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June 8, 2017

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

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2016 to December 31, 2016. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of the Decatur County Memorial Hospital, as of December 31, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The 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* includes a reference to Findings 2015-001, 2016-002, 2016-003 that are deemed material weaknesses in internal control. These findings are included in the report in the Schedule of Findings and Responses...

The audit report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA  
State Examiner

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
Independent Auditor's Report and Financial Statements  
December 31, 2016 and 2015

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**December 31, 2016 and 2015**

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## Independent Auditor's Report

Board of Trustees  
Decatur County Memorial Hospital  
Greensburg, Indiana

### Report on the Financial Statements

We have audited the accompanying financial statements of Decatur County Memorial Hospital (Hospital), a component unit of Decatur County, Indiana, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

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

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

#### *Auditor's Responsibility*

Our responsibility is to express 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 Decatur County Memorial Hospital as of December 31, 2016 and 2015, 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 2 to the financial statements, the 2015 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The combining schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedule information listed in the table of contents 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. Such information has been subjected to the auditing procedures applied in the audits 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 May 23, 2017, 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 Hospital's internal control over financial reporting and compliance.

*BKD, LLP*

Indianapolis, Indiana  
May 23, 2017

# **Decatur County Memorial Hospital**

## **A Component Unit of Decatur County, Indiana**

### **Management's Discussion and Analysis**

#### **December 31, 2016 and 2015**

#### ***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, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of the Hospital.

#### ***Financial Highlights***

- Cash and investments decreased in 2016 by \$6,459,851 or 23.9% compared to an increase of \$4,766,343 or 21.4% in 2015.
- The Hospital's net position increased in 2016 by \$3,387,585 or 6.84% compared to an increase of \$2,238,738 or 4.74% in 2015.
- The Hospital reported operating income of \$2,692,746 in 2016 compared to operating income of \$2,157,723 in 2015. The operating results in 2016 increased by \$535,023, while in 2015, the operating results increased by \$5,035,362.
- Net nonoperating revenues for 2016 were \$694,839 compared to net nonoperating revenues of \$81,015 for 2015. This was an increase of \$613,824 or 757.67%. In 2015, net nonoperating revenues decreased by \$318,658 or 79.7%.

#### ***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 of resources, less liabilities reported in the balance sheets. The Hospital's net position increased by \$3,387,585 or 6.84% in 2016 over 2015 compared to an increase in net position of \$2,238,738 or 4.74% in 2015 over 2014, as shown in Table 1.

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

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Assets and Deferred Outflows of Resources</b>			
Patient accounts receivable, net	\$ 9,947,383	\$ 8,877,884	\$ 8,006,800
Other current assets	27,342,318	25,288,839	20,300,018
Capital assets, net	36,934,833	36,820,930	33,113,773
Other noncurrent assets and deferred outflows of resources	<u>2,411,441</u>	<u>5,963,530</u>	<u>5,883,319</u>
Total assets and deferred outflows of resources	<u><u>\$ 76,635,975</u></u>	<u><u>\$ 76,951,183</u></u>	<u><u>\$ 67,303,910</u></u>
<b>Liabilities</b>			
Long-term debt	\$ 8,807,913	\$ 10,443,576	\$ 8,159,980
Other current and long-term liabilities	<u>14,928,158</u>	<u>16,995,288</u>	<u>11,870,349</u>
Total liabilities	<u><u>23,736,071</u></u>	<u><u>27,438,864</u></u>	<u><u>20,030,329</u></u>
<b>Net Position</b>			
Net investment in capital assets	26,386,284	24,846,741	23,841,524
Restricted	2,040,508	3,086,576	3,044,828
Unrestricted	<u>24,473,112</u>	<u>21,579,002</u>	<u>20,387,229</u>
Total net position	<u><u>52,899,904</u></u>	<u><u>49,512,319</u></u>	<u><u>47,273,581</u></u>
Total liabilities and net position	<u><u>\$ 76,635,975</u></u>	<u><u>\$ 76,951,183</u></u>	<u><u>\$ 67,303,910</u></u>



A significant change in the Hospital's assets in 2016 is the increase in patient accounts receivable of \$1,069,499 (12.0%) consisting of an increase in the Hospital division's accounts receivable of \$1,624,115 and a decrease in the long-term care division's accounts receivable of \$554,616. These changes are reflective of changes in overall collections in 2016 as a result of an information system conversion as well as changes in volumes and collections of the long-term care facilities. Another significant change includes an increase of \$3,108,031 in estimated third-party settlement receivable amounts related to Electronic Health Record incentive payments. In 2015, patient accounts receivable increased by \$871,084 (10.9%), which was consistent with overall patient volumes and gross charges and the addition of four new long-term care facilities in 2015.

A significant change in the Hospital's liabilities in 2016 is the decrease in estimated third-party settlement liabilities by \$3,624,199 (60.88%) as a result of changes and ultimate settlement of amounts owed to the Medicare and Medicaid programs. The Hospital's liabilities saw an increase in accounts payable and accrued expenses by \$4,561,905 (88.1%) in 2015 as a result of the addition of new long-term care facilities.

Another significant change in the Hospital's financial position in 2015 was the increase in capital assets of \$3,936,917, which was primarily the result of various construction projects and information system upgrades.

Additionally, with the ongoing construction and information system upgrades, the Hospital issued new debt during 2016, borrowing \$1,000,000 on a line of credit agreement. The Hospital issued a new bank note payable in 2015 related to these projects with \$3,828,257 out of an available \$5,000,000 drawn as of December 31, 2015.

### ***Operating Results and Changes in the Hospital's Net Position***

In 2016, the Hospital's net position increased by \$3,387,585 or 6.84%, as shown in Table 2. This increase is made up of several different components and represents an increase of 51.32% compared with the increase in net position for 2015 of \$2,238,738. The decrease in net position for 2014 was \$2,477,966.

**Table 2: Operating Results and Changes in Net Position**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Operating Revenue</b>			
Net patient service revenue	\$ 73,025,368	\$ 63,595,462	\$ 46,400,008
Other operating revenue	8,856,434	6,834,058	1,317,051
Total operating revenue	<u>81,881,802</u>	<u>70,429,520</u>	<u>47,717,059</u>
<b>Operating Expenses</b>			
Salaries, wages, contract labor and employee benefits	42,727,687	36,781,378	28,542,769
Purchased services and professional fees	10,762,769	9,136,089	6,811,092
Depreciation and amortization	3,269,849	2,778,185	2,852,868
Other operating expenses	22,428,751	19,576,145	12,387,969
Total operating expenses	<u>79,189,056</u>	<u>68,271,797</u>	<u>50,594,698</u>
<b>Operating Income (Loss)</b>	<u>2,692,746</u>	<u>2,157,723</u>	<u>(2,877,639)</u>
<b>Nonoperating Revenue (Expenses)</b>			
Investment return	625,135	(52,031)	430,416
Interest expense	(296,374)	(297,864)	(290,256)
Noncapital grants and contributions	169,826	340,236	189,375
Noncapital appropriations - Decatur County	108,000	108,000	108,000
Other	88,252	(17,326)	(37,862)
Total nonoperating revenue	<u>694,839</u>	<u>81,015</u>	<u>399,673</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ 3,387,585</u>	<u>\$ 2,238,738</u>	<u>\$ (2,477,966)</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.

