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

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

March 13, 2015

Board of Directors
Good Samaritan Hospital
520 South Seventh Street
Vincennes, IN 47591

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 Good Samaritan 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.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

Good Samaritan Hospital
A Component Unit of Knox County, Indiana

Auditor's Report and Financial Statements

December 31, 2013 and 2012

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
December 31, 2013 and 2012

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BKD LLP
CPAs & Advisors

201 N. Illinois Street, Suite 700 // P.O. Box 44998 // Indianapolis, IN 46244-0998
317.383.4000 // fax 317.383.4200 // bkd.com

Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Governors
Good Samaritan Hospital
Vincennes, Indiana

We have audited the accompanying financial statements of Good Samaritan Hospital (Hospital), a component unit of Knox 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Good Samaritan Hospital 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 as a result of adopting GASB Statement No. 65, which has been applied retroactively. 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, including the 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 April 24, 2014, on our consideration of the Hospital'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 Good Samaritan Hospital's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
April 24, 2014

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Management's Discussion and Analysis
December 31, 2013 and 2012

Introduction

This management's discussion and analysis of the financial performance of Good Samaritan 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

- Total cash and investments decreased in 2013 by $27,090,145 (17%), while the Hospital continued to spend proceeds on construction of new Hospital departments. In 2012, total cash and investments increased by $65,052,686 (67%), as a result of continuing strong operations, as well as significant unspent bond proceeds at year end. Unrestricted cash and investments decreased in 2013 by $6,747,037 (7%) as a result of reserves being spent for construction activities.
- The Hospital reported operating loss in 2013 of $(4,234,395) compared to operating income in 2012 of $4,108,677. In 2013 and 2012, the Hospital experienced significant growth in physician employment and services, resulting in significant increases in salary and benefit costs during these years.
- Net nonoperating revenues increased by $1,052,229 in 2013 compared to 2012, primarily attributable to increased market returns on investments. In 2012, nonoperating revenues increased by $4,725,481 compared to 2011 also as a result of increased market returns on investments.

The total change in net position in 2013 is an increase of $4,099,721 compared to an increase of $11,390,564 in 2012.

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 them. 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 the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net position increased by $4,099,721 in 2013 over 2012 and net position increased by $11,390,564 in 2012 over 2011, as shown in Table 1.

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

	2013	2012 Restated	2011
Assets			
Patient accounts receivable, net	$ 25,244,826	$ 22,848,202	$ 22,816,803
Other current assets	145,863,829	171,693,872	99,529,912
Capital assets, net	126,380,155	90,805,287	78,633,420
Other noncurrent assets and deferred outflows of resources	2,522,392	2,956,752	7,368,310
Total assets and deferred outflows of resources	$ 300,011,202	$ 288,304,113	$ 208,348,445
Liabilities			
Long-term debt	$ 84,937,463	$ 86,386,942	$ 22,195,335
Other current and long-term liabilities	29,361,935	20,305,088	15,805,319
Total liabilities	114,299,398	106,692,030	38,000,654
Net Position			
Net investment in capital assets	74,665,424	53,024,344	56,438,085
Restricted expendable	9,708,910	12,552,118	2,632,459
Unrestricted	101,337,470	116,035,621	111,277,247
Total net position	185,711,804	181,612,083	170,347,791
Total liabilities and net assets	$ 300,011,202	$ 288,304,113	$ 208,348,445

A significant change in the Hospital's position in 2013 is a decrease in cash and investments of $27,090,145 (17%) as compared to an increase in 2012 of $65,052,686 (67%). This decrease in cash and investments resulted primarily from spending of restricted cash from bond proceeds that were received when the 2012 bonds were issued by the Hospital.

Net patient service revenues increased in 2013 by $8,040,608 (4%) as compared to 2012, while net patient accounts receivable increased by $2,396,624, for an increase of two days of revenue in accounts receivable at December 31, 2013 versus December 31, 2012.

In 2012, patient accounts receivable increased by $31,399 (0.1%). This was consistent with an increase in net patient service revenues in 2012 by $12,121,570 (7%).

