057
Vehicles	7,766,673	404,927	(228,347)	7,943,253
Total capital assets being depreciated	964,670,609	199,296,947	(228,347)	1,163,739,209
Less accumulated depreciation for:				
Land improvements	5,965,414	623,222	-	6,588,636
Buildings and improvements	342,184,945	62,756,342	-	404,941,287
Equipment	174,019,666	22,489,039	-	196,508,705
Vehicles	6,193,539	533,110	(207,018)	6,519,631
Total accumulated depreciation	528,363,564	86,401,713	(207,018)	614,558,259
Total capital assets being depreciated, net	436,307,045	112,895,234	(21,329)	549,180,950
Business-type activities capital assets, net	$ 452,547,488	$ 145,499,931	$ (28,080,742)	$ 569,966,677

The following is a summary of changes in capital assets - Wishard enterprise fund for the year ended December 31, 2012:

	January 1, 2012	Transfers/ Additions	Transfers/ Disposals	December 31, 2012
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 2,897,993	$ -	$ (1,708,115)	$ 1,189,878
Construction in progress	7,293,871	9,822,979	(3,914,755)	13,202,095
Total capital assets not being depreciated	10,191,864	9,822,979	(5,622,870)	14,391,973
Capital assets being depreciated:				
Land improvements	6,690,032	-	-	6,690,032
Buildings and improvements	257,986,544	38,766,114	-	296,752,658
Equipment	173,855,469	5,983,031	-	179,838,500
Vehicles	7,603,910	404,927	(228,347)	7,780,490
Total capital assets being depreciated	446,135,955	45,154,072	(228,347)	491,061,680
Less accumulated depreciation for:				
Land improvements	5,217,383	291,560	-	5,508,943
Buildings and improvements	195,594,100	19,672,498	-	215,266,598
Equipment	148,096,598	13,561,740	-	161,658,338
Vehicles	6,039,143	526,728	(207,018)	6,358,853
Total accumulated depreciation	354,947,224	34,052,526	(207,018)	388,792,732
Total capital assets being depreciated, net	91,188,731	11,101,546	(21,329)	102,268,948
Business-type activities capital assets, net	$ 101,380,595	$ 20,924,525	$ (5,644,199)	$ 116,660,921

The following is a summary of changes in capital assets - LT Care enterprise fund for the year ended December 31, 2012:

	January 1, 2012	Transfers/ Additions	Transfers/ Disposals	December 31, 2012
Business-Type Activities:				
Capital assets not being depreciated:				
Construction in progress	$ 6,048,579	$ 22,781,718	$ (22,436,543)	$ 6,393,754
Total capital assets not being depreciated	6,048,579	22,781,718	(22,436,543)	6,393,754
Capital assets being depreciated:				
Land improvements	3,023,199	756,219	-	3,779,418
Buildings and improvements	464,345,614	137,514,177	-	601,859,791
Equipment	51,003,078	15,872,479	-	66,875,557
Vehicles	162,763	-	-	162,763
Total capital assets being depreciated	518,534,654	154,142,875	-	672,677,529
Less accumulated depreciation for:				
Land improvements	748,031	331,662	-	1,079,693
Buildings and improvements	146,590,845	43,083,844	-	189,674,689
Equipment	25,923,068	8,927,299	-	34,850,367
Vehicles	154,396	6,382	-	160,778
Total accumulated depreciation	173,416,340	52,349,187	-	225,765,527
Total capital assets being depreciated, net	345,118,314	101,793,688	-	446,912,002
Business-type activities capital assets, net	$ 351,166,893	$ 124,575,406	$ (22,436,543)	$ 453,305,756

Within the statement of activities, depreciation expense is charged to functions of the Corporation as follows:

Governmental Activities:	
Administration and finance	$ 1,962,155
Health improvements	430,710
Communicable disease prevention	237,038
Water quality and hazardous material management	22,997
Vector disease control	155,410
Housing and neighborhood health	29,340
Consumer and employee risk reduction	2,128
Total depreciation expense, governmental activities	$ 2,839,778
Business-Type Activities:	
Wishard	$ 34,052,526
LT Care	52,349,187
Total depreciation expense, business-type activities	$ 86,401,713

Included in the LT Care Fund depreciation expense in the proprietary fund statements is $3,348,171 of amortization expense related to lease acquisition costs.

As discussed elsewhere in these notes, the Corporation is in the process of constructing Eskenazi Health. Accordingly, the Corporation reevaluated the service utility of the assets associated with the current hospital campus that will be closed at the end of 2013. This resulted in the acceleration of depreciation on certain assets relating to the latter. The Wishard enterprise fund recorded approximately $9,900,000 of additional depreciation as a result of the reevaluation, which is included in total Wishard depreciation expense above.

Estimated Medicare and Medicaid Settlements and Net Patient Service Revenue

Estimated Medicare and Medicaid settlements reflect differences between interim reimbursement and reimbursement as determined by cost reports filed or to be filed with federal and state governments after the end of each year. In addition, such settlement amounts reflect, if applicable, any differences determined to be owed to or from Wishard after an audit of such reports. Changes to any previous years' estimated settlements are reflected in the period such changes are identified. At December 31, 2012, Wishard's Medicare and Medicaid cost reports have been audited by the fiscal intermediaries through December 31, 2006.

Wishard and LT Care have agreements with third-party payers that provide for payments to Wishard and LT Care at amounts different from their established rates. Estimated contractual adjustments under third-party reimbursement programs represent the differences between billings at established rates and amounts reimbursed by third-party payers. Estimated contractual adjustments also include any differences between estimated third-party reimbursement settlements for prior year services under third-party payer agreements and subsequent final settlements. A summary of the payment arrangements with major third-party payers follows.

Medicare

Under the Medicare program, Wishard receives reimbursement under a prospective payment system (PPS) for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group. When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional "outlier" payments. Outpatient services provided to Medicare patients are reimbursed to Wishard based on service groups called ambulatory payment classifications.

Under the Medicare program, LT Care primarily receives reimbursement for services provided at its skilled nursing facilities (SNF) under PPS on a per diem basis based on each resident's health at admission (RUG Rate). Medicare reimburses LT Care for 100 days of SNF care subject to certain eligibility requirements.

Medicaid

Wishard is paid for inpatient acute care services rendered to Medicaid beneficiaries under the lower of charges or prospectively determined rates-per-discharge and on a per diem basis for psychiatric and burn unit services, classified based on clinical, diagnostic and other factors. Reimbursement for Medicaid outpatient services is based on prospective rates per visit. Wishard also participates in a Medicaid risk-based managed care program in which Wishard receives interim reimbursement rates with a settlement adjustment at year-end.

LT Care is reimbursed for services rendered to Medicaid beneficiaries on a per diem basis.

Medicaid Special Revenue

The Corporation qualifies for certain special Medicaid payments through various sections of the State of Indiana Medicaid Plan and the Indiana Code. Medicaid special revenue includes revenue from various sources including the State of Indiana Disproportionate Share Hospital Payment Program (DSH - established to reimburse hospitals that serve a disproportionate share of indigent patients) the Upper Payment Limit (UPL - established to pay qualifying health care providers the difference between what Medicare would have paid and what Medicaid actually paid) and other contractual revenues. The money received from the Medicaid special revenues can be utilized by the Corporation without restriction.

During 2012, the State of Indiana established a Hospital Assessment Fee (HAF), which was retroactive to July 1, 2011. The HAF increases reimbursement for the state Medicaid fee for service program and the Medicaid managed care programs by a total of $111,000,000 (of which approximately $40,000,000 was related to the year ended December 31, 2011); such revenue is reported as net patient service revenue in the Wishard fund. Wishard was assessed a fee under the HAF program of approximately $15,000,000, (of which approximately $5,000,000 was related to the year ended December 31, 2011) and is reported as an operating expense in the Wishard fund. Fees assessed by the State of Indiana fund the UPL and DSH programs for Indiana hospitals (these programs were historically funded through an intergovernmental transfer program).

Medicaid special revenue associated with indigent services provided at Wishard is comprised of DSH payments, which are all recorded in the Corporation's General Fund. Such payments are limited to a Hospital Specific Limit, which is defined by the State of Indiana Office of Medicaid Planning and Policy and are codified in the Indiana State Medicaid Plan and IC 12-15-15. Methodologies supporting such payments are complex and the timing and levels of payment may vary materially from year to year, often times resulting in material recoupment of the net receipts previously made to the Corporation. The Corporation does not have access to reasonable information to estimate levels of DSH payments and therefore cannot reasonably estimate levels of revenue by state fiscal (or their own fiscal) year. Management records the DSH portion of the Medicaid special revenue on a cash basis, unless actual amounts are known subsequent to year end.