Operating income was \$2,692,746 for 2016 compared to an operating income of \$2,157,723 for 2015, which equates to an increase of \$535,023 or 24.8%. The operating income for 2015 increased by \$5,035,362 or 175.0% as compared to 2014. The primary components of the change in operating income or loss in 2016 are:

- Net patient service revenue was \$73,025,368 for 2016 compared to \$63,595,462 in 2015, which is an increase of \$9,429,906 or 14.83%. Net patient service revenue in 2015 represented an increase of \$17,195,454 or 37.06% compared to 2014.
- Salaries, wages, contract labor and employee benefits for the Hospital was \$42,727,687 for 2016 compared to \$36,781,378 for 2015, which results in an increase of \$5,946,309 or 16.17%. In 2015 salaries, wages and benefits increased by \$8,238,609, or 28.86% compared to 2014.
- Other operating expenses were \$36,461,369 for 2016 compared to \$31,490,419 in 2015, which is an increase of \$4,970,950 or 15.79%. This change is primarily attributable to the long-term care facility acquired during 2015, which had a full year of operations in 2016, as discussed in the attached notes to the financial statements.

The increase in net patient service revenue in 2016 is the result of an increase in long-term care operations, as well as recognition of Electronic Health Record meaningful use revenue as described in the notes to the financial statements.

Employee salaries and wages and benefits increased in 2016 in connection with the Hospital's retention and recruitment efforts, as well as increases in long-term care operations.

Expenditures for medical supplies, prescription drugs and other supplies are a major component of the Hospital's costs. In 2016, medical supplies and prescription drug costs totaled \$10,157,380 or 12.8% of total operating expenses, compared to 2015 when they totaled \$10,547,137 or 15.6% of total operating expenses, which was a decrease of \$389,757 or 3.7% from 2015.

### ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of investment income, noncapital grants and interest expense. Interest expense and noncapital grants and contributions remained relatively constant in 2016 as compared to 2015. Investment return improved \$677,166 as a result of market conditions.

### ***The Hospital's Cash Flows***

Changes in the Hospital's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2016 and 2015, discussed earlier. Decreases in cash balances provided by and used in operating activities was attributed to settlement of estimated amounts due to the Medicare and Medicaid programs as well as other operating results.

### ***Capital Asset and Debt Administration***

#### ***Capital Assets***

At the end of 2016, the Hospital had \$36,934,833 invested in capital assets, net of accumulated depreciation, compared to \$36,820,930 at the end of 2015, as detailed in Note 7 to the financial statements. These increases are a result of further Hospital renovations and improvements in information systems.

#### ***Debt***

At December 31, 2016, the Hospital had \$10,548,549 in revenue bonds, notes payable and capital lease obligations outstanding compared to \$11,974,189 at December 31, 2015. During 2016, the Hospital entered into a new line of credit agreement to assist with operating activities during the information system conversion. During 2015, the Hospital issued new debt to assist in the acquisition and implementation of a new information system. These changes are outlined in Note 10 to the financial statements.

### ***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 Administration by telephoning (812) 663-4331.

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Balance Sheets**  
**December 31, 2016 and 2015**

**Assets and Deferred Outflows of Resources**

	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 7,846,293	\$ 11,403,192
Short-term investments	10,424,951	9,905,532
Patient accounts receivable, net of allowance; 2016 - \$7,890,816, 2015 - \$2,514,801	9,947,383	8,877,884
Contributions receivable	103,607	122,311
Supplies	1,098,737	641,781
Estimated third-party settlements	3,108,031	-
Prepaid expenses and other assets	4,760,699	3,216,023
Total current assets	37,289,701	34,166,723
<b>Noncurrent Cash and Investments</b>		
Internally designated for capital improvements	353,637	2,852,171
Held by trustee for debt service	953,399	1,639,645
Restricted by contributors and grantors	988,470	1,226,061
	2,295,506	5,717,877
<b>Capital Assets, net</b>	36,934,833	36,820,930
<b>Other Assets</b>	51,000	149,549
Total assets	76,571,040	76,855,079
<b>Deferred Outflows of Resources - losses on debt refunding</b>	64,935	96,104
Total assets and deferred outflows of resources	\$ 76,635,975	\$ 76,951,183
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 1,740,636	\$ 1,530,613
Line of credit	1,000,000	-
Accounts payable and accrued expenses	9,858,588	9,511,542
Estimated third-party settlements	2,328,934	5,953,133
Total current liabilities	14,928,158	16,995,288
<b>Long-Term Debt</b>	8,807,913	10,443,576
Total liabilities	23,736,071	27,438,864
<b>Net Position</b>		
Net investment in capital assets	26,386,284	24,846,741
Restricted:		
For debt service	953,399	1,639,645
Expendable for capital acquisitions	861,543	1,292,324
Expendable for specific operating activities	225,566	154,607
Unrestricted	24,473,112	21,579,002
Total net position	52,899,904	49,512,319
Total liabilities and net position	\$ 76,635,975	\$ 76,951,183

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2016 - \$7,984,078, 2015 - \$4,905,904	\$ 73,025,368	\$ 63,595,462
Other	8,856,434	6,834,058
Total operating revenues	81,881,802	70,429,520
<b>Operating Expenses</b>		
Salaries, wages and contract labor	37,034,007	30,968,769
Employee benefits	5,693,680	5,812,609
Purchased services and professional fees	10,762,769	9,136,089
Medical supplies, drugs and other supplies	10,157,380	10,547,137
Utilities	1,231,432	1,111,936
Repairs and maintenance	2,310,731	1,793,419
Lease and rentals	1,803,068	1,903,522
Insurance	1,035,903	716,390
Depreciation and amortization	3,269,849	2,778,185
Other	4,745,164	2,883,835
Provider hospital assessment fee	1,145,073	619,906
Total operating expenses	79,189,056	68,271,797
<b>Operating Income</b>	<b>2,692,746</b>	<b>2,157,723</b>
<b>Nonoperating Revenues (Expenses)</b>		
Investment return	625,135	(52,031)
Interest expense	(296,374)	(297,864)
Noncapital grants and contributions	169,826	340,236
Noncapital appropriations - Decatur County	108,000	108,000
Other	88,252	(17,326)
Total nonoperating revenues	694,839	81,015
<b>Excess of Revenues Over Expenses and Increase in Net Position</b>	<b>3,387,585</b>	<b>2,238,738</b>
<b>Net Position, Beginning of Year</b>	<b>49,512,319</b>	<b>47,273,581</b>
<b>Net Position, End of Year</b>	<b>\$ 52,899,904</b>	<b>\$ 49,512,319</b>

