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June 10, 2014

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

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2013 to December 31, 2013. 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 Decatur County Memorial Hospital, as of December 31, 2013 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

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

Auditor's Report and Financial Statements
December 31, 2013 and 2012

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
December 31, 2013 and 2012

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Independent Auditor's Report on Financial Statements and Supplemental Information

Board of Trustees
Decatur County Memorial Hospital
Greensburg, Indiana

We have audited the accompanying financial statements of Decatur County Memorial Hospital (Hospital), a component unit of Decatur County, Indiana, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Decatur County Memorial Hospital, a component unit of Decatur County, Indiana as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in the current year, the Hospital changed its method of accounting for debt issuance costs and debt defeasance costs as a result of adopting GASB Statement No. 65, which has been applied retrospectively. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

BKD, LLP

Indianapolis, Indiana
April 24, 2014

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Management's Discussion and Analysis
December 31, 2013 and 2012
(unaudited)

Introduction

This management's discussion and analysis of the financial performance of Decatur County Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2013 by \$2,419,845 or 12.8% compared to an increase of \$553,555, or 3% in 2012.
- The Hospital's net position increased in 2013 by \$825,486 or 1.7% compared to an increase of \$3,782,866, or 8.4% in 2012.
- The Hospital reported an operating loss of \$369,973 in 2013 compared to operating income of \$2,348,802 in 2012. The operating results in 2013 decreased by \$2,718,775 or 115.8%, while in 2012, the operating income increased by \$715,405 or 49.3%.
- Net nonoperating revenues for 2013 were \$431,245 compared to net nonoperating revenues of \$788,449 for 2012. This is a decrease of \$357,204 or 45.3%. In 2012, net nonoperating revenues increased by \$288,365 or 57.7%.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The Hospital's Net Position

The Hospital's net position is equal to its assets plus deferred outflows less liabilities reported in the balance sheets. The Hospital's net position increased by \$825,486 or 1.7% in 2013 over 2012 compared to an increase in net position of \$3,782,866 or 8.4% in 2012 over 2011, as shown in Table 1.

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

	2013	2012 Restated	2011 Restated
Assets and Deferred Outflows of Resources			
Patient accounts receivable, net	\$ 6,640,422	\$ 7,610,098	\$ 6,984,705
Other current assets	18,698,770	17,082,015	15,675,059
Capital assets, net	34,363,562	28,290,903	24,824,852
Other noncurrent assets and deferred outflows of resources	5,853,598	5,270,462	4,769,456
Total assets and deferred outflows of resources	<u>\$ 65,556,352</u>	<u>\$ 58,253,478</u>	<u>\$ 52,254,072</u>
Liabilities			
Long-term debt	\$ 10,402,527	\$ 4,411,254	\$ 3,583,913
Other current and long-term liabilities	5,402,278	4,916,163	3,526,964
Total liabilities	<u>15,804,805</u>	<u>9,327,417</u>	<u>7,110,877</u>
Net Position			
Net investment in capital assets	23,961,035	23,879,649	21,240,939
Restricted	3,014,478	2,376,636	882,065
Unrestricted	22,776,034	22,669,776	23,020,191
Total net position	<u>49,751,547</u>	<u>48,926,061</u>	<u>45,143,195</u>
Total liabilities and net position	<u>\$ 65,556,352</u>	<u>\$ 58,253,478</u>	<u>\$ 52,254,072</u>

A significant change in the Hospital's assets in 2013 is the decrease in patient accounts receivable by \$969,676 (12.7%). This is consistent with a decrease in net patient service revenues in 2013 by \$1,145,370 (2.4%). Additionally, during 2013, management adjusted its estimation process for valuing patient receivables, resulting in a decrease in net patient accounts receivable. In 2012, patient accounts receivable increased by \$625,393 (9.0%), which was consistent with an increase in net patient service revenue in 2012 by \$6,299,855 (15.0%).

The most significant change in the Hospital's financial position in 2013 was the increase in capital assets during 2013 of \$6,072,659, which was primarily the result of the expansion and construction project that occurred during 2013 and 2012. During 2012, the Hospital also increased capital assets by \$3,466,051 for this expansion.

Additionally, for the significant ongoing expansion, the Hospital issued new debt during 2012 with \$1,118,745 out of an available \$8,000,000 drawn as of December 31, 2012. Additional draws of \$6,881,255 were taken on these bonds during 2013.

Operating Results and Changes in the Hospital's Net Position

In 2013, the Hospital's net position increased by \$825,486 or 1.7%, as shown in Table 2. This increase is made up of several different components and represents a decrease of 78.2% compared with the increase in net position for 2012 of \$3,782,866. The increase in net position for 2011 was \$2,167,239.

Table 2: Operating Results and Changes in Net Position

	2013	2012 Restated	2011 Restated
Operating Revenue			
Net patient service revenue	\$ 47,183,026	\$ 48,328,396	\$ 42,028,541
Other operating revenue	975,074	987,764	1,230,584
Total operating revenue	<u>48,158,100</u>	<u>49,316,160</u>	<u>43,259,125</u>
Operating Expenses			
Salaries and wages and employee benefits	29,775,485	28,089,390	26,309,486
Purchased services and professional fees	5,789,283	5,422,416	4,615,906
Depreciation and amortization	2,602,979	2,357,286	2,343,393
Other operating expenses	10,360,326	11,098,266	8,356,943
Total operating expenses	<u>48,528,073</u>	<u>46,967,358</u>	<u>41,625,728</u>
Operating Income (Loss)	<u>(369,973)</u>	<u>2,348,802</u>	<u>1,633,397</u>
Nonoperating Revenue (Expenses)			
Investment income	314,489	653,527	290,452
Interest expense	(207,595)	(126,723)	(178,354)
Noncapital grants and contributions	343,111	339,927	261,377
Noncapital appropriations - Decatur County	108,000	108,000	108,000
Other	(126,760)	(186,282)	18,609
Total nonoperating revenue	<u>431,245</u>	<u>788,449</u>	<u>500,084</u>
Capital Grants and Contributions	<u>764,214</u>	<u>645,615</u>	<u>33,758</u>
Increase in Net Position	<u>\$ 825,486</u>	<u>\$ 3,782,866</u>	<u>\$ 2,167,239</u>