Operating Results and Changes in the Hospital's Net Position

In 2013, the Hospital's net position increased by $4,099,721 (2.3%) compared to an increase in net position during 2012 of $11,390,564 (6.7%), as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2013	2012 Restated	2011
Operating Revenue			
Net patient service revenue	$ 192,435,760	$ 184,395,152	$ 172,273,582
Other operating revenue	5,645,817	7,520,232	2,726,986
Total operating revenue	198,081,577	191,915,384	175,000,568
Operating Expenses			
Salaries and wages and employee benefits	122,638,141	106,428,286	98,039,307
Purchased services and professional fees	31,157,191	29,533,269	29,057,951
Depreciation and amortization	10,096,392	9,568,226	10,355,263
Other operating expenses	38,424,248	42,276,926	31,665,613
Total operating expenses	202,315,972	187,806,707	169,118,134
Operating Income (Loss)	(4,234,395)	4,108,677	5,882,434
Nonoperating Revenue (Expenses)			
Investment income	6,498,872	4,796,511	202,387
Noncapital grants and contributions	2,978,666	3,617,252	3,415,809
Interest expense	(1,143,422)	(1,131,876)	(1,061,790)
Total nonoperating revenue	8,334,116	7,281,887	2,556,406
Increase in Net Position	$ 4,099,721	$ 11,390,564	$ 8,438,840

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income (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 a positive operating margin 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 Knox County and the surrounding area. The Hospital implements strong cost controls to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating margin for 2013 decreased by $8,343,072 (203%) as compared to 2012. Operating income for 2012 decreased by $1,773,757 (30%) as compared to 2011. The primary components of the fluctuation in operating income are:

- An increase in salaries, wages and benefits for the Hospital's employees of $16,209,855 (15%) in 2013 compared to an increase in 2012 of $8,388,979 (9%)
- An increase in purchased services and professional fees of $1,623,922 (5%) in 2013 compared to an increase of $475,318 (2%) in 2012.
- Bond issuance costs of $1,286,888 recognized during 2013.
- These increases in expenses were offset by an increase in net patient service revenue of $8,040,608 (4%) for 2013 and $12,121,750 (7%) for 2012.

Net patient service revenue increased because the Hospital expanded services by employing a large number of physicians beginning in 2010 and continuing throughout 2013. Additionally, during 2012, Indiana implemented a new supplemental payment mechanism for the Medicaid program. This change resulted in additional patient revenue of approximately $3.9 million in 2013 and $11.8 million in 2012. These increases were partially offset by the additional provider assessment fee of $9.4 million paid beginning in 2012, which is reflected as an operating expense. In 2013, assessment fees paid were $3.1 million.

Other operating revenue decreased by $1,874,415 (25%) from $7,520,232 in 2012 to $5,645,817 in 2013. This decrease is primarily the result of a $1.1 million decrease in Medicare and Medicaid meaningful use incentive funds recorded by the Hospital.

Employee salaries and wages and benefits increased in 2013 and 2012 in connection with the Hospital's retention and recruitment efforts. These efforts result primarily from the shortage of physicians, nurses and other health care professionals in the United States. Also, the Hospital recruited and hired a significant number of physicians during 2013 and 2012.

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 $28,587,903 (14%) of total operating expenses. In 2012, they totaled $26,583,774 (14%) of total operating expenses, an increase of $2,004,129 (8%) over 2012.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment, contribution and grant income along with interest expense, all of which remained relatively constant in 2013 as compared to 2012 and 2011, except investment income. The Hospital recognized an increase in its investment return in 2013 compared to 2012, resulting primarily from improved overall return rates in the market. Total investment return for 2013 was a positive return of $6,498,872 compared to a positive return in 2012 of $4,796,511. Contribution and grant income in 2013 was $2,978,666 compared to $3,617,252 in 2012.

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 and 2012, the Hospital had $126,380,155 and $90,805,287, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2013 and 2012, the Hospital purchased new capital assets costing $45,803,988 and $21,712,141, respectively. A significant portion of the 2013 and 2012 capital asset additions were for the master facility plan and the significant Hospital expansion in process at December 31, 2013.

Debt

At December 31, 2013 and 2012, the Hospital had $84,937,463 and $86,386,942, respectively, in revenue bonds, notes payable and capital lease obligations outstanding. During 2012, the Hospital issued lease revenue refunding bonds in the amount of $83,395,000. These bonds were used to refund the previously outstanding 2002 and 2004 revenue bonds as well as to provide proceeds for the Hospital's significant campus expansion. The Hospital issued no new debt in 2013. The Hospital's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Hospital's debt ratings in the past three years. The ratings have remained positive in the range of A to AA during this period of time. During 2012, in conjunction with the 2012 bonds issued, the Hospital received a rating of A3 from Moody's Investor Services.