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>(Restated) 2015</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 66,268,063	\$ 65,517,285
Payments to suppliers and contractors	(30,851,411)	(24,397,909)
Payments to employees	(42,953,338)	(37,284,928)
Other receipts, net	4,983,370	3,406,491
Net cash provided by (used in) operating activities	(2,553,316)	7,240,939
<b>Noncapital Financing Activities</b>		
Noncapital grants and contributions	169,826	340,236
Noncapital appropriations - Decatur County	108,000	108,000
Net cash provided by noncapital financing activities	277,826	448,236
<b>Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(4,319,883)	(5,390,057)
Capital grants and contributions	117,253	88,768
Borrowings under line of credit	1,000,000	-
Proceeds from issuance of long-term debt	-	3,828,257
Principal paid on long-term debt	(1,390,653)	(1,082,424)
Principal paid on capital leases	(22,841)	(29,644)
Interest paid on long-term debt and capital leases	(281,624)	(268,375)
Net cash used in capital and related financing activities	(4,897,748)	(2,853,475)
<b>Investing Activities</b>		
Interest and dividends on investments	461,339	469,177
Purchase of investments	(1,986,360)	(1,088,799)
Proceeds from disposition of investments	1,522,043	681,050
Other investing activities	88,252	(17,326)
Net cash provided by investing activities	85,274	44,102
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(7,087,964)	4,879,802
<b>Cash and Cash Equivalents, Beginning of Year</b>	15,764,441	10,884,639
<b>Cash and Cash Equivalents, End of Year</b>	\$ 8,676,477	\$ 15,764,441
<b>Reconciliation of Cash and Cash equivalents to the Balance Sheets</b>		
Cash and cash equivalents	\$ 7,846,293	\$ 11,403,192
Noncurrent cash and cash equivalents	830,184	4,361,249
	\$ 8,676,477	\$ 15,764,441
<b>Reconciliation of Operating Income to</b>		
<b>Net Cash Provided by (Used in) Operating Activities</b>		
Operating income	\$ 2,692,746	\$ 2,157,723
Depreciation and amortization	3,269,849	2,778,185
Provision for uncollectible accounts	7,984,078	4,905,904
Changes in operating assets and liabilities:		
Patient accounts receivable	(9,053,577)	(5,776,988)
Supplies and other current assets	(1,999,623)	(431,315)
Estimated third-party settlements	(6,732,230)	374,450
Accounts payable and accrued expenses	1,285,441	3,232,980
Net cash provided by (used in) operating activities	\$ (2,553,316)	\$ 7,240,939
<b>Supplemental Cash Flows Information</b>		
Capital asset additions included in accounts payable	\$ 390,530	\$ 1,328,925

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**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.

The Hospital operates five long-term care facilities (LTC) through various lease arrangements. These facilities provide inpatient and therapy services in their geographic area and support the Hospital's mission to provide quality care and services to the facilities' residents. The facilities are managed by third parties under various management agreements. The revenues from operations are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

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.

During 2015, the Hospital invested in a 51% ownership in Decatur County Memorial Pain Management, LLC (Pain Management), which is organized to offer pain management services in the Hospital's primary service area. The Hospital's ownership interest is accounted for under the equity method. Separate audited financial statements are not issued for Pain Management.

***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 and deferred inflows of resources and deferred outflows of resources 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.

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***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, 2016 and 2015, 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. The investment in equity investee is reported on the equity method of accounting. 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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**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.

**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.

**Deferred Outflows of Resources**

The Hospital reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its balance sheets.

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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.

***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.

***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 \$1,620,482 for 2016 compared to \$2,872,388 for 2015.

***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.

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***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. Separate financial statements of the Foundation may be obtained by contacting their office at 720 North Lincoln, Greensburg, Indiana 47240.

***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 has recognized the incentive payment revenue received for qualified EHR technology expenditures during 2016, 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 \$1,790,000 from Medicare in 2016, which is included in net patient service revenue in the statements of revenues, expenses and change in net position. No amounts were recorded in 2015.

***Reclassifications***

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. The reclassifications had no effect on the changes in net position.

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**Note 2: Restatement of Prior Year's Financial Statements**

The Hospital's 2015 statement of cash flows has been restated for an error. The Hospital did not include in cash and cash equivalents certain noncurrent demand deposit accounts in the prior year. The impact of the restatement was to decrease purchases of investments, and increase cash provided by investing activities by \$213,128. In addition, the balance of cash and cash equivalents as of January 1, 2015, on the statement of cash flows was increased to reflect these demand deposits of \$4,148,121, and the cash equivalents balance as of December 31, 2015, increased by \$4,361,249 as a result of the above changes. This restatement did not have an impact on the total net position or change in net position of the Hospital.

**Note 3: 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. These 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.

Long-term care services rendered to Medicare program beneficiaries are paid under a prospectively determined payment system on a per diem basis based on each resident's health at admission. Medicare reimburses for 100 days of skilled nursing facility care subject to certain eligibility requirements.

*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.

Long-term care services rendered to Medicaid program beneficiaries are paid on a per diem basis.

Approximately 54% and 53%, respectively, of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2016 and 2015. 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.

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The Hospital reviews billing, licensure and other issues to ensure compliance with Federal, State and other regulations. During 2014, the Hospital performed a review, and as a result, self-disclosed a matter to the Health and Human Services Office of the Inspector General (OIG). The Hospital accrued approximately \$3.8 million during 2014, which was management's estimate of amounts potentially owed to the Medicare program as a result of this review. The Hospital reached a settlement agreement with the OIG in 2016 for the full amount estimated by management. Amounts accrued are included in estimated third-party settlements on the balance sheet at December 31, 2015 and were paid in full in 2016.

The Hospital participates in a state-specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$1,145,000 and \$620,000 related to this Medicaid program for 2016 and 2015, respectively, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position.

In January 2017, the Hospital received notice that its Medicaid Inpatient Utilization Rate (MIUR) did not exceed state-wide thresholds, as defined by state regulation, for the period July 1, 2015 through June 30, 2017. A benefit of 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. During 2016, the Hospital recognized additional expense approximating \$363,000 related to the loss of MIUR status retroactive to July 1, 2015. Outstanding fees owed at December 31, 2016 approximate \$470,000 and are included in estimated third-party settlements. 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. Any change in the amount of tax due as a result of eligibility changes will be recorded in the period once the state has made its determination. The provider assessment fee program is subject to further retroactive rate setting by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital. The program is scheduled to sunset on June 30, 2017. There is no assurance this program will continue to be implemented in the future.

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 \$1.7 million within net patient service revenue related to this supplemental payment program for the years ended December 31, 2016 and 2015. At December 31, 2016 and 2015, \$2.0 million and \$600,000 is accrued as receivable in other current assets. These amounts represent management's best estimate of DSH funds due to the Hospital, which are typically paid in arrears.

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The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital is responsible for funding the IGT for the long-term care operations. Revenue associated with the UPL program is recorded net of IGT payments made to the program and is included in other operating revenue. The Hospital recognized approximately \$3.9 million and \$2.8 million related to this supplemental payment program for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, \$1.1 million and \$825,000, respectively, are accrued and included in prepaid expenses and other current assets.

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.

**Note 4: Deposits, Investments and Investment Return**

***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 in certain deposit accounts, mutual funds, repurchase agreements and pooled investment funds as authorized by Indiana Code 16-22-3-20.

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At December 31, 2016 and 2015, the Hospital had the following investments and maturities:

Type	Fair Value	2016 Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 1,265,914	\$ 1,265,914	\$ -	\$ -	\$ -
Equity mutual funds	5,867,733	5,867,733	-	-	-
Fixed income mutual funds	3,873,520	3,873,520	-	-	-
Balanced mutual funds	783,106	783,106	-	-	-
	<u>\$ 11,790,273</u>	<u>\$ 11,790,273</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

  

Type	Fair Value	2015 (Restated) Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 1,118,397	\$ 1,118,397	\$ -	\$ -	\$ -
Equity mutual funds	5,552,395	5,552,395	-	-	-
Fixed income mutual funds	4,491,368	4,491,368	-	-	-
	<u>\$ 11,162,160</u>	<u>\$ 11,162,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**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, 2016 and 2015, the Hospital's investments were not rated by Standard & Poor's or Moody's Investors Service.