Operating Income

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2013, the Hospital reported an operating loss compared to operating income for the previous two years. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Decatur County and the surrounding area. The Hospital implements strong cost controls to provide sufficient resources to enable the Hospital to serve lower income and other residents. During late 2013, the Hospital took steps to adjust personnel and improve operating results.

The operating loss was \$369,973 for 2013 compared to operating income of \$2,348,802 for 2012, which equates to a decrease of \$2,718,775 or 115.8%, while the operating income for 2012 increased by \$715,405 or 43.8% as compared to 2011. The primary components of the decreased operating income in 2013 are:

- Net patient service revenue was \$47,183,026 for 2013 compared to \$48,328,396 in 2012, which is a decrease of \$1,145,370 or 2.4%. Net patient service revenue in 2012 represents a \$6,299,855 increase, or 15.0% increase over 2011.
- Salaries, wages and employee benefits for the Hospital's employees were \$29,775,485 for 2013 compared to \$28,089,390 for 2012, which results in an increase of \$1,686,095, or 6.0%. In 2012, salaries, wages and benefits increased by \$1,779,904 or 6.8% compared to 2011.
- Other operating expenses were \$10,360,326 for 2013 compared to \$11,098,266 in 2012, which is a decrease of \$737,940 or 6.6%. This change is primarily attributable to changes to Indiana's Medicaid provider assessment program as discussed in the attached notes to the financial statements.

The decrease in net patient service revenue in 2013 is the result of relatively flat volumes, along with decreased payment rates from numerous payers, including Medicare and Medicaid. Additionally, during 2013, management adjusted their methodology in estimating net realizable value of net patient accounts receivable.

Employee salaries and wages and benefits increased in 2013 in connection with the Hospital's retention and recruitment efforts. These efforts result primarily from the shortage of nurses and other health care professionals in the United States.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Expenditures for medical supplies and prescription drugs are a major component of the Hospital's costs. In 2013, medical supplies and prescription drug costs totaled \$4,673,546 or 9.6% of total operating expenses, compared to 2012 when they totaled \$4,476,943 or 9.5%, of total operating expenses, which is an increase of \$497,910 or 12.5% from 2011. Some of the major factors contributing to the increased medical supply and drug costs include an aging population, the introduction of new drugs that cannot be obtained in generic form, changes in therapeutic mix and pharmaceutical marketing.

Operating loss for 2013 of \$369,973 was a decrease in operating income of \$2,718,775 recognized in 2012. The decrease in net patient service revenue of \$1,145,370 along with an increase in employee salaries, wages and benefits of \$1,686,095 factored into the Hospital recording an operating loss in 2013.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, noncapital grants and interest expense, all of which remained relatively constant in 2013 as compared to 2012, with the exception of investment income. Investment income decreased as a result of market conditions. The Hospital recognized an increase in its investment return in 2012 compared to 2011, resulting primarily from favorable changes in interest rates on short- and intermediate-term debt securities.

Capital Grants and Contributions

The Hospital received gifts of \$764,214 and \$645,615 from organizations and various individuals as part of the capital campaign during 2013 and 2012, respectively, for significant additions and renovations done during 2013 and 2012 to the Hospital in order to further serve the community. These funds are held as restricted portion of net position at year end until the funds are fully collected and utilized for the capital project.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2013 and 2012, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2013, the Hospital had \$34,363,562 invested in capital assets, net of accumulated depreciation, compared to \$28,290,903 at the end of 2012, as detailed in Note 5 to the financial statements. In 2013 and 2012, the Hospital spent significant funds as part of the Hospital renovations and additions as discussed throughout the notes to these financial statements. The Hospital opened the expanded and renovated portion of the Hospital facilities during the fall of 2013.

Debt

At December 31, 2013, the Hospital had \$10,402,527 in revenue bonds and capital lease obligations outstanding compared to \$4,411,254 at December 31, 2012. During 2012, the Hospital issued new debt to assist in the financing of the ongoing capital expansion and renovation. With this issuance, the Hospital has access to \$8 million with approximately \$6.9 million drawn during 2013 and \$1.1 million drawn during 2012.