Other Economic Factors

Economic stability has remained strong in Knox County as it ranks 2nd in the state of Indiana for lowest unemployment. Farbest Foods is building a 227,000 sq. ft. $75 million dollar processing plant that will employ 360 people initially with potentially adding many more employees by starting a second shift. In addition to the processing plant, Farbest is building a $20 million dollar milling facility that will add 30 jobs and require 40 new turkey farms to be opened, which should be operational during 2014.

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 CFO by telephoning (812) 885-3891.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Balance Sheets
December 31, 2013 and 2012

Assets and Deferred Outflows of Resources

	2013	2012 (Restated)
Current Assets		
Cash and cash equivalents	$ 29,669,298	$ 53,016,758
Short-term investments	61,927,993	45,327,570
Restricted cash - current	42,931,642	63,274,750
Patient accounts receivable, net of allowance; 2013 - $17,526,959; 2012 - $14,999,600	25,244,826	22,848,202
Other receivables	4,195,433	2,276,081
Supplies	1,989,678	1,577,715
Prepaid expenses and other	5,149,785	6,220,998
Total current assets	171,108,655	194,542,074
Noncurrent Investments	50,000	50,000
Capital Assets, net	126,380,155	90,805,287
Other Assets	1,199,997	1,420,532
Deferred Outflows of Resources - losses on debt refunding	1,272,395	1,486,220
Total assets and deferred outflows of resources	$ 300,011,202	$ 288,304,113

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	$ 1,404,951	$ 1,384,282
Accounts payable	12,418,411	5,142,524
Accrued expenses	13,930,143	12,379,121
Accrued interest	1,025,345	1,033,622
Estimated amounts due to third-party payers	557,750	406,518
Estimated self-insurance costs	1,430,286	1,343,303
Total current liabilities	30,766,886	21,689,370
Long-Term Debt	83,532,512	85,002,660
Total liabilities	114,299,398	106,692,030
Net Position		
Net investment in capital assets	74,665,424	53,024,344
Restricted - debt service	9,708,910	12,552,118
Unrestricted	101,337,470	116,035,621
Total net position	185,711,804	181,612,083
Total liabilities and net position	$ 300,011,202	$ 288,304,113

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

	2013	2012 (Restated)
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts; 2013 - $18,924,268; 2012 - $17,414,110	$ 192,435,760	$ 184,395,152
Other	5,645,817	7,520,232
Total operating revenue	198,081,577	191,915,384
Operating Expenses		
Salaries and wages	95,788,325	83,023,855
Employee benefits	26,849,816	23,404,431
Purchased services and professional fees	31,157,191	29,533,269
Supplies	28,587,903	26,583,774
Utilities	2,699,541	2,627,440
Other expenses	4,006,424	3,674,574
Depreciation and amortization	10,096,392	9,568,226
Provider hospital assessment fee	3,130,380	9,391,138
Total operating expenses	202,315,972	187,806,707
Operating Income (Loss)	(4,234,395)	4,108,677
Nonoperating Revenue (Expense)		
Investment return	6,498,872	4,796,511
Interest expense	(1,143,422)	(1,131,876)
Noncapital contribution and grant income	2,978,666	3,617,252
Total nonoperating revenue	8,334,116	7,281,887
Excess of Revenues Over Expenses and Change in Net Position	4,099,721	11,390,564
Net Position, Beginning of Year, as previously reported	181,612,083	170,347,791
Adjustments for change in accounting principle	-	(126,272)
Net Position, Beginning of Year, as restated	181,612,083	170,221,519
Net Position, End of Year	$ 185,711,804	$ 181,612,083