Medicaid special revenue pertaining to LT Care and the physician access to care program is distributed through an intergovernmental transfer (IGT) arrangement. The basis for payment is derived from services rendered to patients through activities of the Wishard (for the physician access to care program) and LT Care Funds. The Indiana Office of Medicaid Policy and Planning determines the level of UPL funds available for distribution and initiates a transaction with the Corporation to facilitate the IGT. The Corporation is responsible for funding the IGT for the services rendered on behalf of the Wishard and LT Care Funds and such transactions are reported in the General Fund statement of revenues, expenditures and changes in fund balances while LT Care reports revenue associated with its UPL at gross in the statement of revenue, expenses and changes in fund net position.

Medicaid special revenue associated with LT Care is based upon UPL payments, which is more predictable than the payments related to Wishard's services. Accordingly, management recognizes such payments on an accrual basis at the LT Care Fund level.

The General Fund recognized $74,198,308 in Medicaid special revenue and a receivable of $90,917,091 at December 31, 2012. The LT Care Fund recognized revenue of $153,550,441 and a receivable of $35,714,178 at December 31, 2012.

Other Payers

Wishard and LT Care have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to Wishard and LT Care under these agreements include prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Following is a summary of total patient service revenue, contractual adjustments, and charity and indigent care for the year ended December 31, 2012:

	Wishard Health Service	LT Care	Total	Percentage
Patient service revenue:				
Inpatient	$ 442,795,073	$ -	$ 442,795,073	26%
Outpatient	688,858,535	-	688,858,535	41%
Long-term care	-	564,241,619	564,241,619	33%
Gross patient service less:	1,131,653,608	564,241,619	1,695,895,227	100%
Contractual adjustments	371,416,509	21,019,285	392,435,794	23%
Charity and indigent care	333,296,465	-	333,296,465	20%
Provision for uncollectible accounts	64,139,542	8,430,515	72,570,057	4%
Net patient service revenue	$ 362,801,092	$ 534,791,819	$ 897,592,911	53%

Revenue from the Medicare and Medicaid programs accounted for approximately 32% and 55%, respectively, of net patient service revenue for the year ended 2012. These percentages exclude Medicaid special revenue received and recognized in the General Fund. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Long-Term Liabilities

Renovation Bonds of 1988

The Corporation has issued $28,000,000 of renovation bonds, the proceeds of which were used to renovate the clinical, patient care and administrative areas of the existing Wishard Health Services hospital complex and acquire, construct, renovate and equip the Corporation's public health and administrative facilities. The Renovation Bonds of 1988 are payable from an unlimited ad valorem property tax levied on all taxable property in the Corporation, which is coterminous with Marion County, Indiana. The Renovation Bonds of 1988 bear interest at 7.40%, with principal and interest payments due June 30 and December 30 through 2019. In June 1990, the Indianapolis Local Public Improvement Bond Bank purchased the outstanding principal and accrued interest of the Renovation Bonds of 1988 for $27,457,950.

General Obligation Bonds of 2005

The Corporation has issued $28,960,000 of General Obligation Refunding Bonds, Series 2005 (the 2005 GO Bonds), the proceeds of which were used to refund the outstanding principal of the Corporation's General Obligation Bonds, Series 2000A (the 2000A GO Bonds). The 2005 GO Bonds are payable from an unlimited ad valorem property tax levied on all taxable property in the Corporation, which is coterminous with Marion County, Indiana. The 2005 GO Bonds bear interest at 3.50% to 5.25%, with principal and interest payments due January 1 and July 1 through January 1, 2025. The 2005 GO Bonds are subject to redemption from mandatory sinking fund payments during 2016 to 2024.

General Obligation Bonds of 2010

During 2010, the Corporation issued $195,000,000 of General Obligation Bonds, Series 2010 A-1 and 2010 A-2 (the 2010 A-1 and 2010 A-2 GO Bonds, or collectively, the 2010A GO Bonds), the proceeds of which are to be used to finance a portion of a new hospital complex (Eskenazi Health). Eskenazi Health will be comprised of a new 11-story replacement hospital facility of approximately 850,000 square feet with 315 beds, 12 labor delivery recovery beds, and 15 nursery beds and an adjacent six-story structure of approximately 175,000 square feet housing the outpatient clinic facilities. Also included as part of Eskenazi Health, will be a five-story office building of approximately 207,000 square feet to provide administrative offices for Eskenazi Health, a six-story parking garage of approximately 2,300 spaces, a consolidated utility plant and a data center to be housed at the Marion County Public Health Department. The 2010A GO Bonds are payable from ad valorem property taxes to be levied on all taxable property within Marion County, to the extent other revenues of the Corporation are not sufficient to cover the annual debt service. The 2010A GO Bonds bear interest at 3% to 6%, with principal and interest payments due January 15 and July 15 through January 15, 2040. The 2010A GO Bonds are subject to redemption from mandatory sinking fund payments during 2023 to 2040.

The 2010A GO Bonds were acquired in their entirety with proceeds from the issuance of The Indianapolis Local Public Improvement Bond Bank (the Bond Bank) Bonds, Series 2010 A-1 and 2010 A-2 (the 2010 A-1 and 2010 A-2 Bond Bank Bonds). The 2010 A-2 Bond Bank Bonds were issued as Build America Bonds (BABs) and, as such, will be eligible to receive a credit (BAB Subsidy) equal to 35% of the interest payable on such bonds. The benefit of such credit will be passed on to the Corporation at each interest payment date, thus effectively reducing the Corporation's cost of financing. As a result of the automatic spending cuts imposed under the Budget Control Act of 2011, the Corporation's BAB Subsidies in 2013 are expected to be reduced by approximately 8.7%. It is too soon to predict by what percentage, if any, BAB Subsidies will be cut in 2014 and thereafter or if the United States Congress will rescind or alter such cuts in the future.

Due to Local Government

Financing for a portion of Eskenazi Health is also being provided through a lease financing arrangement with the Indianapolis-Marion County Building Authority (Authority). The Authority was created pursuant to Indiana Code 36-9-13, as amended for the purpose of financing, acquiring, improving, constructing, reconstructing, renovating, equipping, operating, maintaining and managing governmental buildings for public or governmental purposes for the benefit of eligible governmental entities within the boundaries of the County of Marion, Indiana.

Pursuant to a Loan Agreement, dated March 1, 2010, the Authority has received loans of proceeds in connection with the issuance of $465,580,000 in The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2010 B-1 and Series 2010 B-2 (the 2010 B-1 and 2010 B-2 Bond Bank Bonds), for the purposes of financing a portion of the costs of Eskenazi Health.

Pursuant to its Master Lease Agreement and related Addendum(s) with the Authority, the Corporation is leasing certain real estate underlying Eskenazi Health and portions of the improvements related thereto. Under the Master Lease Agreement, the Corporation has the option to purchase the leased facilities at a price equal to the amount required to enable the Authority to pay or redeem all related outstanding debt obligations and costs of transferring the premises. Also, the Corporation is obligated to pay certain expenses and all costs to operate, insure and maintain the leased facilities. The rentals under this lease are payable from ad valorem property taxes to be levied on all taxable property within Marion County, to the extent other revenues of the Corporation are not sufficient to cover the rentals and, accordingly, the principal and interest on the 2010 B-1 and 2010 B-2 Bond Bank Bonds.

As financing proceeds are spent on costs of Eskenazi Health, the Corporation is recording such activity in capital assets with an offsetting entry to the due to local government balance reflected in long-term liabilities in the statement of net position. These amounts will accumulate until such time as the facilities are placed in service and the lease rentals begin, at which time the respective portions of the due to local government balance will be reclassified as capital lease obligations.