Contacting the Hospital's Financial Management

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

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Balance Sheets
December 31, 2013 and 2012

Assets and Deferred Outflows of Resources

	2013	2012 Restated
Current Assets		
Cash and cash equivalents	\$ 6,547,732	\$ 4,912,993
Short-term investments	9,603,579	9,316,638
Patient accounts receivable, net of allowance of 2013 - \$3,854,940, 2012 - \$4,036,898	6,640,422	7,610,098
Contributions receivable	215,164	222,790
Supplies	400,310	409,867
Prepaid expenses and other assets	1,931,985	2,219,727
Total current assets	<u>25,339,192</u>	<u>24,692,113</u>
Noncurrent Cash and Investments		
Internally designated for capital improvements	2,846,500	2,844,739
Held by trustee for debt service	1,642,649	1,621,005
Restricted by bond agreements, contributors and grantors	743,526	268,766
	<u>5,232,675</u>	<u>4,734,510</u>
Capital Assets, net	<u>34,363,562</u>	<u>28,290,903</u>
Other Assets - contributions receivable	<u>415,811</u>	<u>264,645</u>
Total assets	65,351,240	57,982,171
Deferred Outflows of Resources - losses on debt refunding	<u>205,112</u>	<u>271,307</u>
Total assets and deferred outflows of resources	<u>\$ 65,556,352</u>	<u>\$ 58,253,478</u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 1,086,317	\$ 864,791
Accounts payable	1,256,488	2,426,155
Accrued expenses	3,173,649	2,265,590
Estimated third-party settlements	972,141	224,418
Total current liabilities	<u>6,488,595</u>	<u>5,780,954</u>
Long-Term Debt	<u>9,316,210</u>	<u>3,546,463</u>
Total liabilities	<u>15,804,805</u>	<u>9,327,417</u>
Net Position		
Net investment in capital assets	23,961,035	23,879,649
Restricted:		
For debt service	1,642,649	1,621,005
Expendable for capital acquisitions	1,303,019	697,876
Expendable for specific operating activities	68,810	57,755
Unrestricted	<u>22,776,034</u>	<u>22,669,776</u>
Total net position	<u>49,751,547</u>	<u>48,926,061</u>
Total liabilities and net position	<u>\$ 65,556,352</u>	<u>\$ 58,253,478</u>

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2013 and 2012

	2013	2012 Restated
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of \$6,755,302 and \$7,083,007	\$ 47,183,026	\$ 48,328,396
Other	975,074	987,764
Total operating revenues	<u>48,158,100</u>	<u>49,316,160</u>
Operating Expenses		
Salaries and wages	21,309,361	20,026,905
Employee benefits	8,466,124	8,062,485
Purchased services and professional fees	5,789,283	5,422,416
Medical supplies and drugs	4,673,546	4,476,973
Utilities	727,338	647,805
Repairs and maintenance	1,485,362	1,579,719
Lease and rentals	147,004	137,513
Insurance	398,031	330,424
Other supplies	659,448	692,288
Depreciation and amortization	2,602,979	2,357,286
Other	1,460,161	1,721,113
Provider hospital assessment fee	719,169	1,497,105
Loss on sale of capital assets	90,267	15,326
Total operating expenses	<u>48,528,073</u>	<u>46,967,358</u>
Operating Income (Loss)	<u>(369,973)</u>	<u>2,348,802</u>
Nonoperating Revenues (Expenses)		
Investment income	314,489	653,527
Interest expense	(207,595)	(126,723)
Noncapital grants and contributions	343,111	339,927
Noncapital appropriations - Decatur County	108,000	108,000
Other	(126,760)	(186,282)
Total nonoperating revenues (expenses)	<u>431,245</u>	<u>788,449</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	61,272	3,137,251
Capital Grants and Contributions	<u>764,214</u>	<u>645,615</u>
Increase in Net Position	<u>825,486</u>	<u>3,782,866</u>
Net Position, Beginning of Year , as previously reported	48,926,061	45,276,163
Cumulative Effect of Change in Accounting Principle	-	132,968
Net Position, Beginning of Year , as restated	<u>48,926,061</u>	<u>45,143,195</u>
Net Position, End of Year	<u><u>\$ 49,751,547</u></u>	<u><u>\$ 48,926,061</u></u>

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012 Restated
Operating Activities		
Receipts from and on behalf of patients	\$ 48,900,425	\$ 47,352,641
Payments to suppliers and contractors	(15,017,327)	(15,979,224)
Payments to employees	(28,859,061)	(27,460,488)
Other receipts (payments), net	265,462	(524,496)
Net cash provided by operating activities	<u>5,289,499</u>	<u>3,388,433</u>
Noncapital Financing Activities		
Noncapital grants and contributions	343,111	339,927
Noncapital appropriations - Decatur County	108,000	108,000
Net cash provided by noncapital financing activities	<u>451,111</u>	<u>447,927</u>
Capital and Related Financing Activities		
Acquisition and construction of capital assets	(9,943,263)	(4,599,554)
Capital grants and contributions	620,674	158,180
Proceeds from disposal of property, plant and equipment	-	40,122
Proceeds from issuance of long-term debt	6,881,255	1,118,745
Principal paid on long-term debt	(839,230)	(310,000)
Principal paid on capital leases	(32,744)	(37,390)
Interest paid on long-term debt and capital leases	(195,186)	(120,153)
Net cash used in capital and related financing activities	<u>(3,508,494)</u>	<u>(3,750,050)</u>
Investing Activities		
Interest and dividends on investments	363,296	312,010
Purchase of investments	(842,690)	(2,626,207)
Proceeds from disposition of investments	8,777	1,140,767
Other investing activities	(126,760)	(186,282)
Net cash used in investing activities	<u>(597,377)</u>	<u>(1,359,712)</u>
Increase (Decrease) in Cash and Cash Equivalents	1,634,739	(1,273,402)
Cash and Cash Equivalents, Beginning of Year	<u>4,912,993</u>	<u>6,186,395</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,547,732</u>	<u>\$ 4,912,993</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (369,973)	\$ 2,348,802
Depreciation and amortization	2,602,979	2,357,286
Loss on sale of capital assets	90,267	15,326
Provision for uncollectible accounts	6,755,302	7,083,007
Changes in operating assets and liabilities:		
Patient accounts receivable	(5,785,626)	(7,708,400)
Supplies and other current assets	297,299	(890,122)
Estimated third-party settlements	747,723	(365,688)
Accounts payable and accrued expenses	951,528	511,599
Other assets and liabilities	-	36,623
Net cash provided by operating activities	<u>\$ 5,289,499</u>	<u>\$ 3,388,433</u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 27,413	\$ 74,460
Capital assets acquisitions included in accounts payable	-	1,204,771