Good Samaritan Hospital
A Component Unit of Knox 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	$ 188,119,784	$ 183,008,122
Payments to suppliers and contractors	(62,312,640)	(68,934,457)
Payments to employees	(123,257,324)	(107,662,026)
Other receipts	5,645,817	7,520,232
Net cash provided by operating activities	8,195,637	13,931,871
Noncapital Financing Activity - grants and gifts	2,978,666	3,617,252
Capital and Related Financing Activities		
Proceeds from issuance of long-term obligations	-	86,399,425
Principal paid on long-term obligations	(1,349,331)	(22,260,947)
Interest paid on long-term obligations	(4,252,240)	(2,463,961)
Payment of debt issuance costs	-	(1,286,887)
Purchase of capital assets	(39,161,749)	(17,680,578)
Net cash provided by (used in) capital and related financing activities	(44,763,320)	42,707,052
Investing Activities		
Interest and dividends	1,692,011	1,437,542
Proceeds from disposition of investments	5,949,142	69,235,910
Purchase of investments	(17,742,704)	(54,961,730)
Net cash provided by (used in) investing activities	(10,101,551)	15,711,722
Increase (Decrease) in Cash and Cash Equivalents	(43,690,568)	75,967,897
Cash and Cash Equivalents, Beginning of Year	116,291,508	40,323,611
Cash and Cash Equivalents, End of Year	$ 72,600,940	$ 116,291,508
Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ (4,234,395)	$ 4,108,677
Depreciation and amortization	10,096,392	9,568,226
Loss on disposal of capital assets	329,974	197,141
Provision for uncollectible accounts	18,924,268	17,414,110
Changes in operating assets and liabilities		
Patient and other accounts receivable	(23,240,244)	(18,801,140)
Supplies	(411,963)	265,314
Prepaid expenses and other assets	1,208,179	(608,067)
Estimated amounts due to third-party payers	151,232	2,928
Accounts payable and accrued expenses	5,372,194	1,784,682
Net cash provided by operating activities	$ 8,195,637	$ 13,931,871
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	$ 5,512,248	$ 1,970,550
Amortization of deferred loss on refunding	213,825	132,579

Good Samaritan Hospital
A Component Unit of Knox 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

Good Samaritan Hospital (Hospital) is an acute care hospital located in Vincennes, Indiana. The Hospital is a component unit of Knox County, Indiana (County) and the Board of County Commissioners appoints members to the Board of Governors of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Knox County area.

In accordance with GASB Statement No. 61, the financial statements include the financial statements of Good Samaritan Hospital Foundation and Good Samaritan Hospital Physician Services, Inc.

The Good Samaritan Hospital Foundation (Foundation) is a significant blended component unit of the Hospital. The primary government appoints a voting majority of the Foundation's board and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital. Separate audited financial statements are not issued for the Foundation.

Good Samaritan Hospital Physician Services, Inc. (Physician Services) is also a blended component unit of the Hospital. The primary government appoints a voting majority of Physician Service's board and a financial benefit/burden relationship exists between the Hospital and Physician Services. Although it is legally separate from the Hospital, Physician Services is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital. Separate audited financial statements are not issued for Physician Services.

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 federal and state grants, are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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 and 2012, 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 and in nonnegotiable certificates of deposit 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, realized gains and losses on investments 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.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method (FIFO) 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:

	Years
Land improvements	5 - 25
Buildings and leasehold improvements	5 - 40
Equipment	5 - 20

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

	2013	2012
Interest costs capitalized	$ 3,100,541	$ 2,061,013
Interest costs charged to expense	1,143,422	1,144,557
Total interest incurred	$ 4,243,963	$ 3,205,570

Intangible Assets

Intangible assets represent assets recognized during business purchases during 2013 and 2012. The intangible assets are subject to amortization and are deemed to have a weighted-average useful life of approximately five to ten years. The amortized cost of the assets was $899,671 and $1,120,207 at December 31, 2013 and 2012, respectively. The Hospital recognized amortization expense of $220,536 during 2013 and 2012.

Deferred Outflows of Resources

A deferred outflow of resources is a consumption of net position by the Hospital that is applicable to a future reporting period. Deferred outflows are reported in the balance sheets but are not recognized in the financial statements as expenses until the periods to which they relate. Deferred outflows of resources of the Hospital consist of deferred losses on debt refundings (defeasance costs).

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 when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. 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.

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 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, and unspent borrowings to be used for capital acquisitions. Unrestricted net position is remaining assets less remaining liabilities that do 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. Foregone charges for charity care approximated $16,830,000 for 2013 and $14,870,000 for 2012. Estimated cost based on the Hospital's records was $6,000,000 for 2013 and $5,400,000 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. In addition, the Hospital is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from income taxes under Section 501(c)(3) of the 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.

Physician Services is exempt from income taxes under Section 509(a)(3) of the Internal Revenue Code and a similar provision of state law. Physician Services is subject to federal income tax on any unrelated business taxable income.