The following is a summary of changes in long-term liabilities for the year ended December 31, 2012:

	January 1, 2012	Additions	Reductions	December 31, 2012	Due Within One Year
Governmental Activities:					
General obligation bonds payable:					
Renovation Bonds of 1988 ($28,000,000 original amount), 6.00% to 7.40%, due January 1, 2020	$ 13,815,000	$ -	$ (1,320,000)	$ 12,495,000	$ 1,420,000
Refunding Bonds of 2005 ($28,960,000 original amount), 3.50% to 5.25%, due January 1, 2025	22,570,000	-	(1,275,000)	21,295,000	1,340,000
General Obligation Bonds of 2010 - Series A-1, A-2 ($195,000,000 original amount), 3.00% to 6.00%, due January 15, 2040	195,000,000	-	(8,435,000)	186,565,000	8,730,000
Deferred Amounts:					
Less: loss on refunding	(1,272,253)	-	147,511	(1,124,742)	(147,511)
Plus: bond premium	4,357,617	-	(183,644)	4,173,973	183,643
Total bonds payable	234,470,364	-	(11,066,133)	223,404,231	11,526,132
Due to local government	135,659,802	190,304,848	(3,304,945)	322,659,705	-
Capital lease payable	6,452,687	3,304,945	(2,270,000)	7,487,632	2,320,000
Asserted and unasserted self-insurance claims	1,250,098	5,116,472	(5,626,406)	740,164	321,214
Accrued compensated absences	5,447,745	5,109,296	(4,435,140)	6,121,901	5,283,489
Net pension liability	328,462	3,501,255	(2,996,541)	833,176	-
Governmental activities long-term liabilities	$ 383,609,158	$ 207,336,816	$ (29,699,165)	$ 561,246,809	$ 19,450,835
Business-Type Activities:					
Wishard Health Services:					
Asserted and unasserted self-insurance claims	$ 9,914,676	$ 29,826,272	$ (30,110,970)	$ 9,629,978	$ 4,933,166
Accrued compensated absences	20,110,434	17,020,807	(16,850,949)	20,280,292	17,846,657
Net pension liability	2,715,425	17,094,360	(14,630,173)	5,179,612	-
LT Care:					
Capital leases	353,793,730	120,895,791	(25,869,472)	448,820,049	27,275,502
Asserted and unasserted self-insurance claims	11,124,176	560,881	(878,141)	10,806,916	3,189,789
Business-type activities long-term liabilities	$ 397,658,441	$ 185,398,111	$ (88,339,705)	$ 494,716,847	$ 53,245,114

The above bond and capital lease obligations relating to governmental activities are to be repaid from ad valorem taxes levied to the extent necessary by the Corporation against all taxable property within Marion County, Indiana. Long-term liabilities for the governmental activities are generally liquidated by the General Fund. The business-type capital leases will be repaid through LT Care nursing home operating revenue.

The governmental activities debt service requirements, including interest, on bonds and related future BAB subsidies as of December 31, 2012 are as follows:

	Principal	Interest	BAB Subsidies
Bonds:			
2013	$ 11,490,000	$ 12,500,538	$ 4,819,864
2014	11,990,000	11,997,783	3,213,243
2015	4,350,000	11,449,278	3,213,243
2016	4,595,000	11,201,363	3,213,243
2017	4,850,000	10,946,368	3,213,243
2018 - 2022	28,650,000	50,329,214	16,066,213
2023 - 2027	35,650,000	41,813,910	14,544,699
2028 - 2032	42,985,000	30,653,904	10,728,866
2033 - 2037	52,030,000	16,744,866	5,860,699
2038 - 2039	23,765,000	2,153,935	753,877
	$ 220,355,000	$ 199,791,159	$ 65,627,190

The Corporation has a legal debt limit of 0.67% of the assessed values of Marion County Property as certified by the DLGF. A computation of the Corporation's legal debt margin as of December 31, 2012, is as follows:

Net assessed value - 2012	$ 33,922,279,415
	0.67%
Debt limit	227,279,272
Debt applicable to debt limit:	
Bonded debt	220,355,000
Legal debt margin	$ 6,924,272

As mentioned previously, in 2005, the Corporation refunded its 2000A GO Bonds with the issuance of the 2005 GO Bonds. The 2000A GO Bonds are considered to have been defeased and have been removed from the basic financial statements. At December 31, 2012, $19,855,000 of these defeased bonds remain outstanding.

Leases

Operating

The Corporation leases certain facilities and equipment under operating leases. Most of the facility leases include renewal options and some provide for escalation of rent based on changes in operating costs.

The following is a summary of the future minimum payments of all significant noncancelable operating leases with initial or remaining terms of one year or more at December 31, 2012 for the governmental activities:

2013	$ 602,812
2014	559,152
2015	439,637
2016	388,579
2017	199,739
Total future payments	$ 2,189,919

Lease expenditures of $589,816 were reported in the governmental activities for the year ended December 31, 2012.

The following is a summary of the future minimum payments of all significant noncancelable operating leases with initial or remaining terms of one year or more at December 31, 2012 for the business-type activities:

2013	$ 3,666,794
2014	2,037,517
2015	1,229,366
2016	201,913
2017	109,996
2018 - 2022	17,723
Total future payments	$ 7,263,309

The Corporation reported $6,918,638 of lease expense in the business-type activities for the year ended December 31, 2012.

Capital

The Corporation's governmental activities include a capital lease for a data center and certain equipment being used in the Corporation's hospital operation. At December 31, 2012, the gross amount of building improvements, equipment and related accumulated amortization recorded under the capital lease was as follows:

Building improvements	$	5,202,741
Equipment		4,554,891
Less accumulated amortization		(711,604)
	$	9,046,028

Future minimum capital lease payments for the Corporation's governmental activities as of December 31, 2012 are:

2013	$	2,591,216
2014		2,586,905
2015		2,959,056
Total minimum lease payments		8,137,177
Less amount representing interest (2.34% - 5.770%)		649,545
Present value of net minimum capital lease payment		7,487,632
Less current installments of obligations under capital leases		2,320,000
Obligations under capital lease, excluding current installments	$	5,167,632

For business-type activities, including the LT Care Enterprise Fund, the Corporation is obligated under capital leases covering 59 nursing homes. At December 31, 2012, the gross amount of buildings and related accumulated amortization recorded under capital leases was as follows:

Buildings	$	539,260,830
Less accumulated amortization		(172,500,075)
	$	366,760,755

Amortization expense of assets held under capital leases is included in depreciation expense for the Corporation's governmental activities and business type activities.

Future minimum capital lease payments for the Corporation's business-type activities as of December 31, 2012 are:

2013	$ 64,481,057
2014	65,729,660
2015	66,998,326
2016	68,155,836
2017	69,070,455
2018 - 2022	329,984,491
2023 - 2027	4,767,000
Total minimum lease payments	669,186,825
Less amount representing interest (at rates ranging from 4.58% to 11.74%)	220,366,776
Present value of net minimum capital lease payment	448,820,049
Less current installments of obligations under capital leases	27,275,502
Obligations under capital lease, excluding current installments	$ 421,544,547

Risk Management

Insurance Coverage

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and patients; and natural disasters. The Corporation is self-insured for workers' compensation, general liability and medical malpractice claims to defined limits. With respect to general liability, the Corporation is protected by the Indiana Tort Claims Act, under IC 34-13-3-4, which limits the tort liability for all Indiana governmental entities, in aggregate, to $700,000 per person and $5,000,000 per occurrence. The Corporation also purchases commercial insurance policies for certain other risks of loss with deductibles that range from $10,000 to $100,000. Settled claims have not exceeded coverage for the past three years.

Wishard participates in the Indiana Medical Malpractice Act, which limits the maximum recovery for medical malpractice claims to $1,250,000 per occurrence, $250,000 of which would be paid by the Corporation, with the balance paid by the State of Indiana Patient Compensation Fund.

As mentioned previously in these notes, the Corporation established a nonprofit entity, Lions Insurance Company, Inc., which is legally separate from the Corporation and whose purpose is to provide insurance covering the professional (malpractice) and general liability exposures of the nursing homes operated by the Corporation. The Corporation incorporated Lions on February 28, 2006, and commenced operations on March 1, 2006. As with Wishard, Lions is protected by the Indiana Tort Claims Act, participates in the Indiana Medical Malpractice Act and has professional liability coverage from the Indiana Patient Compensation Fund. In addition, Lions has protection for general liability coverage in excess of $1,000,000 annually and in the aggregate.

The Corporation's workers' compensation program retains the first $500,000 liability on any one claim or incident and purchases an excess workers' compensation policy to extend limits from $500,000 without an aggregate amount applicable as it applies to any one claim or incident.

The Corporation has accrued for reported claims and claims incurred but not reported (IBNR) for workers' compensation, general liability and medical malpractice. Loss estimates have included the nature of each claim or incident and relevant trend factors as determined by legal counsel and an independent consulting actuary.

The following is a summary of the changes in asserted and unasserted workers' compensation, general liability, and medical malpractice claims for the past two years, as recorded within the business-type activities and proprietary fund financial statements:

Balance at January 1, 2011	$ 16,448,587
Change in incurred claims (including IBNRs), net	3,414,197
Claim payments	(2,367,179)
Balance at January 1, 2012	17,495,605
Change in incurred claims (including IBNRs), net	1,817,806
Claim payments	(2,146,683)
Balance at December 31, 2012	$ 17,166,728

Medical Claims Incurred But Not Reported

Wishard has entered into an agreement with MDwise, a related party, to provide risk-based health care services, including, but not limited to inpatient, outpatient and physician services, to qualified Medicaid participants.