**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 70% and to limit fixed income holdings to 60%.

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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:

	<b>2016</b>	<b>(Restated) 2015</b>
Carrying value:		
Deposits	\$ 8,776,477	\$ 15,864,441
Investments	11,790,273	11,162,160
	\$ 20,566,750	\$ 27,026,601
Included in the following balance sheets captions:		
Cash and cash equivalents	\$ 7,846,293	\$ 11,403,192
Short-term investments	10,424,951	9,905,532
Noncurrent cash and investments		
Internally designated for capital improvements	353,637	2,852,171
Held by trustee for debt service	953,399	1,639,645
Restricted by contributors and grantors	988,470	1,226,061
	\$ 20,566,750	\$ 27,026,601

Nonnegotiable certificates of deposit totaling \$100,000 are included in deposit balances at December 31, 2016 and 2015, respectively.

**Investment Return**

Investment return for the years ended December 31 consisted of:

	<b>2016</b>	<b>2015</b>
Interest and dividend income	\$ 461,339	\$ 469,177
Net increase (decrease) in fair value of investments	163,796	(521,208)
	\$ 625,135	\$ (52,031)



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**Note 5: 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:

	<u>2016</u>	<u>2015</u>
Medicare	\$ 4,153,874	\$ 2,519,492
Medicaid	2,086,115	1,581,331
Other third-party payers	5,054,641	3,842,576
Patients	<u>6,543,570</u>	<u>3,449,286</u>
	17,838,200	11,392,685
Less allowance for uncollectible accounts	<u>7,890,817</u>	<u>2,514,801</u>
	<u>\$ 9,947,383</u>	<u>\$ 8,877,884</u>

**Note 6: Investment in Equity Investee**

The investment in equity investee relates to a 51% ownership of Decatur County Memorial Pain Management, LLC (Pain Management). The Hospital's investment at December 31, 2016 and 2015 was \$51,000 and is recorded in other noncurrent assets. The Hospital provides support to the joint venture through labor and supply costs, which are billed to Pain Management on a monthly basis. The Hospital also provides billing and collections services for Pain Management and remits patient collections to the joint venture to satisfy operating expenses. Financial positions and results of operations of the investee are summarized below:

	<u>2016</u>	<u>2015</u>
Current and total assets	\$ 157,944	\$ 99,967
Current and total liabilities	<u>24,399</u>	<u>79,496</u>
Net assets	<u>\$ 133,545</u>	<u>\$ 20,471</u>
Revenues	\$ 485,276	\$ 240,304
Excess (deficiency) of revenues over expenses	\$ 115,947	\$ (79,529)

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**Note 7: Capital Assets**

Capital assets activity for the years ended December 31 was:

	<b>2016</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 1,127,637	\$ -	\$ -	\$ -	\$ 1,127,637
Land improvements	440,624	-	-	23,413	464,037
Buildings and leasehold improvements	37,678,858	16,549	-	1,790,903	39,486,310
Equipment	3,183,164	77,813	-	93,748	3,354,725
Major moveable equipment	19,392,556	1,157,542	(263,467)	5,626,342	25,912,973
Vehicles	84,518	4,855	-	-	89,373
Construction in progress	5,500,385	2,129,002	-	(7,534,406)	94,981
	<u>67,407,742</u>	<u>3,385,761</u>	<u>(263,467)</u>	<u>-</u>	<u>70,530,036</u>
Less accumulated depreciation:					
Land improvements	362,635	21,704	-	-	384,339
Buildings and leasehold improvements	12,752,620	1,166,520	-	-	13,919,140
Equipment	1,933,951	237,804	-	-	2,171,755
Major moveable equipment	15,470,819	1,831,393	(261,458)	-	17,040,754
Vehicles	66,787	12,428	-	-	79,215
	<u>30,586,812</u>	<u>3,269,849</u>	<u>(261,458)</u>	<u>-</u>	<u>33,595,203</u>
Capital assets, net	<u>\$ 36,820,930</u>	<u>\$ 115,912</u>	<u>\$ (2,009)</u>	<u>\$ -</u>	<u>\$ 36,934,833</u>
	<b>2015</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 1,127,637	\$ -	\$ -	\$ -	\$ 1,127,637
Land improvements	440,624	-	-	-	440,624
Buildings and leasehold improvements	37,615,626	32,496	-	30,734	37,678,856
Equipment	3,163,816	19,350	-	-	3,183,166
Major moveable equipment	18,371,895	695,552	(80,931)	406,040	19,392,556
Vehicles	84,518	-	-	-	84,518
Construction in progress	195,335	5,741,824	-	(436,774)	5,500,385
	<u>60,999,451</u>	<u>6,489,222</u>	<u>(80,931)</u>	<u>-</u>	<u>67,407,742</u>
Less accumulated depreciation:					
Land improvements	339,908	22,727	-	-	362,635
Buildings and leasehold improvements	11,643,893	1,108,727	-	-	12,752,620
Equipment	1,706,093	227,858	-	-	1,933,951
Major moveable equipment	14,142,964	1,404,906	(77,051)	-	15,470,819
Vehicles	52,820	13,967	-	-	66,787
	<u>27,885,678</u>	<u>2,778,185</u>	<u>(77,051)</u>	<u>-</u>	<u>30,586,812</u>
Capital assets, net	<u>\$ 33,113,773</u>	<u>\$ 3,711,037</u>	<u>\$ (3,880)</u>	<u>\$ -</u>	<u>\$ 36,820,930</u>

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**Note 8: 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 9: 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. Commercial stop-loss insurance coverage is purchased for claims in excess of \$150,000 with a maximum aggregate annual reimbursement of \$1,000,000. 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 2016 and 2015 is summarized as follows:

	<b>2016</b>	<b>2015</b>
Balance, beginning of year	\$ 530,000	\$ 530,000
Current year claims incurred and changes in estimates for claims incurred in prior years	2,738,152	2,924,378
Claims and expenses paid	(2,848,152)	(2,924,378)
Balance, end of year	\$ 420,000	\$ 530,000

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**Note 10: Long-Term Obligations**

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

	<b>2016</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt:					
Revenue bonds payable:					
First mortgage refunding bonds, series 2011	\$ 1,180,000	\$ -	\$ (322,500)	\$ 857,500	\$ 335,000
Capital improvement bond, series 2012	6,875,540	-	(469,355)	6,406,185	482,391
Note payable to bank	3,828,257	-	(598,798)	3,229,459	908,585
Plus: bond premium	50,626	-	(16,419)	34,207	-
Capital lease obligations	39,766	4,273	(22,841)	21,198	14,660
	<u>\$ 11,974,189</u>	<u>\$ 4,273</u>	<u>\$ (1,429,913)</u>	<u>\$ 10,548,549</u>	<u>\$ 1,740,636</u>
Total long-term debt					

	<b>2015</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt:					
Revenue bonds payable:					
First mortgage refunding bonds, series 2011	\$ 1,805,000	\$ -	\$ (625,000)	\$ 1,180,000	\$ 322,500
Capital improvement bond, series 2012	7,332,964	-	(457,424)	6,875,540	469,116
Note payable to bank	-	3,828,257	-	3,828,257	716,699
Plus: bond premium	64,875	-	(14,249)	50,626	-
Capital lease obligations	69,410	-	(29,644)	39,766	22,298
	<u>\$ 9,272,249</u>	<u>\$ 3,828,257</u>	<u>\$ (1,126,317)</u>	<u>\$ 11,974,189</u>	<u>\$ 1,530,613</u>
Total long-term debt					

**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, 2016 and 2015 related to these bonds was \$857,500 and \$1,180,000, respectively.

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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, 2016 and 2015 related to these bonds was \$6,406,185 and \$6,875,540, respectively.