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

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

Nature of Operations and Reporting Entity

Decatur County Memorial Hospital (Hospital) is an acute care hospital located in Greensburg, Indiana. The Hospital is a component unit of Decatur County (County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital pursuant to the provisions of Indiana Code 16-22-2-2. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Decatur County area. It also operates a home health agency in the same geographic area.

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

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted component of net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

During 2013, the Hospital adopted GASB Statement No. 65 of the Governmental Accounting Standards Board (GASB 65), *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term "deferred" in the financial statement presentations.

Adoption of GASB 65 resulted in a decrease of \$132,968 in net position as of January 1, 2012. These changes resulted from the requirement in GASB 65 that debt issuance costs be recognized as an expense in the period incurred. Another change resulting from the application of GASB 65 is the reclassification of deferred losses on refunding of debt to a deferred outflow of resources.

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013, cash equivalents consisted primarily of money market accounts with brokers.

Risk Management

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

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

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

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During 2013 and 2012, the Hospital changed its methodology for determining valuation of patient accounts receivable for certain payer classes. These changes resulted in a decrease in net patient revenue recognized during 2013 and 2012 of approximately \$175,000 and \$300,000, respectively.

Supplies

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

Capital Assets

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

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

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized during 2013 was \$47,511.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. The estimated compensated absences liability is expected to be paid within one year of the balance sheet date, and is therefore included in current liabilities.

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Net Position

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$2,534,698 for 2013 compared to \$2,160,348 for 2012.

Income Taxes

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

The Foundation is exempt from federal income taxes under Section 501(c)(3) and 509(a)(2) of the U.S. Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files federal tax returns in the U.S. federal jurisdiction.

Foundation

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

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Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAH) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital began recognizing incentive payment revenues earned for qualified EHR technology expenditures during 2012, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. The Hospital recorded revenue of approximately \$409,000 and \$830,000 from Medicaid and Medicare in 2013 and 2012, respectively, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known. A summary of payment arrangements include:

Medicare. The Hospital is designated by Medicare as a critical access hospital (CAH).

Inpatient acute care and swing bed services, and most outpatient services, are reimbursed based on a cost reimbursement methodology. Interim per diem rates for inpatient services and percent of charges for outpatient services are reimbursed throughout the year, with final settlement determined after submission of the annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to the service provided and the patient diagnosis.

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Approximately 38% and 39% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2013 and 2012. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital received approximately \$1.1 million and \$3.4 million during 2013 and 2012, respectively, due to the enactment of a state specific provider assessment program to increase Medicaid payments to hospitals. This revenue is recorded within net patient service revenue in the statements of revenues, expenses and changes in net position for 2013 and 2012. The Hospital paid approximately \$719,000 and \$1.5 million into this Medicaid program for 2013 and 2012, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position. There is no assurance this program will continue to be implemented in the future, and as of December 31, 2013, this provider assessment program was awaiting federal approval to be continued past June 30, 2013. In March 2014, the Centers for Medicare and Medicaid Services approved the extension of the program for an additional four years, with a retroactive date of July 1, 2013. No estimate has been recorded for this program for possible additional revenue and expenses that will be applicable to the Hospital for the period beginning July 1, 2013.

The Hospital also qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately \$3.1 million and \$500,000 within patient service revenue related to this supplemental payment program for the years ended December 31, 2013 and 2012, respectively. At December 31, 2013, \$822,000 of the \$3.1 million is accrued as receivable in other current assets. This represents management's best estimate of DSH funds due to the Hospital as of December 31, 2013, which are typically paid in arrears.

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

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

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Note 3: Deposits, Investments and Investment Income

Deposits

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

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation (FDIC) or by the Indiana Public Deposit Insurance Fund (IPDIF). This includes any deposit accounts issued or offered by a qualifying financial institution. Accordingly, all deposits in excess of FDIC levels are covered by the IPDIF and are considered collateralized.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in certain deposit accounts, mutual funds, repurchase agreements and pooled investment funds as authorized by Indiana Code 16-22-3-20.

At December 31, 2013 and 2012, the Hospital had the following investments and maturities:

Type	Fair Value	2013			
		Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 1,098,940	\$ 1,098,940	\$ -	\$ -	\$ -
Equity mutual funds	2,615,714	2,615,714	-	-	-
Fixed income mutual funds	4,715,845	4,715,845	-	-	-
U.S. Governmental securities	2,153,530	2,153,530	-	-	-
	<u>\$ 10,584,029</u>	<u>\$ 10,584,029</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Type	Fair Value	2012			
		Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 1,135,621	\$ 1,135,621	\$ -	\$ -	\$ -
Equity mutual funds	1,866,733	1,866,733	-	-	-
Fixed income mutual funds	4,802,688	4,802,688	-	-	-
U.S. Governmental securities	2,136,897	2,136,897	-	-	-
	<u>\$ 9,941,939</u>	<u>\$ 9,941,939</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital does not have a formal investment policy for credit risk. At December 31, 2013 and 2012, the Hospital's investments were rated by Standard & Poor's or Moody's Investors Service as follows:

Type	2013			
	Fair Value	AA	CCC	Not Rated
Money market mutual funds	\$ 1,098,940	\$ -	\$ -	\$ 1,098,940
Equity mutual funds	2,615,714	-	-	2,615,714
Fixed income mutual funds	4,715,845	-	-	4,715,845
U.S. Governmental securities	2,153,530	-	-	2,153,530
	<u>\$ 10,584,029</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,584,029</u>

Type	2012			
	Fair Value	AA	CCC	Not Rated
Money market mutual funds	\$ 1,135,621	\$ -	\$ -	\$ 1,135,621
Equity mutual funds	1,866,733	-	-	1,866,733
Fixed income mutual funds	4,802,688	28,995	33,465	4,740,228
U.S. Governmental securities	2,136,897	-	-	2,136,897
	<u>\$ 9,941,939</u>	<u>\$ 28,995</u>	<u>\$ 33,465</u>	<u>\$ 9,879,479</u>

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's investment policy does not address how securities underlying repurchase agreements are to be held.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer. The Hospital's policy is to limit holdings in equities to 75% and to limit fixed income holdings to 65%.

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Summary of Carrying Values

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

	2013	2012
Carrying value:		
Deposits	\$ 10,799,957	\$ 9,022,202
Investments	10,584,029	9,941,939
	<u>\$ 21,383,986</u>	<u>\$ 18,964,141</u>
Included in the following balance sheets captions:		
Cash and cash equivalents	\$ 6,547,732	\$ 4,912,993
Short-term investments	9,603,579	9,316,638
Noncurrent cash and investments		
Internally designated for capital improvements	2,846,500	2,844,739
Held by trustee for debt service	1,642,649	1,621,005
Restricted by contributors and grantors	743,526	268,766
	<u>\$ 21,383,986</u>	<u>\$ 18,964,141</u>

Investment Income

Investment income for the years ended December 31 consisted of:

	2013	2012
Interest and dividend income	\$ 363,296	\$ 312,010
Net increase (decrease) in fair value of investments	(48,807)	341,517
	<u>\$ 314,489</u>	<u>\$ 653,527</u>

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Note 4: Patient Accounts Receivable

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

	2013	2012
Medicare	\$ 1,497,376	\$ 1,456,784
Medicaid	209,147	557,626
Other third-party payers	2,904,348	3,663,054
Patients	5,884,491	5,969,532
	<u>10,495,362</u>	<u>11,646,996</u>
Less allowance for uncollectible accounts	<u>3,854,940</u>	<u>4,036,898</u>
	<u><u>\$ 6,640,422</u></u>	<u><u>\$ 7,610,098</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2013				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,127,637	\$ -	\$ -	\$ -	\$ 1,127,637
Land improvements	384,387	6,400	-	12,155	402,942
Buildings and leasehold improvements	27,196,472	64,221	(124,099)	10,492,890	37,629,484
Equipment	2,458,072	153,034	(42,248)	595,491	3,164,349
Major moveable equipment	16,646,197	417,519	(482,276)	293,921	16,875,361
Vehicles	51,234	47,284	(14,000)	-	84,518
Construction in progress	3,825,120	8,077,447	-	(11,394,457)	508,110
	<u>51,689,119</u>	<u>8,765,905</u>	<u>(662,623)</u>	<u>-</u>	<u>59,792,401</u>
Less accumulated depreciation:					
Land improvements	296,263	21,009	-	-	317,272
Buildings and leasehold improvements	9,577,351	979,710	(35,499)	-	10,521,562
Equipment	1,499,685	174,984	(40,977)	-	1,633,692
Major moveable equipment	11,984,413	1,417,073	(481,880)	-	12,919,606
Vehicles	40,504	10,203	(14,000)	-	36,707
	<u>23,398,216</u>	<u>2,602,979</u>	<u>(572,356)</u>	<u>-</u>	<u>25,428,839</u>
Capital assets, net	<u><u>\$ 28,290,903</u></u>	<u><u>\$ 6,162,926</u></u>	<u><u>\$ (90,267)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 34,363,562</u></u>

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	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 905,928	\$ 249,357	\$ (27,648)	\$ -	\$ 1,127,637
Land improvements	375,980	8,407	-	-	384,387
Buildings and leasehold improvements	26,544,569	704,770	(52,867)	-	27,196,472
Equipment	2,400,273	62,712	(4,913)	-	2,458,072
Major moveable equipment	15,309,832	2,022,610	(686,245)	-	16,646,197
Vehicles	51,234	-	-	-	51,234
Construction in progress	994,191	2,830,929	-	-	3,825,120
	<u>46,582,007</u>	<u>5,878,785</u>	<u>(771,673)</u>	<u>-</u>	<u>51,689,119</u>
Less accumulated depreciation:					
Land improvements	274,293	21,970	-	-	296,263
Buildings and leasehold improvements	8,801,535	815,833	(40,017)	-	9,577,351
Equipment	1,379,121	125,477	(4,913)	-	1,499,685
Major moveable equipment	11,265,995	1,389,713	(671,295)	-	11,984,413
Vehicles	36,211	4,293	-	-	40,504
	<u>21,757,155</u>	<u>2,357,286</u>	<u>(716,225)</u>	<u>-</u>	<u>23,398,216</u>
Capital assets, net	<u>\$ 24,824,852</u>	<u>\$ 3,521,499</u>	<u>\$ (55,448)</u>	<u>\$ -</u>	<u>\$ 28,290,903</u>