Effective January 1, 2008, this program was expanded to include the provisions of the Healthy Indiana Plan (HIP). Wishard receives payments for the care of these Medicaid beneficiaries under a capitated payment methodology from MDwise and disburses payments through a third-party administrator based upon processed claims.

Medical claims incurred but not reported represents an estimate of the ultimate net cost to Wishard for amounts that are unpaid at December 31, 2012. The liability is based on claim factors determined by an actuary using projections and the historical loss experience of Wishard and gives effect to estimates of trends in claim severity and frequency. Although Wishard's management believes that the estimates of the liability for claims incurred but not reported is reasonable in the circumstances, it is possible that the actual incurred claims will not conform to the assumptions inherent in the estimation of future claims due to an absence of a significant amount of historical experience on which to base projections and the inherent variability with respect to the significant assumptions utilized. Accordingly, the ultimate settlement of claims may vary significantly from the liability for unpaid claims included in the Wishard Health Services Fund. Historically, the majority of these claims are paid within one year following year-end, so the entire balance is being reflected in current liabilities in the statement of net position.

The following is a summary of changes in the medical claims incurred but not reported for the past two years, as recorded within the business-type activities and proprietary fund financial statements:

Balance at January 1, 2011	$ 5,330,206
Change in incurred claims (including IBNRs), net	26,320,775
Claim payments	(25,874,433)
Balance at January 1, 2012	5,776,548
Change in incurred claims (including IBNRs), net	25,186,419
Claim payments	(27,711,198)
Balance at December 31, 2012	$ 3,251,769

Health Insurance Coverage

The Corporation began in 2001 to provide self-insurance to its employees for healthcare and prescription usage. Asserted and unasserted self-insurance claims in the governmental and business-type activities of the government-wide statements represents an estimate of the ultimate net cost to the Corporation for amounts that are unpaid at December 31, 2012. The liability is based on claim factors determined by an actuary using projections and the historical loss experience of the Corporation and gives effect to estimates of trends in claim severity and frequency. Although the Corporation's management believes that the estimates of the liability for claims incurred but not reported is reasonable in the circumstances, it is possible that the actual incurred claims will not conform to the assumptions inherent in the estimation of future claims due to an absence of a significant amount of historical experience on which to base projections and the inherent variability with respect to the significant assumption utilized. Accordingly, the ultimate settlement of claims may vary significantly from the liability for asserted and unasserted self-insurance claims.

The following is a summary of the changes in the Corporation’s health insurance liability for the past two years, as recorded in the governmental activities of the statement of net position:

Balance at January 1, 2011	$ 5,134,155
Change in incurred claims (including IBNRs), net	2,941,304
Claim payments	(6,825,361)
Balance at January 1, 2012	1,250,098
Change in incurred claims (including IBNRs), net	5,116,472
Claim payments	(5,626,406)
Balance at December 31, 2012	$ 740,164

The amount recorded as a liability in the General Fund at December 31, 2012 is $321,214 and represents the claims, which are matured and due as of year-end.

The following is a summary of the changes in the Corporation's health insurance liability for the past two years, as recorded in the business-type activities of the statement of net position:

Balance at January 1, 2011	$ 3,370,422
Change in incurred claims (including IBNRs), net	26,163,602
Claim payments	(25,990,777)
Balance at January 1, 2012	3,543,247
Change in incurred claims (including IBNRs), net	28,569,347
Claim payments	(28,842,428)
Balance at December 31, 2012	$ 3,270,166

Retirement Plan

Plan Description

The Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), established in accordance with Indiana Code (§5-10.2 and §5-10.3). PERF is an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. The plan is a benefit plan with components of both a defined-benefit and defined-contribution plan. The authority to establish or amend benefit provisions of PERF rests with the Indiana General Assembly. However, obligations to contribute to the plan are determined by the board of PERF in accordance with actuarial methods. Substantially all full-time employees of the Corporation are covered by the plan. The following disclosures represent the most current and available information on the plan through the June 30, 2012 actuarial valuation.

Retirement benefits vest after 10 years of service. Normal retirement is defined as the earliest of: (1) age 65 with 10 years of creditable service; (2) age 60 with 15 years of creditable service; or (3) the sum of age and creditable service equal to 85, but not earlier than age 55. A reduced benefit will be received if an employee takes early retirement between ages 50 and 65 and has had 15 or more years of creditable service. Employees may either elect to receive a lump-sum distribution of their annuity savings account balance upon retirement or receive an annuity amount as a monthly supplement to the retirement benefits described above. PERF also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and county ordinance.

Employees have two choices regarding their annuity savings account. They may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or, they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described in the paragraph above. An employee who leaves employment before qualifying for benefits receives a refund of his or her savings account.

PERF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, Indiana 46204, or by calling 888-526-1687.

Funding Policy

The Corporation's employees are required to contribute 3.0% of their annual salaries to an annuity savings account that may be withdrawn at any time should an employee terminate employment. The Corporation has elected to pay the required employee contribution. In addition, the Corporation is required by state statute to contribute at an actuarially determined rate (8.5% for calendar year 2012) of annual covered payroll. Therefore, the total employer contribution rate for 2012 was 11.5%. The contribution requirements of plan members are determined by PERF's Board of Directors as authorized by Indiana state statute. The Corporation-financed pension benefits are classified as defined-benefits and the employee-financed pension benefits are classified as defined-contributions.

Annual Pension Cost and Net Pension Obligation

The PERF funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The required contributions were determined as part of the June 30, 2012 actuarial valuation using the entry age normal level percent of payroll. The actuarial assumptions used for the June 30, 2012 actuarial valuation included: (a) a rate of return on investment of present and future assets of 6.75% per year, compounded annually; (b) future salary increases of 3.25 - 4.50% per year, based on PERF experience from 2005 to 2010; (c) inflation of 3% per year; and (d) a cost of living increase of 1% (compounded) that is applied to pension benefit each year following retirement, with no increase assumed to be applied to the PERF annuity benefit. The actuarial value of the plan’s assets is determined by taking the previous year’s actuarial value, adding contributions, subtracting pension payments and plan expenses and adding expected earnings at the valuation rate of interest, based on a mid-year weighted-average fund. The result is multiplied by a four-year smoothing of gains/losses on market value. PERF uses the level percentage of payroll method to amortize the unfunded liability over an open 30-year period.

The following is a schedule of the net pension liability for the Corporation at December 31, 2012:

Annual required contributions (ARC)	$ 20,627,839
Interest on net pension asset	213,072
Adjustment to ARC	(245,296)
Annual pension cost	20,595,615
Actual contributions made	17,626,714
Change in net pension liability	2,968,901
Net pension liability, beginning of year	3,043,887
Net pension liability, end of year	$ 6,012,788

Historical Trend Information

Historical trend information about the Corporation's participation in PERF is presented below to help readers assess the plan's funding status on a going-concern basis and assess progress being made in accumulating assets to pay benefits when due.

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset (Liability)
2012	$ 20,595,615	86%	$ (6,012,788)
2011	19,339,518	81%	(3,043,887)
2010	15,326,351	92%	566,428

Required Supplemental Information - Schedule of Funding Progress

Valuation Date	(A) Actuarial Value of Assets	(B) Entry Age Actuarial Accrued Liability (AAL)	(B - A) Excess of Assets Over (Unfunded) AAL	(A / B) Funded Ratio	(C) Anticipated Covered Payroll	[(B - A) / C] Excess/ Unfunded AAL as a % of Covered Payroll
June 30, 2012	$ 139,163,674	$ 275,186,152	$ (136,022,478)	51%	$ 241,715,205	56%
June 30, 2011	148,061,020	249,233,595	(101,172,575)	59%	225,695,409	45%
June 30, 2010	168,526,115	237,985,099	(69,458,984)	71%	212,866,807	33%

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

Deferred Compensation Plan

Employees of the Corporation are eligible to participate in a deferred compensation plan (Plan) adopted under the provisions of Internal Revenue Code (IRC) Section 457. The deferred compensation plan is available to substantially all employees of the Corporation. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. The plan assets are held in trust for the exclusive benefits of participants and their beneficiaries.

Hospital Management Agreement

An agreement between the Corporation and the Indiana University (University) was signed in February 2007. During 2012, the Corporation primarily paid for physician services under a relative value unit basis. The Corporation continued to rely on the University to supply several leadership positions for Wishard, but the operations of Wishard remains the direct responsibility of the Corporation. Wishard incurred fees for professional, management, and resident physician services of approximately $49,907,901 during the year (recorded in medical and professional fees on the statement of revenues, expenses and changes in fund net position - proprietary funds). The University also rents office space from Wishard, which resulted in revenue to Wishard of $1,297,198 in 2012.