**Note Payable to Bank**

The Hospital borrowed funds to finance the acquisition of certain information technology improvements. The note payable to bank, dated May 18, 2015, allows for borrowings up to \$5 million and bears interest at LIBOR 1 Month plus 2.5%, (3.2% at December 31, 2016). The Hospital is required to make interest only payments through March 2016, followed by 50 monthly principal and interest payments through May 2020. The note is secured by certain inventories, accounts receivable and capital assets of the Hospital. The total liability recorded by the Hospital at December 31, 2016 and 2015 under this agreement was \$3,229,459 and \$3,828,257, respectively.

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 1.0, maintenance of minimum working capital of \$8,000,000 and maintenance of a current ratio of at least 2.0 to 1.0.

The debt service requirements as of December 31, 2016, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2017	\$ 2,004,390	\$ 1,725,976	\$ 278,414
2018	2,007,558	1,778,942	228,616
2019	1,829,452	1,655,745	173,707
2020	1,065,244	935,661	129,583
2021	648,703	537,049	111,654
2022 - 2026	3,189,457	2,855,301	334,156
2027 - 2028	1,027,113	1,004,470	22,643
	<u>\$ 11,771,917</u>	<u>\$ 10,493,144</u>	<u>\$ 1,278,773</u>

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**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, 2016:

2017	\$	15,368
2018		4,125
2019		981
2020		981
2021		899
Total minimum lease payments		22,354
Less amount representing interest		1,156
 Present value of future minimum lease payments	 \$	 21,198

Assets under capital leases at December 31, 2016 and 2015, totaled:

	<b>2016</b>	<b>2015</b>
Machinery and equipment	\$ 106,146	\$ 105,758
Accumulated depreciation	(86,498)	(69,327)
	\$ 19,648	\$ 36,431

**Line of Credit**

The Hospital entered into a line of credit agreement in May 2016 providing \$5.0 million of borrowings. Interest on outstanding draws is payable monthly at the greater of LIBOR 1 Month plus 2.5% (3.2% at December 31, 2016) or 2.9%. Principal and any unpaid interest is due in full on May 27, 2017, which is the maturity of the line of credit. The line of credit is secured by substantially all assets of the Hospital. As of December 31, 2016, the Hospital had borrowed \$1.0 million against the line of credit.

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**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 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 2016 and 2015. Hospital expense related to the employer contributions to the plan approximated \$805,000 for 2016 compared to \$688,000 for 2015.

**Note 12: Disclosures About Fair Value of Assets**

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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**Recurring Measurements**

The following tables present the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2016</b>				
<b>Investment by fair value level</b>				
Money market mutual funds	\$ 1,265,914	\$ 1,265,914	\$ -	\$ -
Equity mutual funds	5,867,733	5,867,733	-	-
Fixed income mutual funds	3,873,520	3,873,520	-	-
Balanced mutual funds	783,106	783,106	-	-
	<u>\$ 11,790,273</u>	<u>\$ 11,790,273</u>	<u>\$ -</u>	<u>\$ -</u>

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2015</b>				
<b>Investment by fair value level</b>				
Money market mutual funds	\$ 1,118,397	\$ 1,118,397	\$ -	\$ -
Equity mutual funds	5,552,395	5,552,395	-	-
Fixed income mutual funds	4,491,368	4,491,368	-	-
	<u>\$ 11,162,160</u>	<u>\$ 11,162,160</u>	<u>\$ -</u>	<u>\$ -</u>

**Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Hospital does not have any Level 2 or Level 3 assets at December 31, 2016 and 2015.



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**Note 13: 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 14: Contributions Receivable**

Contributions receivable consisted of the following at December 31:

	<b>Restricted</b>	
	<b>2016</b>	<b>2015</b>
Due within one year	\$ 103,607	\$ 122,311
Due in one to five years	-	98,549
	\$ 103,607	\$ 220,860

**Note 15: 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 2016 and 2015.

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**Note 16: Condensed Combining Information**

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2016 and 2015:

	December 31, 2016			
	Hospital	Foundation	Eliminations	Total
<b>Assets</b>				
Current assets	\$ 36,564,195	\$ 725,506	\$ -	\$ 37,289,701
Due from related party	116,424	-	(116,424)	-
Capital assets, net	36,934,833	-	-	36,934,833
Other assets	1,376,480	970,026	-	2,346,506
Total assets	<u>74,991,932</u>	<u>1,695,532</u>	<u>(116,424)</u>	<u>76,571,040</u>
<b>Deferred Outflows of Resources</b>				
	<u>64,935</u>	<u>-</u>	<u>-</u>	<u>64,935</u>
Total assets and deferred outflows of resources	<u>\$ 75,056,867</u>	<u>\$ 1,695,532</u>	<u>\$ (116,424)</u>	<u>\$ 76,635,975</u>
<b>Liabilities</b>				
Current liabilities	\$ 14,905,636	\$ 22,522	\$ -	\$ 14,928,158
Due to related party	-	116,424	(116,424)	-
Noncurrent liabilities	8,807,913	-	-	8,807,913
Total liabilities	<u>23,713,549</u>	<u>138,946</u>	<u>(116,424)</u>	<u>23,736,071</u>
<b>Net Position</b>				
Net investment in capital assets	26,386,284	-	-	26,386,284
Restricted	971,843	1,068,665	-	2,040,508
Unrestricted	23,985,191	487,921	-	24,473,112
Total net position	<u>51,343,318</u>	<u>1,556,586</u>	<u>-</u>	<u>52,899,904</u>
Total liabilities and net position	<u>\$ 75,056,867</u>	<u>\$ 1,695,532</u>	<u>\$ (116,424)</u>	<u>\$ 76,635,975</u>
<b>December 31, 2015</b>				
	Hospital	Foundation	Eliminations	Total
<b>Assets</b>				
Current assets	\$ 33,385,880	\$ 780,843	\$ -	\$ 34,166,723
Due from related party	69,642	-	(69,642)	-
Capital assets, net	36,820,930	-	-	36,820,930
Other assets	4,596,635	1,270,791	-	5,867,426
Total assets	<u>74,873,087</u>	<u>2,051,634</u>	<u>(69,642)</u>	<u>76,855,079</u>
<b>Deferred Outflows of Resources</b>				
	<u>96,104</u>	<u>-</u>	<u>-</u>	<u>96,104</u>
Total assets and deferred outflows of resources	<u>\$ 74,969,191</u>	<u>\$ 2,051,634</u>	<u>\$ (69,642)</u>	<u>\$ 76,951,183</u>
<b>Liabilities</b>				
Current liabilities	\$ 16,928,411	\$ 66,877	\$ -	\$ 16,995,288
Due to related party	-	69,642	(69,642)	-
Noncurrent liabilities	10,443,576	-	-	10,443,576
Total liabilities	<u>27,371,987</u>	<u>136,519</u>	<u>(69,642)</u>	<u>27,438,864</u>
<b>Net Position</b>				
Net investment in capital assets	24,846,741	-	-	24,846,741
Restricted	1,693,464	1,393,112	-	3,086,576
Unrestricted	21,056,999	522,003	-	21,579,002
Total net position	<u>47,597,204</u>	<u>1,915,115</u>	<u>-</u>	<u>49,512,319</u>
Total liabilities and net position	<u>\$ 74,969,191</u>	<u>\$ 2,051,634</u>	<u>\$ (69,642)</u>	<u>\$ 76,951,183</u>

**Decatur County Memorial Hospital**  
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The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component unit for the years ended December 31, 2016 and 2015.