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). Payments under the Medicare program are generally made for up to four years based on a statutory formula. 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. Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year 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 recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2012, the Hospital completed the first-year requirements under both the Medicare and Medicaid programs and has recorded revenue of approximately $3,350,000, which is included in other operating revenues in the statement of revenues, expenses and changes in net position. During 2013, the Hospital recorded revenue of approximately $2,275,000 for the Medicare and Medicaid incentive programs.

Long-Term Nursing Facilities

During 2013, the Hospital acquired three nursing home operations through the execution of a licensing agreement, management agreement and lease agreement with a third party. The nature of the agreements provide the Hospital the rights to all operating assets, government provider numbers and real estate. In connection with these agreements, the Hospital simultaneously entered into a management agreement with a third party to execute the operations of the nursing homes. The agreements have cancellation clauses, without cause, given appropriate notice. As the Hospital is a non-state government-owned hospital, it is entitled to certain special Medicaid payments, which are reflected in the balance sheets and statements of revenues, expenses and changes in net position.

Change in Accounting Policy

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 $126,272 in net position as of January 1, 2012 and a decrease in the increase in net position of $1,260,074 for the year ending December 31, 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 application of GASB 65 are the reclassification of the deferred losses from the refunding of debt to deferred outflows of resources.

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.

These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient non-acute services are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. The payment methodologies are similar to those prescribed by the Medicare program more fully described above.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana Law (HEA 1095, Public Law 27-1992) 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 (as defined) and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when reasonably determined that the funds will be received. The Hospital recognized approximately $5,700,000 of net patient service revenue related to this supplemental payment program for the year ended December 31, 2013 and approximately $1,730,000 for the year ended December 31, 2012.

The Hospital also received approximately $3.9 million and $11.8 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. The Hospital paid approximately $3.1 million and $9.4 million for 2013 and 2012, respectively, into this Medicaid program, 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 31, 2013. As a result, no estimate has been recorded for this program for possible additional revenue and expense that could be applicable to the Hospital for the period beginning July 1, 2013. Extension of this program received federal approval in March 2014, with a retroactive applicable date of July 1, 2013.

Approximately 46% and 44% of net patient service revenue for 2013 and 2012, respectively, is from participation in the Medicare and state-sponsored Medicaid programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

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.

Indiana state law requires the Hospital to deposit money with any financial institution designated by the state board of finance as depositories for state deposits. The Hospital's funds exceeding the FDIC insurance amount are covered by the Public Deposit Insurance Fund (PDIF). The PDIF insures those state and local public funds that are deposited in approved financial institutions in the event of financial institution failures.

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 corporate bonds and equity securities.

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

	2013		
		Maturities in Years	
Type	Fair Value	Less Than 1	1-5
Mutual funds	$ 61,727,993	$ 61,727,993	$ -
Money market mutual funds	20,976,749	20,976,749	-
	$ 82,704,742	$ 82,704,742	$ -

Type	2012 Fair Value	Maturities in Years: Less Than 1	Maturities in Years: 1-5
Mutual funds	$ 36,339,452	$ 36,339,452	$ -
Money market mutual funds	40,515,674	40,515,674	-
	$ 76,855,126	$ 76,855,126	$ -

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy provides guidance to invest approximately 70% of its investment portfolio in fixed income securities. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital's policy provides guidance to invest in fixed income investments in U.S. Government bonds, bank certificates of deposits, and U.S. Treasury bonds among other government agencies. Such investments are to be insured by the U.S. Government or covered by applicable Federal and State Insurance programs.

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 provides investments are to be maintained in insured deposits.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer, however, the PDIF described above mitigates the concentration of credit risk.

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	$ 51,874,191	$ 84,813,952
Investments	82,704,742	76,855,126
	$ 134,578,933	$ 161,669,078
Included in the following balance sheets captions		
Cash and cash equivalents	$ 29,669,298	$ 53,016,758
Short-term investments	61,927,993	45,327,570
Restricted cash - current	42,931,642	63,274,750
Noncurrent investments	50,000	50,000
	$ 134,578,933	$ 161,669,078

Investment Return

Investment return for the years ended December 31, 2013 and 2012 consisted of:

	2013	2012
Interest and dividend income	$ 1,692,011	$ 1,437,542
Realized gains from sales of investments	2,667,769	242,317
Net increase in fair value of investments	2,139,092	3,116,652
	$ 6,498,872	$ 4,796,511

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, 2013 and 2012 consisted of:

	2013	2012
Medicare	$ 6,407,905	$ 6,318,585
Medicaid	4,661,752	3,504,428
Other third-party payers	9,896,405	9,505,232
Patients	21,805,723	18,519,557
	42,771,785	37,847,802
Less allowance for uncollectible accounts	17,526,959	14,999,600
	$ 25,244,826	$ 22,848,202

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2013				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 5,794,352	$ 679,835	$ -	$ -	$ 6,474,187
Land improvements	5,782,782	50,623	(1,291)	-	5,832,114
Buildings and leasehold improvements	79,781,151	1,220,055	-	2,237,055	83,238,261
Equipment	128,342,866	4,200,909	(2,090,474)	7,129,635	137,582,936
Construction in progress	22,854,490	39,652,566	-	(9,366,690)	53,140,366
	242,555,641	45,803,988	(2,091,765)	-	286,267,864
Less accumulated depreciation					
Land improvements	3,682,530	334,371	(1,291)	-	4,015,610
Buildings and leasehold improvements	47,510,886	2,477,741	-	1,860	49,990,487
Equipment	100,556,938	7,087,034	(1,760,500)	(1,860)	105,881,612
	151,750,354	9,899,146	(1,761,791)	-	159,887,709
Capital assets, net	$ 90,805,287	$ 35,904,842	$ (329,974)	$ -	$ 126,380,155

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 5,728,852	$ 65,500	$ -	$ -	$ 5,794,352
Land improvements	5,541,284	298,188	(56,690)	-	5,782,782
Buildings and leasehold improvements	78,833,274	1,250,998	(303,121)	-	79,781,151
Equipment	126,700,019	1,291,074	(3,048,346)	3,400,119	128,342,866
Construction in progress	7,448,228	18,806,381	-	(3,400,119)	22,854,490
	224,251,657	21,712,141	(3,408,157)	-	242,555,641
Less accumulated depreciation					
Land improvements	3,404,768	331,820	(54,058)	-	3,682,530
Buildings and leasehold improvements	45,363,164	2,405,190	(257,468)	-	47,510,886
Equipment	96,850,305	6,606,123	(2,899,490)	-	100,556,938
	145,618,237	9,343,133	(3,211,016)	-	151,750,354
Capital assets, net	$ 78,633,420	$ 12,369,008	$ (197,141)	$ -	$ 90,805,287

Construction in progress primarily includes architectural, planning costs and construction costs for the Hospital expansion, among other projects.

Note 6: Operating Leases

The Hospital leases various facilities and equipment under operating leases expiring at various dates through 2018. Total rental expense in 2013 and 2012 for these operating leases was approximately $2,835,271 and $2,144,617, respectively.

Future minimum lease payments under operating leases as of December 31, 2013 were:

2014	$ 2,731,226
2015	1,652,939
2016	1,006,010
2017	948,367
2018	819,495
	$ 7,158,037

Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. In addition, the Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: 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 $200,000. 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.

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

	2013	2012
Balance, beginning of year	$ 1,343,303	$ 1,435,719
Current year claims incurred and changes in estimates for claims incurred in prior years	19,578,148	16,344,968
Claims and expenses paid	(19,491,165)	(16,437,384)
Balance, end of year	$ 1,430,286	$ 1,343,303

Note 9: 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					
Lease revenue refunding bonds payable, 2012 (a)	$ 83,395,000	$ -	$ 1,330,000	$ 82,065,000	$ 1,370,000
Plus: Unamortized bond premium	2,937,660	-	100,148	2,837,512	-
Capital lease obligations	54,282	-	19,331	34,951	34,951
Total long-term debt	$ 86,386,942	$ -	$ 1,449,479	$ 84,937,463	$ 1,404,951

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Lease revenue refunding bonds payable, 2012 (a)	$ -	$ 83,395,000	$ -	$ 83,395,000	$ 1,330,000
Lease revenue refunding bonds payable, 2002 (b)	9,170,000	-	9,170,000	-	-
Lease revenue bonds payable, 2004 (c)	12,655,000	-	12,655,000	-	-
Plus: Unamortized bond premium	328,307	3,004,425	395,072	2,937,660	-
Capital lease obligations	490,229	-	435,947	54,282	54,282
Total long-term debt	$ 22,643,536	$ 86,399,425	$ 22,656,019	$ 86,386,942	$ 1,384,282

(a) The economic development revenue and refunding bonds (Bonds) were issued in the original amount of $83,395,000 dated April 2012, which bear interest at 2.5% to 5.9%. The Bonds are payable in semi-annual installments through 2042. The Hospital is required to make annual deposits to the debt service fund held by the trustee, which are included as restricted cash in the balance sheets. The Bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement. Under the master indenture, the Hospital is required to maintain a debt service coverage ratio of at least 1.25, measured annually and must have no less than 65 days of cash on hand measured semi-annually.