Agreement With Indiana University Medical Group - Primary Care

The Eskenazi Medical Group (EMG) is a related party of the Corporation through joint control. Under its agreements with Wishard, EMG provided administrative services for Wishard until December 31, 2012. MDwise became responsible for the administrative services starting on January 1, 2013. EMG provides physician services to Wishard and its Community Health Centers.

Total 2012 expense recognized in the Wishard fund to EMG totaled $18,610,491.

LT Care Management Agreement

The Corporation has entered into a management agreement with American Senior Communities, LLC (ASC) to manage the 59 nursing homes, which are accounted for in the LT Care Fund. The term of the management agreement extends until August 2022 with the Corporation having the right to extend the term for an additional period of ten years if written notice is given to ASC at least 60 days prior to the expiration of the initial term. During 2012, the Corporation incurred approximately $30,578,000 in management fees to ASC for LT Care operations.

ASC has contracted with EagleCare, LLC (EagleCare) to provide the personnel required to operate each of the respective facilities. EagleCare and ASC are related parties in that the persons who own 100% of EagleCare also own 95% of ASC. ASC also provides management services to EagleCare in connection with its operations.

The Corporation previously leased 26 of the nursing homes from entities related to ASC through common ownership. As a part of the lease restructuring discussed later in the notes, several entities related to ASC through common ownership sold the leased properties to an unrelated third party. As a result, the Corporation currently leases 8 of the nursing homes from entities related to ASC through common ownership. During 2012, the Corporation paid approximately $30,906,000 to this organization in associated lease costs from LT Care operating revenue.

At December 31, 2012, the LT Care Fund had a payable to EagleCare of approximately $12,225,000 primarily for accrued labor and related benefits. The LT Care Fund also had a payable to ASC at December 31, 2012 of approximately $5,599,000 for outstanding management services rendered to be paid from operations.

Nursing Home Leases

The Corporation has entered into various transactions with entities related to ASC and unrelated third parties involving the leasing of buildings and purchasing of equipment for the operation of nursing homes throughout the state of Indiana with terms through March 2026. These transactions require the Corporation to make monthly lease payments, ranging from $19,000 to $198,000 per home. Certain transactions require the lease payments to increase by the greater of the Consumer Price Index (CPI) or a set percentage as defined in each agreement, which is typically 2% to 3%. Additionally, many of the leases have optional extensions available to the Corporation in five-year increments.

The Corporation is also required to make various capital improvements for many of these facilities, ranging from $32,000 to $230,000 annually per home. In the same way as the lease payments above, these amounts increase annually. The Corporation expects to fund the capital improvements from cash flows generated from the operations of each nursing home.

The Corporation has provided security deposits securing 32 nursing homes in the amount of $7,887,068. In December 2012, an irrevocable standby letter of credit in the amount of $7,374,337 was obtained to secure 28 of the aforementioned 32 nursing homes and will replace the cash funded security deposit for those leases.

The Corporation restructured the leases of several nursing facilities in 2012, which required the forfeiture of $5,845,500 in facility deposits which were paid at the inception of the original lease agreements. As a result of the lease restructurings, one unrelated third party served as landlord of 33 of the Corporation’s nursing facilities. Lease payments to this third party in 2012 approximated $13,754,000.

Related Parties

During the year, the Corporation had transactions with the City of Indianapolis (the City) and Marion County (the County) that were conducted in the normal course of business. The County collects and distributes taxes and other special assessment fees on behalf of the Corporation. For the year ended December 31, 2012, the Corporation received $102,965,806 in tax cash receipts and $681,369 in special assessment fees cash receipts from the County for the “Clean and Lien” program to clean up vacant lots and for unsafe building enforcement. At December 31, 2012, the Corporation had a receivable for $9,500,000 due from the State of Indiana. The Corporation paid the County $529,182 in 2012 for autopsy and death reports, vital records coroner fees, and other matters. In addition, the Corporation acted as a subrecipient or a pass-through agent for various state and federal grant programs with the City and County during 2012.

Joint Ventures

The Corporation is a 50% member in MDwise. MDwise is a not-for-profit corporation that contracts with the State of Indiana through the Office of Medicaid Policy and Planning and the Office of Children’s Health Insurance Program, to arrange for and administer a risk-based managed care program for certain Indiana Medicaid enrollees. The investment is recorded in the Wishard fund and accounted for under the equity method. Complete financial statements for MDwise can be obtained from the MDwise administrative offices at 1099 North Meridian, Suite 320, Indianapolis, Indiana 46204.

The Corporation is a 50% partner in the HHC/Duke Realty Development LLC (LLC). LLC is a limited liability corporation established by HHC and Duke Realty to jointly develop and construct an office building located on Eskenazi Health Campus. The estimated cost design and construction of the building is $80.4 million; funded through equity contributions from HHC and Duke Realty. The office building will be completed in late 2013 and will be owned by the LLC. HHC will continue to own the land under the building and has leased the land to the LLC for 50 years. HHC will be the sole primary lessee of the building for the next 30 years but does have the authority to sublet as it wishes.

Duke Realty will be the property manager for the building. HHC will pay full/unsubsidized lease rates to the LLC. HHC, as a partner in the LLC, will also receive a return on its equity investment equal to 8.25% over the life of the lease. The LLC will continue to own the building at the end of the 30 year lease. HHC will be able to purchase the building at market value or continue to lease the building from the LLC at the end of the original lease period.

Concentrations of Credit Risk

Wishard and LT Care grant credit without collateral to their patients, most of whom are generally insured under third-party agreements. The mix of receivables from patients and third-party payers at December 31, 2012 is as follows:

Commercial insurance	11%
Medicare	31%
Medicaid	34%
Self-pay	15%
Other	9%
	100%

Commitments and Contingencies

Litigation

In addition to pending medical malpractice claims, the Corporation has various other litigation pending against it. It is the opinion of management that loss, if any, from pending litigation will not have a material adverse effect on its financial position, results of operations or liquidity.

Government Grants

The Corporation participates in a number of federal financial assistance programs. Costs claimed for reimbursement are subject to audit and acceptance by the granting agency. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although, the Corporation expects such amounts, if any, to be immaterial.

Commitments

The Corporation has entered into certain commitments related to the construction of Eskenazi Health of approximately $177,000,000 at December 31, 2012. Additionally, the General Fund and Capital Projects Fund have outstanding encumbrances aggregating $2,252,310 and $27,563,319, respectively, at December 31, 2012.

Subsequent Events

Bond Issuance

Subsequent to 2012, the Corporation received a loan of proceeds in connection with the issuance of $42,460,000 of The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2013A (the 2013A Bond Bank Bonds), to fund ongoing costs of the Wishard Hospital Project. As noted previously in these notes, such debt is subject to a Master Lease Agreement. Rentals under the lease are payable from ad valorem property taxes to be levied on all taxable property within Marion County, to the extent other revenues of the Corporation are not sufficient to cover the rentals under this lease and the principal of, and interest on, the 2013A Bond Bank Bonds. The 2013A Bond Bank Bonds were issued at an average coupon rate of 4.96% with maturities extending through 2036.

Agreement With Community Health Network, Inc.

On February 18, 2013, the Corporation and Community Health Network, Inc. ("Community"), an Indiana nonprofit corporation and the operator of several health care facilities in Indiana, entered into an agreement to develop a collaboration (the "Collaboration"). Both the Board of Trustees of the Corporation and the Board of Directors of Community have approved this agreement and both entities are currently undertaking due diligence to assess the resources and potential collaborative opportunities across the two systems. The proposed Collaboration is not a merger of the Corporation and Community or an acquisition of either entity by the other. The Corporation cannot predict at this time when the proposed Collaboration will commence implementation.

The proposed Collaboration would encourage coordination of the management of the Community and Wishard hospitals and related facilities located in central Indiana. In addition, the proposed Collaboration would allow the Corporation and Community to effectively address health care reform and expand access to quality health care for the citizens of Indiana, including the indigent and most vulnerable populations, through broader outreach, enhanced health education, and expanded disease management and post-acute services.