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$1,000,000, and an individual policy maximum of \$50,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

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Activity in the Hospital's accrued employee health claims liability during 2013 and 2012 is summarized as follows:

	2013	2012
Balance, beginning of year	\$ 400,000	\$ 495,000
Current year claims incurred and changes in estimates for claims incurred in prior years	3,209,673	3,276,214
Claims and expenses paid	<u>(3,209,673)</u>	<u>(3,371,214)</u>
Balance, end of year	<u>\$ 400,000</u>	<u>\$ 400,000</u>

Note 8: Long-Term Obligations

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

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds payable:					
First mortgage refunding bonds, series 2011	\$ 3,027,500	\$ -	\$ (617,500)	\$ 2,410,000	\$ 605,000
Capital improvement bond, series 2012	1,118,745	6,881,255	(221,730)	7,778,270	445,087
Plus: bond premium	153,471	-	(45,421)	108,050	-
Capital lease obligations	<u>111,538</u>	<u>27,413</u>	<u>(32,744)</u>	<u>106,207</u>	<u>36,230</u>
Total long-term debt	<u>\$ 4,411,254</u>	<u>\$ 6,908,668</u>	<u>\$ (917,395)</u>	<u>\$ 10,402,527</u>	<u>\$ 1,086,317</u>

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds payable:					
First mortgage refunding bonds, series 2011	\$ 3,337,500	\$ -	\$ (310,000)	\$ 3,027,500	\$ 617,500
Capital improvement bond, series 2012	-	1,118,745	-	1,118,745	218,663
Plus: bond premium	171,945	-	(18,474)	153,471	-
Capital lease obligations	<u>74,468</u>	<u>74,460</u>	<u>(37,390)</u>	<u>111,538</u>	<u>28,628</u>
Total long-term debt	<u>\$ 3,583,913</u>	<u>\$ 1,193,205</u>	<u>\$ (365,864)</u>	<u>\$ 4,411,254</u>	<u>\$ 864,791</u>

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First Mortgage Refunding Bonds, Series 2011

The First Mortgage Refunding Bonds, Series 2011 (Series 2011 Bonds) consist of bonds payable in the original amount of \$5,595,000 dated December 1, 2011, issued by the Decatur County Hospital Association (Association). These bonds were made up of two components referred to as: a) 2011 lease revenue refunding bonds and b) 2011 revenue refunding bonds. The Hospital entered into an agreement with the Association where the Hospital would be responsible for 50% of principal and interest on the 2011 lease revenue refunding bonds totaling \$4,515,000. The County is responsible for the remaining 50% of principal and interest payments on these bonds. The bonds are payable in semiannual installments through January 2019 and bear interest at 2.0% to 4.0%. The total liability recorded by the Hospital at December 31, 2013 related to these bonds was \$1,800,000.

The Hospital also entered into an agreement with the Association where the Hospital would be responsible for 100% of the principal and interest of the 2011 revenue refunding bonds totaling \$1,080,000. These bonds are payable in semiannual installments through June 2015 and bear interest at 2.0% to 4.0%. The liability recorded by the Hospital at December 31, 2013 related to these bonds was \$610,000.

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

Capital Improvements Bond, Series 2012

The Capital Improvements Bond, Series 2012 (Series 2012 Bond) consist of bonds payable in the original amount up to \$8,000,000 dated August 1, 2012, issued by the Hospital. The bonds were issued to fund certain expansions of the Hospital. During the construction phase in 2013 and 2012, bond advances were made to fund the costs of the construction project. The bond is payable in monthly installments of \$54,059 through June 2028 and bears interest at 2.65%. The total liability recorded by the Hospital at December 31, 2013 related to these bonds was \$7,778,270.

The Hospital is required to make monthly deposits to the debt service fund held by the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the balance sheets. The Hospital is also required to comply with certain restrictive covenants including maintaining a historical debt-service coverage ratio of at least 1.5 to 1, maintenance of minimum working capital of \$8,000,000 and maintenance of a current ratio of at least 2.0 to 1.

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The debt service requirements as of December 31, 2013, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2014	\$ 1,321,641	\$ 1,050,087	\$ 271,554
2015	1,323,441	1,082,193	241,248
2016	1,002,766	791,616	211,150
2017	1,004,691	817,391	187,300
2018	1,007,859	840,513	167,346
2019 - 2023	3,424,565	2,864,330	560,235
2024 - 2028	2,919,164	2,742,140	177,024
	<u>\$ 12,004,127</u>	<u>\$ 10,188,270</u>	<u>\$ 1,815,857</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 5.7% to 6.1% together with the present value of the future minimum lease payments as of December 31, 2013:

2014	\$ 41,267
2015	33,138
2016	24,112
2017	14,865
2018	3,144
Total minimum lease payments	<u>116,526</u>
Less amount representing interest	<u>10,319</u>
Present value of future minimum lease payments	<u>\$ 106,207</u>

Assets under capital leases at December 31, 2013 and 2012, totaled:

	2013	2012
Machinery and equipment	\$ 181,421	\$ 154,008
Accumulated depreciation	<u>(79,987)</u>	<u>(46,443)</u>
	<u>\$ 101,434</u>	<u>\$ 107,565</u>

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Note 9: Pension Plan

The Hospital contributes to a defined-contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan administrator is the Executive Director of Human Resources for the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. The Hospital is required to match 100% of the employee contribution up to 1% of employee's compensation. In addition, the Hospital may make a discretionary contribution as determined by the Hospital Board, which was 3% for 2013 and 2012. Hospital expense related to the employer contributions to the plan was \$661,798 for 2013 compared to \$671,250 for 2012.