Upon issuance and delivery of the Bonds, the Hospital defeased its outstanding 2002 bonds in the original principal amount of $21,270,000, through a current refunding with the 2002 bonds called July 1, 2012. Additionally, the Hospital defeased its outstanding 2004 bonds in the original principal amount of $17,210,000, through an advance refunding. Proceeds from the Bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the defeased 2004 bonds. This advance refunding transactions on the 2004 bonds resulted in an extinguishment of debt since the Hospital was legally released from its obligation on the 2004 bonds at the time of the defeasance. Accordingly, the 2004 bonds, aggregating $10,665,000 and $11,885,000 at December 31, 2013 and 2012, respectively, remain outstanding, but are excluded from the Hospital's balance sheet beginning in 2012. The 2004 bonds will be called for redemption on February 1, 2014.

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

Year Ending December 31,	Total to be Paid	Principal	Interest
2014	$ 5,450,690	$ 1,370,000	$ 4,080,690
2015	5,448,990	1,410,000	4,038,990
2016	5,451,015	1,455,000	3,996,015
2017	5,449,090	1,505,000	3,944,090
2018	5,447,690	1,565,000	3,882,690
2019-2023	27,250,950	8,920,000	18,330,950
2024-2028	27,252,075	11,435,000	15,817,075
2029-2033	27,244,485	14,920,000	12,324,485
2034-2038	27,251,225	19,730,000	7,521,225
2039-2042	21,791,125	19,755,000	2,036,125
	$ 158,037,335	$ 82,065,000	$ 75,972,335

(b) The lease revenue refunding bonds payable consisted of Health Facilities Revenue Bonds (Bonds) in the original amount of $21,270,000 dated September 1, 2002, which bore interest at 3.50% to 5.25%. The Bonds were payable in semi-annual installments through July 1, 2017, but were currently refunded with the issuance of the 2012 bonds and were fully called during 2012.

(c) The lease revenue bonds payable consisted of Health Facilities Revenue Bonds (Bonds) in the original amount of $17,210,000 dated February 1, 2004, which bore interest at 2.00% to 5.00%. The Bonds were payable in semi-annual installments through January 15, 2024, but were advance refunded with the issuance of the 2012 bonds discussed above.

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2013 totaled $4,245,196, net of accumulated depreciation of $5,945,065. Assets under capital leases at December 31, 2012 totaled $4,830,013, net of accumulated depreciation of $5,388,515. Total future lease payments under these capital leases at December 31, 2013 are $34,951, which is to be paid during 2014. Interest rates range from 4.25% to 4.75% on these leases.

Note 10: Blend Component Units

The consolidated financial statements include the blended component unit accounts of Physician Services and the Foundation as discussed in Note 1. The following is a financial summary of the component units as of December 31, 2013 and 2012.

	Physician Services		Foundation	
	2013	2012	2013	2012
Total current assets - receivables	$ 2,659,471	$ 1,808,419	$ 5,023,841	$ 4,415,865
Total noncurrent assets	419,908	507,508	58,085	2,241
Total assets	$ 3,079,379	$ 2,315,927	$ 5,081,926	$ 4,418,106
Total liabilities	$ 457,875	$ 462,506	$ 163,909	$ 1,035
Net position	2,621,504	1,853,421	4,918,017	4,417,071
Total liabilities and net position	$ 3,079,379	$ 2,315,927	$ 5,081,926	$ 4,418,106
Revenue	$ 29,005,832	$ 23,224,499	$ 998,286	$ 929,724
Expenses	(42,797,028)	(33,404,633)	(659,862)	(414,774)
Transfer from Hospital	14,559,279	10,500,000	162,522	747,865
Change in net position	768,083	319,866	500,946	1,262,815
Net position, beginning of year	1,853,421	1,533,555	4,417,071	3,154,256
Net position, end of year	$ 2,621,504	$ 1,853,421	$ 4,918,017	$ 4,417,071

Note 11: 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 is administered by a board of trustees appointed by 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 Board of Governors. The current contributions rate is 7% of the first $9,999 and 10% thereafter of annual covered payroll for employees hired prior to January 1, 2002. Employees hired January 1, 2002 or later will receive 7% of annual earnings (annual earnings exclude overtime and bonus payments). Employer contributions to the plan in 2013 and 2012 was $5,641,870 and $4,495,449, respectively.