Required Supplementary Information
(Other Than MD&A) (Unaudited)

Health and Hospital Corporation of Marion County, Indiana
(A Component Unit of the Consolidated City of Indianapolis - Marion County)
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance With Final Budget- Positive
	Original	Final	Amounts	(Negative)
Revenues				
Taxes	$ 103,488,802	$ 103,488,802	$ 107,969,247	$ 4,480,445
Licenses and permits	4,110,600	4,110,600	3,901,841	(208,759)
Intergovernmental	865,000	865,000	681,369	(183,631)
Charges for services	1,279,400	1,279,400	1,147,540	(131,860)
Medicaid special revenue	127,341,000	127,341,000	(15,425,487)	(142,766,487)
Interest	175,000	175,000	70,590	(104,410)
Grants	18,845,000	18,845,000	18,310,098	(534,902)
Miscellaneous	18,545,000	18,545,000	43,171,264	24,626,264
Total revenues	274,649,802	274,649,802	159,826,462	(114,823,340)
Expenditures				
Personal services	53,200,000	53,200,000	52,812,911	387,089
Supplies	4,455,000	4,900,000	4,224,282	675,718
Other charges and services	26,760,000	56,760,000	27,130,917	29,629,083
Capital outlays	1,998,000	1,553,000	539,299	1,013,701
Total expenditures	86,413,000	116,413,000	84,707,409	31,705,591
Other Financing Uses				
Transfers out, net	(176,624,000)	(176,624,000)	(73,186,073)	103,437,927
Total other financing uses	(176,624,000)	(176,624,000)	(73,186,073)	103,437,927
Net change in fund balances	11,612,802	(18,387,198)	1,932,980	20,320,178
Fund balances - beginning of year	113,638,063	113,638,063	127,074,780	13,436,717
Fund balances - end of year	$ 125,250,865	$ 95,250,865	$ 129,007,760	$ 33,756,895

Health and Hospital Corporation of Marion County, Indiana
(A Component Unit of the Consolidated City of Indianapolis - Marion County)
Notes to the Required Supplementary Information
December 31, 2012

Budgets and Budgetary Accounting

The Corporation is required by state statute to prepare a budget each calendar year. The budget is prepared for the General, Debt Service and Capital Projects, but is not required for certain activities of the Capital Projects Funds since they are controlled by bond indentures. The Corporation's annual budget is subjected to review by the Corporation's Board of Trustees and the City-County Council, and approved by the State of Indiana Department of Local Government Finance (DLGF). Any additional appropriations that increase the total expenditures require approval by the Corporation's Board of Trustees and the DLGF. Any decreases to total appropriated expenditures require the approval by the Corporation's Board of Trustees but not the DLGF. Budgetary control is exercised at the object of expenditure level. Management may amend department and cost center budgets without seeking Board approval, as long as the total appropriation by Division, and by object of expenditure, remains unchanged.

The General, Capital Projects, and Debt Service Funds budgets are adopted on a basis not consistent with GAAP for revenue as it is a mix of accrual and cash basis. Encumbrances are treated as expenditures for the year in which the commitment to purchase is incurred for budgetary purposes.

Encumbrance Accounting

For accounting purposes, purchase orders, contracts and other anticipated obligations to expend monies are recorded as encumbrances in governmental fund types in order to reserve that portion of the applicable appropriation. Encumbrances and their underlining appropriations do not lapse with the expiration of the budget period.

Reconciliation of Budgetary Basis Actual to GAAP Basis Actual

The schedule of revenues, expenditures, and changes in fund balances - budget and actual presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because the budgetary and GAAP presentations of actual data differ for the General Fund expenditures, a reconciliation of the two presentations is presented below for the General Fund.

Net change in fund balance - GAAP basis	$ 94,697,368
Add (Deduct)	
Change in encumbrances	103,031
Change in prepaid expenditures	(60,522)
Change in accounts receivable	(92,480,541)
Change in accounts payable	1,514,672
Change in self-insurance claims	(1,841,028)
Net change in fund balance - Budgetary Basis	$ 1,932,980

Other Supplementary Information

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor	Pass-Through Grantor	Pass-Through Grantor Number	Program Title	Federal CFDA #	2012 Amount Passed-Through to Subrecipients	Combined 2012 Total Federal Expenditures
U.S. Department of Homeland Security						
	City of Indianapolis	POI1603117	Non-Profit Security Program	97.008	$ 55,000	$ 55,000
	Indiana University	C44P-0-105A	Non-Profit Security Program	97.008	-	965
	City of Indianapolis, Indiana	POI06029358068	Non-Profit Security Program	97.008	-	26,039
	City of Indianapolis, Indiana	POI1603117	Non-Profit Security Program	97.008	-	286,011
	City of Indianapolis, Indiana	16DPS-1600003391	Non-Profit Security Program	97.008	-	153,723
	Indiana University	C44P-1-074A	Non-Profit Security Program	97.008	-	153,023
	City of Indianapolis, Indiana	POI1603117	Non-Profit Security Program	97.008	-	100,890
					55,000	775,651
	City of Indianapolis, Indiana	POI1602547	Metropolitan Medical Response System	97.071	55,000	115,000
	City of Indianapolis, Indiana	16DPS1600002780	Metropolitan Medical Response System	97.071	-	38,065
	City of Indianapolis, Indiana	POI1602547	Metropolitan Medical Response System	97.071	-	179,969
	City of Indianapolis, Indiana	16DPS-1600002780	Metropolitan Medical Response System	97.071	-	73,409
					55,000	406,443
			Total U.S. Department of Homeland Security		**110,000**	**1,182,094**
U.S. Department of Labor						
	Indianapolis Private Industry Council	S2303-H-09/S2303-H-10	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	-	**38,413**
			Total U.S. Department of Labor		**-**	**38,413**
U.S. Department of Agriculture						
	Indiana State Department of Health	A70-2-070357	Special Supplemental Nutrition Program for Women, Infants and Children	10.557	-	25,612,324
	Indiana State Department of Health	A70-3-070479	Special Supplemental Nutrition Program for Women, Infants and Children	10.557	-	1,031,321
	Indiana State Department of Health	A70-2-070323	Special Supplemental Nutrition Program for Women, Infants and Children	10.557	-	245,015
	Indiana State Department of Health	A70-3-070405	Special Supplemental Nutrition Program for Women, Infants and Children	10.557	-	72,933
	Indiana State Department of Health	A70-0-070259	Special Supplemental Nutrition Program for Women, Infants and Children	10.557	-	(6,391)
			Total U.S. Department of Agriculture		**-**	**26,955,202**
U.S. Department of Education						
	Indianapolis Public Schools	10-4700-5385	Career and Technical Education - Basic Grants to States	84.048	-	34,455
	Aging and Rehabilitative Services	VRI-9-49-09-0X-1580	Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	-	310,104
			Total U.S. Department of Education		**-**	**344,559**
U.S. Department of Health and Human Services						
	Indiana University	POIHK000077-012; 5POIHK000077-03	Laboratory Leadership, Workforce Training and Management Development, Improving Public Health Laboratory Infrastructure	93.065	-	3,008
	Indiana State Department of Health	A70-2-0531807	Public Health Emergency Preparedness	93.069	-	8,270
	Indiana State Department of Health	A70-2-0531883	Public Health Emergency Preparedness	93.069	-	164,117
	Indiana State Department of Health	A70-3-0532060	Public Health Emergency Preparedness	93.069	-	41,736
					-	214,123
	Indiana State Department of Health	A70-3-0532023	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	-	7
	District 5 Hospital Corporation	5U3REP090262-03-00	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	-	1,077
					-	1,084
	Indiana Family Health Council	IFHC-5	Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	-	35,341