Note 10: Commitments and Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 11: Contributions Receivable

Contributions receivable consisted of the following at December 31:

	2013	Restricted	2012
Due within one year	\$ 215,164		\$ 222,790
Due in one to five years	415,811		264,645
	<u>\$ 630,975</u>		<u>\$ 487,435</u>

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Note 12: Noncapital Appropriations - Decatur County

Decatur County, of which the Hospital is a component unit, subsidized the Hospital for providing the County with ambulance service. The Hospital recognizes these payments as nonoperating revenue. The Hospital recognized subsidy revenue of \$108,000 for each of 2013 and 2012.

Note 13: Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Indiana has not affirmatively indicated whether or not it will participate in the expansion of the Medicaid program. The impact of that decision on the overall reimbursement to the Hospital cannot be quantified at this point.

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

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Notes to Financial Statements

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Note 14: Combining Financial Statement Information

The Hospital's combining financial statement information was summarized as follows for the years ended December 31, 2013 and 2012:

Combining Balance Sheet as of December 31, 2013

	2013			
	Hospital	Hospital Foundation	Eliminations	Total
Assets and Deferred Outflows of Resources				
Current Assets				
Cash and cash equivalents	\$ 6,172,812	\$ 374,920	\$ -	\$ 6,547,732
Short-term investments	9,341,902	261,677	-	9,603,579
Patient accounts receivable, net of allowance of \$3,854,940	6,640,422	-	-	6,640,422
Contributions receivable	-	215,164	-	215,164
Supplies	400,310	-	-	400,310
Prepaid expenses and other assets	1,931,985	-	-	1,931,985
Due from related party	78,067	-	(78,067)	-
Total current assets	24,565,498	851,761	(78,067)	25,339,192
Noncurrent Cash and Investments				
Internally designated for capital improvements	2,846,500	-	-	2,846,500
Held by trustee for debt service	1,642,649	-	-	1,642,649
Restricted by contributors and grantors	68,032	675,494	-	743,526
	4,557,181	675,494	-	5,232,675
Capital Assets, net	34,363,562	-	-	34,363,562
Other Assets - contributions receivable	-	415,811	-	415,811
Total assets	63,486,241	1,943,066	(78,067)	65,351,240
Deferred Outflows of Resources - debt defeasance costs	205,112	-	-	205,112
Total assets and deferred outflows of resources	\$ 63,691,353	\$ 1,943,066	\$ (78,067)	\$ 65,556,352
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ 1,086,317	\$ -	\$ -	\$ 1,086,317
Accounts payable	1,215,196	41,292	-	1,256,488
Accrued expenses	3,173,649	-	-	3,173,649
Estimated third-party settlements	972,141	-	-	972,141
Due to related party	-	78,067	(78,067)	-
Total current liabilities	6,447,303	119,359	(78,067)	6,488,595
Long-Term Debt	9,316,210	-	-	9,316,210
Total liabilities	15,763,513	119,359	(78,067)	15,804,805
Net Position				
Net investment in capital assets	23,961,035	-	-	23,961,035
Restricted:				
For debt service	1,642,649	-	-	1,642,649
Expendable for capital acquisitions	-	1,303,019	-	1,303,019
Expendable for specific operating activities	68,032	778	-	68,810
Unrestricted	22,256,124	519,910	-	22,776,034
Total net position	47,927,840	1,823,707	-	49,751,547
Total liabilities and net position	\$ 63,691,353	\$ 1,943,066	\$ (78,067)	\$ 65,556,352

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Combining Balance Sheet as of December 31, 2012

	2012			
	Hospital	Hospital Foundation	Eliminations	Total
Assets and Deferred Outflows of Resources				
Current Assets				
Cash and cash equivalents	\$ 4,650,635	\$ 262,358	\$ -	\$ 4,912,993
Short-term investments	9,060,163	256,475	-	9,316,638
Patient accounts receivable, net of allowance of \$4,036,898	7,610,098	-	-	7,610,098
Contributions receivable	-	222,790	-	222,790
Supplies	409,867	-	-	409,867
Prepaid expenses and other assets	2,219,727	-	-	2,219,727
Due from related party	23,697	-	(23,697)	-
Total current assets	23,974,187	741,623	(23,697)	24,692,113
Noncurrent Cash and Investments				
Internally designated for capital improvements	2,844,739	-	-	2,844,739
Held by trustee for debt service	1,621,005	-	-	1,621,005
Restricted by contributors and grantors	56,594	212,172	-	268,766
	4,522,338	212,172	-	4,734,510
Capital Assets, net	28,290,903	-	-	28,290,903
Other Assets - contributions receivable	-	264,645	-	264,645
Total assets	56,787,428	1,218,440	(23,697)	57,982,171
Deferred Outflows of Resources - debt defeasance costs	271,307	-	-	271,307
Total assets and deferred outflows of resources	\$ 57,058,735	\$ 1,218,440	\$ (23,697)	\$ 58,253,478
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ 864,791	\$ -	\$ -	\$ 864,791
Accounts payable	2,385,567	40,588	-	2,426,155
Accrued expenses	2,265,590	-	-	2,265,590
Estimated third-party settlements	224,418	-	-	224,418
Due to related party	-	23,697	(23,697)	-
Total current liabilities	5,740,366	64,285	(23,697)	5,780,954
Long-Term Debt	3,546,463	-	-	3,546,463
Total liabilities	9,286,829	64,285	(23,697)	9,327,417
Net Position				
Net investment in capital assets	23,879,649	-	-	23,879,649
Restricted:				
For debt service	1,621,005	-	-	1,621,005
Expendable for capital acquisitions	-	697,876	-	697,876
Expendable for specific operating activities	56,977	778	-	57,755
Unrestricted	22,214,275	455,501	-	22,669,776
Total net position	47,771,906	1,154,155	-	48,926,061
Total liabilities and net position	\$ 57,058,735	\$ 1,218,440	\$ (23,697)	\$ 58,253,478