	December 31, 2016			Total
	Hospital	Foundation	Eliminations	
<b>Operating Revenue</b>				
Net patient service revenue	\$ 73,025,368	\$ -	\$ -	\$ 73,025,368
Other operating revenue	8,856,434	-	-	8,856,434
Total operating revenue	<u>81,881,802</u>	<u>-</u>	<u>-</u>	<u>81,881,802</u>
<b>Operating Expenses</b>				
Salaries, wages, contract labor and employee benefits	42,727,687	-	-	42,727,687
Purchased services and professional fees	10,762,769	-	-	10,762,769
Depreciation and amortization	3,269,849	-	-	3,269,849
Other operating expenses	22,428,751	-	-	22,428,751
Total operating expenses	<u>79,189,056</u>	<u>-</u>	<u>-</u>	<u>79,189,056</u>
<b>Operating Income</b>	<u>2,692,746</u>	<u>-</u>	<u>-</u>	<u>2,692,746</u>
<b>Nonoperating Revenue (Expenses)</b>				
Investment return	586,854	38,281	-	625,135
Interest expense	(296,374)	-	-	(296,374)
Noncapital grants and contributions	474,144	169,826	(474,144)	169,826
Noncapital appropriations - Decatur County	108,000	-	-	108,000
Other	180,744	(566,636)	474,144	88,252
	<u>1,053,368</u>	<u>(358,529)</u>	<u>-</u>	<u>694,839</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ 3,746,114</u>	<u>\$ (358,529)</u>	<u>\$ -</u>	<u>\$ 3,387,585</u>
	December 31, 2015			
	Hospital	Foundation	Eliminations	Total
<b>Operating Revenue</b>				
Net patient service revenue	\$ 63,595,462	\$ -	\$ -	\$ 63,595,462
Other operating revenue	6,834,058	-	-	6,834,058
Total operating revenue	<u>70,429,520</u>	<u>-</u>	<u>-</u>	<u>70,429,520</u>
<b>Operating Expenses</b>				
Salaries, wages, contract labor and employee benefits	36,781,378	-	-	36,781,378
Purchased services and professional fees	9,136,089	-	-	9,136,089
Depreciation and amortization	2,778,185	-	-	2,778,185
Other operating expenses	19,576,145	-	-	19,576,145
Total operating expenses	<u>68,271,797</u>	<u>-</u>	<u>-</u>	<u>68,271,797</u>
<b>Operating Income</b>	<u>2,157,723</u>	<u>-</u>	<u>-</u>	<u>2,157,723</u>
<b>Nonoperating Revenue (Expenses)</b>				
Investment return	(25,455)	(26,576)	-	(52,031)
Interest expense	(297,864)	-	-	(297,864)
Noncapital grants and contributions	28,027	312,209	-	340,236
Noncapital appropriations - Decatur County	108,000	-	-	108,000
Other	177,701	(195,027)	-	(17,326)
	<u>(9,591)</u>	<u>90,606</u>	<u>-</u>	<u>81,015</u>
<b>Increase in Net Position</b>	<u>\$ 2,148,132</u>	<u>\$ 90,606</u>	<u>\$ -</u>	<u>\$ 2,238,738</u>

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**Note 17: Long-Term Care Operating Lease and Management Agreements**

The Hospital has entered into various agreements to lease the facilities and equipment for the operation of five nursing homes. Along with the lease agreements, the Hospital also entered into management agreements with the facilities' previous managers (Managers) to continue to operate the facilities. These agreements expire at various times through September 2017 and include optional two year extensions. The management agreements include optional termination clauses by either party if material changes in circumstances, as defined in the agreements, occur. The leases include termination clauses where the lease shall automatically end at the termination of the management agreement between the Hospital and the Managers.

The lease agreements call for monthly base rent payments as outlined in the agreements. Rental expense approximated \$1.6 million and \$1.8 million in 2016 and 2015, respectively. Future minimum rent payments for the years ending December 31, 2017 and 2018, approximate \$1.4 million and \$430,000, respectively, and include future minimum rentals required during the two year extension period for properties where the base rental term has ended as of December 31, 2016.

The management agreements include management fees consisting of base management fees, subordinated management fees and incentive management fees. Base and subordinate management fees are determined on percentages of net patient service revenue of the individual facilities and range from 2% to 4.75%. Incentive management fees are to be paid only if sufficient working capital exists. The agreements also call for quality, royalty and capital improvement fees to be paid to the Managers. Management and other fees approximated \$2.0 million and \$1.0 million in 2016 and 2015, respectively, and include waivers of certain fees as insufficient cash flows existed to fund the amounts due.

Under the management agreements, the employees necessary to operate the facilities are contracted by the Hospital. The majority of all costs in the ordinary course of business are paid by the Managers who are then reimbursed by the Hospital from operations of the facilities. Similarly, Managers of certain facilities have provided working capital to cover insufficient cash flows from operations. Consequently, the majority of accounts payable and accrued expenses of the long-term care operations approximating \$5.5 million and \$4.1 million at December 31, 2016 and 2015, reflect amounts due to the Managers.

## **Supplementary Information**

**Decatur County Memorial Hospital**  
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**Combining Balance Sheet Information**  
**December 31, 2016**

	2016				
	Hospital	LTC	Hospital Foundation	Eliminations	Total
<b>Assets and Deferred Outflows of Resources</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 5,018,319	\$ 2,347,382	\$ 480,592	\$ -	\$ 7,846,293
Short-term investments	10,283,644	-	141,307	-	10,424,951
Patient accounts receivable, net of allowance of Hospital - \$6,242,071; LTC - \$1,648,745	8,042,831	1,904,552	-	-	9,947,383
Contributions receivable	-	-	103,607	-	103,607
Supplies	1,098,737	-	-	-	1,098,737
Prepaid expenses and other assets	3,500,362	1,260,337	-	-	4,760,699
Estimated third-party settlements	3,108,031	-	-	-	3,108,031
Due from related party	116,424	-	-	(116,424)	-
Total current assets	<u>31,168,348</u>	<u>5,512,271</u>	<u>725,506</u>	<u>(116,424)</u>	<u>37,289,701</u>
<b>Noncurrent Cash and Investments</b>					
Internally designated for capital improvements	353,637	-	-	-	353,637
Held by trustee for debt service	953,399	-	-	-	953,399
Restricted by contributors and grantors	18,444	-	970,026	-	988,470
	<u>1,325,480</u>	<u>-</u>	<u>970,026</u>	<u>-</u>	<u>2,295,506</u>
<b>Capital Assets, net</b>	<u>36,934,833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,934,833</u>
<b>Other Assets</b>	<u>51,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,000</u>
Total assets	69,479,661	5,512,271	1,695,532	(116,424)	76,571,040
<b>Deferred Outflows of Resources - debt defeasance costs</b>	<u>64,935</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,935</u>
Total assets and deferred outflows of resources	<u>\$ 69,544,596</u>	<u>\$ 5,512,271</u>	<u>\$ 1,695,532</u>	<u>\$ (116,424)</u>	<u>\$ 76,635,975</u>
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 1,740,636	\$ -	\$ -	\$ -	\$ 1,740,636
Line of credit	1,000,000	-	-	-	1,000,000
Accounts payable and accrued expenses	4,365,127	5,470,939	22,522	-	9,858,588
Estimated third-party settlements	2,328,934	-	-	-	2,328,934
Due to related party	-	-	116,424	(116,424)	-
Total current liabilities	<u>9,434,697</u>	<u>5,470,939</u>	<u>138,946</u>	<u>(116,424)</u>	<u>14,928,158</u>
<b>Long-Term Debt</b>	<u>8,807,913</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,807,913</u>
Total liabilities	<u>18,242,610</u>	<u>5,470,939</u>	<u>138,946</u>	<u>(116,424)</u>	<u>23,736,071</u>
<b>Net Position</b>					
Net investment in capital assets	26,386,284	-	-	-	26,386,284
Restricted:					
For debt service	953,399	-	-	-	953,399
Expendable for capital acquisitions	-	-	861,543	-	861,543
Expendable for specific operating activities	18,444	-	207,122	-	225,566
Unrestricted	<u>23,943,859</u>	<u>41,332</u>	<u>487,921</u>	<u>-</u>	<u>24,473,112</u>
Total net position	<u>51,301,986</u>	<u>41,332</u>	<u>1,556,586</u>	<u>-</u>	<u>52,899,904</u>
Total liabilities and net position	<u>\$ 69,544,596</u>	<u>\$ 5,512,271</u>	<u>\$ 1,695,532</u>	<u>\$ (116,424)</u>	<u>\$ 76,635,975</u>