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

Federal Grantor	Pass-Through Grantor	Pass-Through Grantor Number	Program Title	Federal CFDA #	2012 Amount Passed-Through to Subrecipients	Combined 2012 Total Federal Expenditures
	Indiana State Department of Health	A70-0-106032	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	$ -	$ 13,406
	Indiana State Department of Health	A70-2-106047	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	-	101,249
					-	114,655
	University of Illinois at Chicago	HAH4A00062	AIDS Education and Training Centers	93.145	12,596	251,680
	Indiana Family & Social Service Administration	A55-1-49-12-Y3-1580/A55-2-49-Y3-1580	Projects for Assistance in Transition from Homelessness	93.150	-	121,366
	Indiana Family Health Council	IFHC-1	Family Planning Services	93.217	5,565	1,301,306
	Health Centers Cluster:					
	Direct	N/A	Consolidated Health Centers	93.224	693,970	693,970
	Direct	N/A	Affordable Care Act Grants for New and Expanded Services under Health Centers Programs	93.527	386,902	386,902
	Total Health Centers Cluster				1,080,872	1,080,872
	Indiana University	ROIHS018553-01	Research on Healthcare Costs, Quality and Outcomes	93.226	-	2,110
	Indiana University	1R01HS020909-01	Research on Healthcare Costs, Quality and Outcomes	93.226	-	24,692
	Direct	N/A	Research on Healthcare Costs, Quality and Outcomes	93.226	21,479	50,563
					21,479	77,365
	Indiana University	5R24MH080827-05	Mental Health Research Grant	93.242	-	747
	Damien Center	1U79SP015100	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	-	41,884
	Direct	N/A	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	273,098	395,097
	Indiana Family & Social Service Administration	A55-2-49-12-WZ-1580	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	-	687,904
	Indiana University	5U79T1020281-03/5U79T1020281-04	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	-	97,024
					273,098	1,221,909
	Indiana State Department of Health	A70-1-073112	Immunization Cooperative Agreements	93.268	-	429,167
	University of Cincinnati	5U10DA013732-12	Drug Abuse and Addiction Research Programs	93.279	-	47,777
	Direct	N/A	Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	4,608	15,840
	Indiana University	4UH3A1094641-02	Trans-NIH Research Support	93.310	-	(973)
	Indiana University	5UH3A109464-04	Trans-NIH Research Support	93.310	-	36,782
	Indiana University	5UH3A109464-04	Trans-NIH Research Support	93.310	-	16,202
					-	52,011
	Indiana State Department of Health	A70-2-069535	Pregnancy Assistance Fund Program	93.500	-	40,904
	Indiana State Department of Health	A70-2-069402	Pregnancy Assistance Fund Program	93.500	-	432,620
	Indiana State Department of Health	A70-3-069622	Pregnancy Assistance Fund Program	93.500	-	122,606
					-	596,130
	Indiana Family Health Council	IFHC-4	Temporary Assistance for Needy Families	93.558	-	488,286
	Indiana Family & Social Service Administration	F1-10-49-10-R5-1580	Refugee and Entrant Assistance - State Administered Programs	93.566	-	559,844

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

Federal Grantor	Pass-Through Grantor	Pass-Through Grantor Number	Program Title	Federal CFDA #	2012 Amount Passed-Through to Subrecipients	Combined 2012 Total Federal Expenditures
	Indiana State Department of Health	A70-2-106046	Refugee and Entrant Assistance - Discretionary Grants	93.576	$ -	$ 39,683
	Indiana State Department of Health	A70-2-106067	Refugee and Entrant Assistance - Discretionary Grants	93.576	-	23,071
					-	62,754
	Indiana University	1C1CMS331000-01-00	Health Care Innovation Awards	93.610	34,222	331,081
	Indiana Family Health Council	IFHC-3	Social Services Block Grant	93.667	-	84,663
	InteCare, Inc.	A55-2-49-12-HO-1580/A55-3-49-13-FX-1580	Social Services Block Grant	93.667	-	306,804
					-	391,467
	Direct	N/A	ARRA - Grants to Health Center Programs	93.703	(10,627)	(10,627)
	Indiana University	1R01HS019818-01	Comparative Effectiveness Research	93.715	-	29,484
	Indiana University	IN-4685234-WHS	Diabetes, Digestive and Kidney Disease Extramural Research	93.847	-	3,933
	Indiana University	5R01HD053231	Child Health and Human Development Extramural Research	93.865	-	44,433
	Indiana University	R01AG034205	Aging Research	93.866	-	20,466
	Indiana University	5R01AG034946	Aging Research	93.866	-	48,575
	Indiana University	5R01AG034946-03	Aging Research	93.866	-	36,436
					-	105,477
	Direct	N/A	National Bioterrorism Hospital Preparedness Program	93.889	-	1,172
	Indiana State Department of Health	A70-0-0531908	National Bioterrorism Hospital Preparedness Program	93.889	-	5,000
	Indiana State Department of Health	A70-9-053896	National Bioterrorism Hospital Preparedness Program	93.889	-	70
	The District 5 Hospital Preparedness Planning Committee	A70-1-0531551	National Bioterrorism Hospital Preparedness Program	93.889	-	2,102
	Indiana State Department of Health	A70-1-0531545	National Bioterrorism Hospital Preparedness Program	93.889	-	201
	Indiana State Department of Health	N/A	National Bioterrorism Hospital Preparedness Program	93.889	-	735
					-	9,280
	Direct	N/A	HIV Emergency Relief Project Grants	93.914	2,012,727	3,951,784
	Indiana State Department of Health	A70-2-112214	HIV Care Formula Grants	93.917	-	75,690
	Indiana State Department of Health	A70-3-112248	HIV Care Formula Grants	93.917	-	35,151
					-	110,841
	Direct	N/A	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	194,593	706,189
	Direct	N/A	Healthy Start Initiative	93.926	51,510	927,095
	Indiana State Department of Health	A70-2-112244	HIV Prevention Activities Health Department Based	93.940	-	83,143
	American College of OB/GYN	1U65/PS00813-03	HIV Demonstration, Research, Public and Professional Education Projects	93.941	-	11,000

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

Federal Grantor	Pass-Through Grantor	Pass-Through Grantor Number	Program Title	Federal CFDA #	2012 Amount Passed-Through to Subrecipients	Combined 2012 Total Federal Expenditures
	Indiana State Department of Health	A70-0-112153	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	$ -	$ 300,374
	InteCare, Inc.	A55-2-49-12-HO-1580 / A55-3-49-13-FX-1580	Block Grants for Community Mental Health Services	93.958	-	272,998
	Indiana State Department of Health	A70-2-069380	Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	19,755
	Indiana State Department of Health	A70-3-069531	Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	26,068
	InteCare, Inc.	A55-2-49-12-HO-1580 / A55-3-49-13-FX-1580	Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	1,011,540
					-	1,057,363
	Indiana State Department of Health	A70-0-112140	Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	73,104	181,309
	Indiana University	A70-0-069478; A70-2-069477	Maternal and Child Health Services Block Grant to the States	93.994	-	139,615
			Total U.S. Department of Health and Human Services		**3,753,747**	**15,321,504**
U.S. Department of Housing and Urban Development						
	City of Indianapolis, Indiana	POI1300000138	Community Development Block Grants/Entitlement Grants	14.218	-	11,200
	City of Indianapolis, Indiana	POI1300861 / IN0080B5H031104	Supportive Housing Program - Safe Haven (First Home)	14.235	-	255,505
	City of Indianapolis, Indiana	IN0081C5H031104/POI1300472; IN0082C5H031104/POI1300349; IN0111C5H030900; IN0072C5H030800; IN0141C5H031101	Shelter Plus Care	14.238	-	590,782
	Direct	N/A	Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	38,719	147,752
	Direct	N/A	ARRA - Healthy Homes Demonstration Program	14.901	-	37,105
	Direct	N/A	Lead Outreach Grant Program	14.904	-	3,616
	Direct	N/A	Lead Hazard Reduction Demonstration Grant Program	14.905	-	(5,361)
	Direct	N/A	Healthy Homes Production Grant Program	14.913	-	(2,421)
			Total U.S. Department of Housing and Urban Development		**38,719**	**1,038,178**
U.S. Department of Justice						
	Indiana Criminal Justice Institute	11VANP082/D3-12-6844; 12VA1541/D3-13-7857; 11VATR003/D3-12-6966	Crime Victim Assistance	16.575	-	64,501
	Indiana University	D3-12-6832; D3-13-7858	Crime Victim Assistance	16.575	-	50,927
					-	115,428
	City of Indianapolis, Indiana	PO3300000943	Residential Substance Abuse Treatment for State Prisoners	16.593	-	9,846
	City of Indianapolis, Indiana	POI1101173	Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	-	31,597
			Total U.S. Department of Justice		**-**	**156,871**
U.S. Environmental Protection Agency						
	Indiana State Department of Health	A70-1-068050	State Indoor Radon Grants	66.032	-	4,996
			Total U.S. Environmental Protection Agency		**-**	**4,996**
			Total Federal Expenditures		**$ 3,902,466**	**$ 45,041,817**

Notes to Schedule

1. This schedule includes the federal awards activity of Health and Hospital Corporation of Indianapolis - Marion County and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. During 2012 and 2011, Health and Hospital Corporation of Indianapolis - Marion County (HHC) was audited by the U.S. Department of Housing and Urban Development (HUD) regarding their Lead Safe and Healthy Homes Program. HUD issued a report identifying items they deemed unallowable and required HHC to issue a refund of $602,649. HUD identified an additional $189,779 of expenses they deemed unallowable that had previously been billed by HHC but not paid by HUD. This total returned and unpaid grant funds of $792,428 deemed unallowable are not included as a credit balance in the schedule of expenditures of federal awards.