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Combining Statement of Revenues, Expenses and Changes in Net Position for the Year Ended December 31, 2013

	2013		
	Hospital	Hospital Foundation	Total
Operating Revenues			
Net patient service revenue, net of provision for uncollectible accounts of \$6,755,302	\$ 47,183,026	\$ -	\$ 47,183,026
Other	975,074	-	975,074
Total operating revenues	<u>48,158,100</u>	<u>-</u>	<u>48,158,100</u>
Operating Expenses			
Salaries and wages	21,309,361	-	21,309,361
Employee benefits	8,466,124	-	8,466,124
Purchased services and professional fees	5,789,283	-	5,789,283
Medical supplies and drugs	4,673,546	-	4,673,546
Utilities	727,338	-	727,338
Repairs and maintenance	1,485,362	-	1,485,362
Lease and rentals	147,004	-	147,004
Insurance	398,031	-	398,031
Other supplies	659,448	-	659,448
Depreciation and amortization	2,602,979	-	2,602,979
Other	1,460,161	-	1,460,161
Provider hospital assessment fee	719,169	-	719,169
Loss on sale of capital assets	90,267	-	90,267
Total operating expenses	<u>48,528,073</u>	<u>-</u>	<u>48,528,073</u>
Operating Loss	<u>(369,973)</u>	<u>-</u>	<u>(369,973)</u>
Nonoperating Revenues (Expenses)			
Investment income	286,679	27,810	314,489
Interest expense	(207,595)	-	(207,595)
Noncapital grants and contributions	174,006	169,105	343,111
Noncapital appropriations - Decatur County	108,000	-	108,000
Other	11,872	(138,632)	(126,760)
Total nonoperating revenues (expenses)	<u>372,962</u>	<u>58,283</u>	<u>431,245</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	<u>2,989</u>	<u>58,283</u>	<u>61,272</u>
Capital Grants and Contributions	<u>-</u>	<u>764,214</u>	<u>764,214</u>
Increase (Decrease) in Net Position	<u>2,989</u>	<u>822,497</u>	<u>825,486</u>
Transfer From (To) Affiliate	<u>152,945</u>	<u>(152,945)</u>	<u>-</u>
Net Position, Beginning of Year	<u>47,771,906</u>	<u>1,154,155</u>	<u>48,926,061</u>
Net Position, End of Year	<u>\$ 47,927,840</u>	<u>\$ 1,823,707</u>	<u>\$ 49,751,547</u>

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Combining Statement of Revenues, Expenses and Changes in Net Position for the Year Ended December 31, 2012

	2012		
	Hospital	Hospital Foundation	Total
Operating Revenues			
Net patient service revenue, net of provision for uncollectible accounts of \$7,083,007	\$ 48,328,396	\$ -	\$ 48,328,396
Other	987,764	-	987,764
Total operating revenues	<u>49,316,160</u>	<u>-</u>	<u>49,316,160</u>
Operating Expenses			
Salaries and wages	20,026,905	-	20,026,905
Employee benefits	8,062,485	-	8,062,485
Purchased services and professional fees	5,422,416	-	5,422,416
Medical supplies and drugs	4,476,973	-	4,476,973
Utilities	647,805	-	647,805
Repairs and maintenance	1,579,719	-	1,579,719
Lease and rentals	137,513	-	137,513
Insurance	330,424	-	330,424
Other supplies	692,288	-	692,288
Depreciation and amortization	2,357,286	-	2,357,286
Other	1,721,113	-	1,721,113
Provider hospital assessment fee	1,497,105	-	1,497,105
Loss on sale of capital assets	15,326	-	15,326
Total operating expenses	<u>46,967,358</u>	<u>-</u>	<u>46,967,358</u>
Operating Income	<u>2,348,802</u>	<u>-</u>	<u>2,348,802</u>
Nonoperating Revenues (Expenses)			
Investment income	617,589	35,938	653,527
Interest expense	(126,723)		(126,723)
Noncapital grants and contributions	206,413	133,514	339,927
Noncapital appropriations - Decatur County	108,000		108,000
Other	(29,426)	(156,856)	(186,282)
Total nonoperating revenues (expenses)	<u>775,853</u>	<u>12,596</u>	<u>788,449</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	<u>3,124,655</u>	<u>12,596</u>	<u>3,137,251</u>
Capital Grants and Contributions	<u>-</u>	<u>645,615</u>	<u>645,615</u>
Increase in Net Position	<u>3,124,655</u>	<u>658,211</u>	<u>3,782,866</u>
Net Position, Beginning of Year, as previously reported	44,780,219	495,944	45,276,163
Cumulative Effect of Change in Accounting Principle	132,968	-	132,968
Net Position, Beginning of Year, as restated	<u>44,647,251</u>	<u>495,944</u>	<u>45,143,195</u>
Net Position, End of Year	<u>\$ 47,771,906</u>	<u>\$ 1,154,155</u>	<u>\$ 48,926,061</u>