Note 12: Contingencies and Commitments

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 insurance program (discussed elsewhere in these notes) or by 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. The Hospital currently has certain cases outstanding and management believes that the financial statements will not be materially affected, in the event of an adverse outcome. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Master Facility Plan Commitment

During 2012, the Hospital commenced implementation of a revised master facility plan that includes construction and equipping of certain Hospital facilities including a new tower to include numerous departments. The master facility plan also includes significant renovations to certain existing facilities within the Hospital, and construction of a new central plant as well as various energy efficiency improvements.

As part of these significant renovations, improvements and additions, the Hospital has entered into various contracts as of year-end for the necessary work to be performed. The total cost of the project is expected to be approximately $110 million, with approximately $31 million incurred through December 31, 2013.

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.

Supplementary Information

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Schedule of Expenditures of Federal Awards
December 31, 2013

Federal Agency/Pass-through Entity Program or Cluster Title	Federal CFDA Number	Grant Number	Amount
U.S. Department of Health and Human Services			
Substance Abuse and Mental Health Services - LAM Offender Reentry Project	93.243	1H79T1024873-01	$ 27,657
Pass-through programs:			
Indiana Family and Social Services Administration - Division of Mental Health			
Block Grants for Community Mental Health Services	93.958	A55-4-42-14-HO-2717	99,119
Block Grants for Prevention and Treatment of Substance	93.959	A55-4-42-14-HO-2717	304,144
Social Services Block Grant	93.667	A55-4-42-14-HO-2717	78,284
Total Expenditures of Federal Awards			$ 509,204

Notes to Schedule

1. This schedule includes the federal awards activity of Good Samaritan Hospital 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. Good Samaritan Hospital did not provide any of the federal expenditures presented in this schedule to subrecipients.

BKD LLP
CPAs & Advisors

201 N. Illinois Street, Suite 700 // P.O. Box 44998 // Indianapolis, IN 46244-0998
317.383.4000 // fax 317.383.4200 // bkd.com

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 Governors
Good Samaritan Hospital
Vincennes, 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 basic financial statements of Good Samaritan Hospital (Hospital), which comprise the balance sheet as of December 31, 2013 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated April 24, 2014, which contained an emphasis of matter paragraph regarding a change in accounting principle.

Internal Control Over Financial Reporting

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

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether the Hospital'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.*

Other Matter(s)

We noted certain matters that we reported to the Hospital's management in a separate letter dated April 24, 2014.

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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Indianapolis, Indiana
April 24, 2014

BKD LLP
CPAs & Advisors

201 N. Illinois Street, Suite 700 // P.O. Box 44998 // Indianapolis, IN 46244-0998
317.383.4000 // fax 317.383.4200 // bkd.com

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 Governors
Good Samaritan Hospital
Vincennes, Indiana

Report on Compliance for Each Major Federal Program

We have audited the compliance of Good Samaritan Hospital (Hospital) with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2013. The Hospital's major federal program is 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 its major federal program is the responsibility of the Hospital's management.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Good Samaritan Hospital's major federal program based on our audit of the types of compliance requirements referred to above.

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

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

Opinion on Major Federal Program

In our opinion, Good Samaritan Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. 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.

BKD, LLP

Indianapolis, Indiana
April 24, 2014

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Schedule of Findings and Questioned Costs
December 31, 2013

Summary of Auditor's Results

1. The opinion expressed in the independent auditor's report was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimed

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 opinion expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on major federal awards was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimed

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

7. The Hospital's major program was:

Cluster/Program	CFDA Number
Block Grants for Prevention and Treatment of Substance Abuse	93.959

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Schedule of Findings Questioned Costs (Continued)
December 31, 2013

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was $300,000.

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

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Schedule of Findings Questioned Costs (Continued)
December 31, 2013

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Summary Schedule of Prior Audit Findings
December 31, 2013

Reference Number	Finding	Questioned Costs
	No matters are reportable.	