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**Combining Balance Sheet Information**  
**December 31, 2015**

	2015				
	Hospital	LTC	Hospital Foundation	Eliminations	Total
<b>Assets and Deferred Outflows of Resources</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 10,384,689	\$ 562,801	\$ 455,702	\$ -	\$ 11,403,192
Short-term investments	9,702,702	-	202,830	-	9,905,532
Patient accounts receivable, net of allowance of Hospital - \$1,988,414; LTC - \$526,387	6,418,716	2,459,168	-	-	8,877,884
Contributions receivable	-	-	122,311	-	122,311
Supplies	641,781	-	-	-	641,781
Prepaid expenses and other assets	1,981,518	1,234,505	-	-	3,216,023
Due from related party	69,642	-	-	(69,642)	-
Total current assets	<u>29,199,048</u>	<u>4,256,474</u>	<u>780,843</u>	<u>(69,642)</u>	<u>34,166,723</u>
<b>Noncurrent Cash and Investments</b>					
Internally designated for capital improvements	2,852,171	-	-	-	2,852,171
Held by trustee for debt service	1,639,645	-	-	-	1,639,645
Restricted by contributors and grantors	53,819	-	1,172,242	-	1,226,061
	<u>4,545,635</u>	<u>-</u>	<u>1,172,242</u>	<u>-</u>	<u>5,717,877</u>
<b>Capital Assets, net</b>	<u>36,820,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,820,930</u>
<b>Other Assets</b>	<u>51,000</u>	<u>-</u>	<u>98,549</u>	<u>-</u>	<u>149,549</u>
Total assets	70,616,613	4,256,474	2,051,634	(69,642)	76,855,079
<b>Deferred Outflows of Resources - debt defeasance costs</b>	<u>96,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,104</u>
Total assets and deferred outflows of resources	<u>\$ 70,712,717</u>	<u>\$ 4,256,474</u>	<u>\$ 2,051,634</u>	<u>\$ (69,642)</u>	<u>\$ 76,951,183</u>
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 1,530,613	\$ -	\$ -	\$ -	\$ 1,530,613
Accounts payable and accrued expenses	5,608,925	3,835,740	66,877	-	9,511,542
Estimated third-party settlements	5,953,133	-	-	-	5,953,133
Due to related party	-	-	69,642	(69,642)	-
Total current liabilities	<u>13,092,671</u>	<u>3,835,740</u>	<u>136,519</u>	<u>(69,642)</u>	<u>16,995,288</u>
<b>Long-Term Debt</b>	<u>10,443,576</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,443,576</u>
Total liabilities	<u>23,536,247</u>	<u>3,835,740</u>	<u>136,519</u>	<u>(69,642)</u>	<u>27,438,864</u>
<b>Net Position</b>					
Net investment in capital assets	24,846,741	-	-	-	24,846,741
Restricted:					
For debt service	1,639,645	-	-	-	1,639,645
Expendable for capital acquisitions	-	-	1,292,324	-	1,292,324
Expendable for specific operating activities	53,819	-	100,788	-	154,607
Unrestricted	20,636,265	420,734	522,003	-	21,579,002
Total net position	<u>47,176,470</u>	<u>420,734</u>	<u>1,915,115</u>	<u>-</u>	<u>49,512,319</u>
Total liabilities and net position	<u>\$ 70,712,717</u>	<u>\$ 4,256,474</u>	<u>\$ 2,051,634</u>	<u>\$ (69,642)</u>	<u>\$ 76,951,183</u>

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Combining Statement of Revenues, Expenses and**  
**Changes in Net Position Information**  
**Year Ended December 31, 2016**

	2016				
	Hospital	LTC	Hospital Foundation	Eliminations	Total
<b>Operating Revenues</b>					
Net patient service revenue, net of provision for uncollectible accounts of Hospital - \$7,220,180; LTC - \$763,898	\$ 51,787,246	\$ 21,238,122	\$ -	\$ -	\$ 73,025,368
Other	4,935,560	3,920,874	-	-	8,856,434
Total operating revenues	<u>56,722,806</u>	<u>25,158,996</u>	<u>-</u>	<u>-</u>	<u>81,881,802</u>
<b>Operating Expenses</b>					
Salaries, wages and contract labor	25,098,754	11,935,253	-	-	37,034,007
Employee benefits	5,693,680	-	-	-	5,693,680
Purchased services and professional fees	6,169,418	4,593,351	-	-	10,762,769
Medical supplies, drugs and other supplies	8,648,853	1,508,527	-	-	10,157,380
Utilities	695,514	535,918	-	-	1,231,432
Repairs and maintenance	2,162,241	148,490	-	-	2,310,731
Lease and rentals	27,389	1,775,679	-	-	1,803,068
Insurance	595,537	440,366	-	-	1,035,903
Depreciation and amortization	3,269,849	-	-	-	3,269,849
Other	1,573,042	3,172,122	-	-	4,745,164
Provider hospital assessment fee	1,145,073	-	-	-	1,145,073
Total operating expenses	<u>55,079,350</u>	<u>24,109,706</u>	<u>-</u>	<u>-</u>	<u>79,189,056</u>
<b>Operating Income</b>	<u>1,643,456</u>	<u>1,049,290</u>	<u>-</u>	<u>-</u>	<u>2,692,746</u>
<b>Nonoperating Revenues (Expenses)</b>					
Investment return	586,854	-	38,281	-	625,135
Interest expense	(296,374)	-	-	-	(296,374)
Noncapital grants and contributions	474,144	-	169,826	(474,144)	169,826
Noncapital appropriations - Decatur County	108,000	-	-	-	108,000
Other	180,744	-	(566,636)	474,144	88,252
Total nonoperating revenues (expenses)	<u>1,053,368</u>	<u>-</u>	<u>(358,529)</u>	<u>-</u>	<u>694,839</u>
<b>Excess (Deficiency) of Revenues Over Expenses Before Transfers</b>	2,696,824	1,049,290	(358,529)	-	3,387,585
<b>Transfers</b>	<u>1,428,692</u>	<u>(1,428,692)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Increase (Decrease) in Net Position</b>	4,125,516	(379,402)	(358,529)	-	3,387,585
<b>Net Position, Beginning of Year</b>	<u>47,176,470</u>	<u>420,734</u>	<u>1,915,115</u>	<u>-</u>	<u>49,512,319</u>
<b>Net Position, End of Year</b>	<u>\$ 51,301,986</u>	<u>\$ 41,332</u>	<u>\$ 1,556,586</u>	<u>\$ -</u>	<u>\$ 52,899,904</u>



**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Combining Statement of Revenues, Expenses and**  
**Changes in Net Position Information**  
**Year Ended December 31, 2015**