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

Board of Trustees
Health and Hospital Corporation of Marion County, Indiana
Indianapolis, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of Health and Hospital Corporation of Marion County, Indiana (a component unit of the Consolidated City of Indianapolis - Marion County) (Corporation), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated June 28, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 12-1 to be a material weakness.

Compliance

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

Management's Response to Findings

The Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Other Matters

We noted certain matters that we reported to the Corporation's management in a separate letter dated June 28, 2013.

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

BKD, LLP

Indianapolis, Indiana
June 28, 2013

BKD LLP
CPAs & Advisors

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Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Trustees
Health and Hospital Corporation of Marion County, Indiana
Indianapolis, Indiana

Report on Compliance for Each Major Federal Program

We have audited the compliance of Health and Hospital Corporation of Marion County, Indiana (Corporation) with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Corporation's management.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above.

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Health and Hospital Corporation of Marion County, Indiana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matter

The results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 12-02 and 12-03. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

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

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

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

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

Other Matter

The Corporation’s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

BKD, LLP

Indianapolis, Indiana
June 28, 2013

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Summary of Auditor's Results

1. The opinions expressed in the independent auditor's report over financial reporting were:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?	☐ Yes	☒ None reported
Material weakness(es)?	☒ Yes	☐ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:

Significant deficiency(ies)?	☐ Yes	☒ None reported
Material weakness(es)?	☐ Yes	☒ No

5. The opinions expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on major federal awards were:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

Special Supplemental Nutrition Program for Women, Infants & Children (CFDA No. 10.557)	Unmodified
Health Centers Cluster (CFDA No. 93.224/93.527)	Unmodified
HIV Emergency Relief Project Grants (CFDA No. 93.914)	Unmodified

6. The audit disclosed findings required to be reported by OMB Circular A-133? ☒ Yes ☐ No

7. The Corporation's major programs were:

Cluster/Program	CFDA Number
Special Supplemental Nutrition Program for Women, Infants & Children	10.557
Health Centers Cluster	93.224/93.527
HIV Emergency Relief Project Grants	93.914

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was $1,351,255.

9. The Corporation qualified as a low-risk auditee as that term is defined in OMB Circular A-133? ☐ Yes ☒ No

Findings Required to be Reported by *Government Auditing Standards*

Reference Number		Finding	Questioned Costs
12-01	**Criteria or Specific Requirement:**	**Internal Control Over Financial Reporting**	
	Condition:	The Corporation issues a Comprehensive Annual Financial Report (CAFR) on an annual basis. Certain audit adjustments were required in order to present materially accurate financial statements. These adjustments were not detected by management's internal control structure.	
	Context:	Timely and accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties.	
	Cause:	Reconciliation and review of various accounts in the general ledger may not be adequate to support timely and accurate financial reporting.	
	Effect:	Potential material misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner.	
	Recommendation:	We recommend that the Corporation evaluate current accounting mechanisms in place for timely closing and reconciling of accounts to determine how they can be enhanced to minimize the potential for material error.	
	Views of Responsible Officials and Planned Corrective Action:	We concur. Management will evaluate current controls related to account reconciliation procedures/detection of adjustments. Audit adjustments determined to be material to the financial statements will be recorded timely.	

Findings Required to be Reported by OMB Circular A-133

Reference Number		Finding	Questioned Costs
12-02	**Federal Agency:**	U.S. Department of Housing and Urban Development	None outstanding - see condition and effect below
	CFDA Title and Number:	14.900 - Lead-Based Paint Hazard Control in Privately-Owned Housing	
	Award Number(s):	INLHB0447-09	
	Award Year:	December 15, 2009 - December 14, 2012	
	Criteria or Specific Requirement:	Allowable costs	
	Condition:	Expenditures totaling $792,428 incurred in 2012 and prior years were deemed unallowable by the U.S. Department of Housing and Urban Development (HUD) auditors.	
	Context:	The Corporation completed projects through 2010, 2011 and 2012, which HUD determined unallowable during a 2011 and 2012 site visit.	
	Cause:	Costs were incurred in fiscal years 2010, 2011 and 2012, which HUD determined unallowable in 2012.	
	Effect:	The Corporation paid back $602,649 to HUD in 2012 related to prior years expenditures and wrote off an additional $189,779 of expenses that were claimed by the Corporation but not reimbursed by HUD.	
	Recommendation:	We recommend that the Corporation continue to evaluate how to ensure all compliance requirements are being adhered to and adopt new policies and/or procedures as necessary to avoid future noncompliance or questioned costs.	
	Views of Responsible Officials and Planned Corrective Action:	We concur. Health and Hospital Corporation (HHC) contracted with a compliance consulting firm to perform a compliance audit. HHC also contracted with a law firm to provide compliance related services to HHC and to provide an attorney to serve as the Director of Corporate Compliance for the entire Corporation. The Director of Corporate Compliance will chair a corporate Audits and Monitoring Committee that will meet monthly, perform regular audits and monitoring, and revise and develop additional corporate policies and procedures related to compliance and monitoring.	

Reference Number		Finding	Questioned Costs
12-03	**Federal Agency:**	U.S. Department of Health and Human Services	None
	CFDA Title and Number:	93.224/93.527 - Health Centers Cluster	
	Award Number(s):	H80CS00592	
	Award Year:	July 1, 2002 - November 30, 2012	
	Criteria or Specific Requirement:	Subrecipient Monitoring - The Corporation's subrecipient under the Health Centers Cluster has not provided the necessary audit reports to the Corporation.	
	Condition:	Citizen's Health Center is significantly in arrears in having the required audits completed under OMB Circular A-133. The most recent audit completed in accordance with OMB Circular A-133 is for the year ended February 28, 2010, which was issued August 8, 2012.	
	Context:	The Corporation has made numerous attempts to obtain the required audit reports from the subrecipient and also attempted to assist Citizens' in getting the required audits completed. The Corporation and Citizen's terminated their relationship under this cluster, effective November 30, 2012.	
	Cause:	Citizens, as the Corporation's subrecipient, has not had the required audits conducted in a timely manner.	
	Effect:	By not having required audits conducted timely in accordance with OMB Circular A-133, the Corporation in unable to ensure that the subrecipient has taken timely and appropriate corrective action on all previous findings and cannot evaluate Citizens' compliance with program regulations and requirements.	
	Recommendation:	As this relationship terminated November 30, 2012, we would recommend that all closeout procedures and termination procedures are completed timely and accurately.	

Reference Number		Finding	Questioned Costs
	Views of Responsible Officials and Planned Corrective Action:	We concur. HHC has continuously worked with Citizens Health Center (Citizens) to obtain the items necessary to complete the closeout requirements and to ensure HHC remained in compliance with OMB Circular A-133. Citizens had refused to comply with all requests to complete closeout requirements and on May 31, 2012, Citizens filed a lawsuit against HHC and other parties. HHC prevailed in that litigation and Citizens was required to cooperate with the closeout requirements. When Citizens failed to cooperate, HHC filed a Motion to Enforce in U.S. District Court in May 2013. Under an Agreed Order dated June 4, 2013, issued by Judge Sarah Evans Barker, United States District Court Judge for the Southern District of Indiana, HHC agreed to dispose of its Motion to Enforce in exchange for Citizens agreeing: (1) not to remove any medical records, or other business records or equipment from Citizens without agreement of HHC, and (2) to work with HHC to resolve all close-out issues under the grant. Likewise, under the Agreed Order, HHC agreed to continue working with Citizens to resolve all close-out issues. Although Citizens suspended operations on May 31, 2013, they have indicated that they can still comply with the closeout requirements. HHC will continue to assist Citizens as it works to complete its 2011 and 2012 audits by: (1) forwarding copies of previously completed Federal Financial Reports to Citizens, (2) providing Citizens' auditors with copies of all sources of revenue Citizens received from HHC, and (3) paying for the costs of Citizens' audits.	

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Summary Schedule of Prior Audit Findings
Year Ended December 31, 2012

Reference Number	Summary of Finding	Status
11-01	The Corporation issues a Comprehensive Annual Financial Report (CAFR) on an annual basis, which includes the activities of the Wishard Health Systems. A material audit adjustment was required for Wishard Health Services in order to present materially accurate financial statements. This adjustment was not detected by management's internal control structure.	Corrected
11-02	Timely and sufficient subrecipient monitoring activities were not performed in accordance with the requirements of the Single Audit Act and OMB Circular A-133.	Corrected
11-03	Expenditures totaling $10,968 were incurred by the Corporation's subrecipient under this [CFDA No. 93.703] program, but were not deemed allowable as they were not fully incurred during the period of availability, which expired June 28, 2011.	Corrected