	2015			
	Hospital	LTC	Hospital Foundation	Total
<b>Operating Revenues</b>				
Net patient service revenue, net of provision for uncollectible accounts of Hospital - \$4,384,939; LTC - \$520,965	\$ 48,988,556	\$ 14,606,906	\$ -	\$ 63,595,462
Other	3,925,221	2,908,837	-	6,834,058
Total operating revenues	<u>52,913,777</u>	<u>17,515,743</u>	<u>-</u>	<u>70,429,520</u>
<b>Operating Expenses</b>				
Salaries, wages and contract labor	23,209,732	7,759,037	-	30,968,769
Employee benefits	5,812,609	-	-	5,812,609
Purchased services and professional fees	6,661,568	2,474,521	-	9,136,089
Medical supplies, drugs and other supplies	8,545,745	2,001,392	-	10,547,137
Utilities	709,025	402,911	-	1,111,936
Repairs and maintenance	1,696,383	97,036	-	1,793,419
Lease and rentals	147,372	1,756,150	-	1,903,522
Insurance	514,917	201,473	-	716,390
Depreciation and amortization	2,778,185	-	-	2,778,185
Other	1,421,647	1,462,188	-	2,883,835
Provider hospital assessment fee	619,906	-	-	619,906
Total operating expenses	<u>52,117,089</u>	<u>16,154,708</u>	<u>-</u>	<u>68,271,797</u>
<b>Operating Income</b>	<u>796,688</u>	<u>1,361,035</u>	<u>-</u>	<u>2,157,723</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment return	(25,455)	-	(26,576)	(52,031)
Interest expense	(297,864)	-	-	(297,864)
Noncapital grants and contributions	28,027	-	312,209	340,236
Noncapital appropriations - Decatur County	108,000	-	-	108,000
Other	177,701	-	(195,027)	(17,326)
Total nonoperating revenues (expenses)	<u>(9,591)</u>	<u>-</u>	<u>90,606</u>	<u>81,015</u>
<b>Excess of Revenues Over Expenses Before Transfers</b>	787,097	1,361,035	90,606	2,238,738
<b>Transfers</b>	<u>974,714</u>	<u>(974,714)</u>	<u>-</u>	<u>-</u>
<b>Increase in Net Position</b>	1,761,811	386,321	90,606	2,238,738
<b>Net Position, Beginning of Year</b>	<u>45,414,659</u>	<u>34,413</u>	<u>1,824,509</u>	<u>47,273,581</u>
<b>Net Position, End of Year</b>	<u>\$ 47,176,470</u>	<u>\$ 420,734</u>	<u>\$ 1,915,115</u>	<u>\$ 49,512,319</u>

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

Board of Trustees  
Decatur County Memorial Hospital  
Greensburg, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Decatur County Memorial Hospital (Hospital), a component unit of Decatur County, Indiana, which comprise the balance sheet as of December 31, 2016, 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 financial statements, and have issued our report thereon dated May 23, 2017, which included an emphasis of matter paragraph regarding a misstatement.

### ***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 of the financial statements, 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.

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 or significant deficiencies and, therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2016-001 - 2016-003 to be material weaknesses.

### ***Compliance and Other Matters***

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*.

### ***Management's Response to Findings***

The Hospital's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to the Hospital's management in a separate letter dated May 23, 2017.

### ***Purpose of this Report***

The purpose of this report 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 on compliance. This report 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  
May 23, 2017

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Schedule of Findings and Responses**  
**December 31, 2016**

Reference Number	Finding
2016-001	<p><b>Criteria or Specific Requirement:</b> <b>Internal Control Over Financial Reporting</b></p> <p><b>Condition:</b> The Hospital did not timely receive or review periodic financial reporting of the nursing home operations as prepared by the third-party managers.</p> <p><b>Context:</b> Routine monitoring of the operations of the nursing homes is imperative to ensure that the Hospital is exercising its fiduciary and regulatory responsibility.</p> <p><b>Effect:</b> Potential misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner.</p> <p><b>Cause:</b> While financial statements were prepared and monitored by the third-party managers, they were not routinely or timely provided to Hospital management. As Hospital management did not review timely throughout the year, adjustments were recorded after year-end financial information was obtained.</p> <p><b>Recommendation:</b> We recommend that the Hospital obtain and review periodic financial statements of each of its nursing homes and review internal calculations of amounts due under management agreements. Financial information should be consolidated into Hospital financial statements on a routine basis.</p> <p><b>Views of Responsible Officials and Planned Corrective Action:</b> We concur. Management continues to evaluate current controls related to accounting for the nursing home operations to ensure that transactions are accounted for properly and in a timely manner.</p>

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Schedule of Findings and Responses (Continued)**  
**December 31, 2016**

Reference Number	Finding
2016-002	<p><b>Criteria or Specific Requirement:</b> <b>Internal Control Over Financial Reporting</b></p> <p><b>Condition:</b> The Hospital's current models for valuation of patient accounts receivable and estimated cost report settlement amounts were not completed timely or in a manner required to detect misstatements in the financial statements.</p> <p><b>Context:</b> Routine monitoring of patient accounts receivable collections and updates to the patient accounts receivable valuation model are imperative to ensure that the Hospital estimated net accounts receivable are materially stated. Similarly, routine monitoring and updates to cost report estimates based on operational changes and current year results are imperative to ensure that estimated net revenue and amounts due to or from Medicare are materially stated.</p> <p><b>Effect:</b> Potential misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner.</p> <p><b>Cause:</b> The Hospital implemented a new information system which led to an increase in patient accounts receivable balances. The current model did not adequately consider growth in accounts receivable agings, particularly those balances greater than 180 days. Similarly, operational difficulties with the system conversion and changes in overall general ledger structure did not allow for timely completion of the cost report model.</p> <p><b>Recommendation:</b> We recommend the Hospital review its accounts receivable valuation model to ensure that it adequately values balances and contemplates all changes in Hospital operations including changes in collections and shifts in the mix and age of outstanding receivables. Similarly, we recommend that cost report estimates be prepared timely and incorporated into overall financial results on a routine basis.</p> <p><b>Views of Responsible Officials and Planned Corrective Action:</b> We concur. Management continues to evaluate current controls related to accounting for patient accounts receivable and cost report estimates to ensure that transactions are accounted for properly and in a timely manner.</p>

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Schedule of Findings and Responses (Continued)**  
**December 31, 2016**

Reference Number	Finding
2016-003	<p><b>Criteria or Specific Requirement:</b> Governmental Accounting Standards Board Statement Number 9 requires that a statement of cash flows to explain the change during the period in cash and cash equivalents, regardless of whether there are restrictions on their use. The Hospital did not include internally-designated cash balances in the total cash and cash equivalents in its 2015 financial statements.</p> <p><b>Condition:</b> The Hospital reflected internally-designated cash and the activity in these cash balances in investing activities on the statement of cash flows.</p> <p><b>Context:</b> The Hospital's management considered the internally-designated cash balances to be unavailable for use in Hospital operations.</p> <p><b>Effect:</b> Internally-designated cash balances and the activity in these cash balances were not appropriately reflected in the statement of cash flows.</p> <p><b>Cause:</b> Internally-designated cash balances have changed substantially with the capital related activity.</p> <p><b>Recommendation:</b> Management should ensure all cash and cash equivalents are properly reflected in the statement of cash flows.</p> <p><b>Views of Responsible Officials and Planned Corrective Action:</b> Management agrees appropriate disclosure is necessary within the audited financial statements and has taken steps to ensure the appropriate disclosures are made.</p>