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June 8, 2018

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, 2017 to December 31, 2017. 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, 2017, 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 Finding 2017-001 that is deemed a material weakness in internal control. This finding is 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.


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, 2017 and 2016

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
December 31, 2017 and 2016

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Independent Auditor's Report

Board of Trustees
Decatur County Memorial Hospital
Greensburg, Indiana

Report of 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, 2017 and 2016, 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, 2017 and 2016, 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.

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 as 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 also have issued our report dated May 15, 2018, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
May 15, 2018

Decatur County Memorial Hospital

A Component Unit of Decatur County, Indiana

Management's Discussion and Analysis

December 31, 2017 and 2016

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, 2017 and 2016. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2017 by \$6,923,333 or 33.6% compared to a decrease of \$6,459,851 or 23.9% in 2016.
- The Hospital's net position increased in 2017 by \$3,921,107 or 7.4% compared to an increase of \$3,387,585 or 6.84% in 2016.
- The Hospital reported operating income of \$1,938,353 in 2017 compared to operating income of \$2,582,605 in 2016. The operating results in 2017 decreased by \$644,252, while in 2016, the operating results increased by \$424,882.
- Net nonoperating revenues for 2017 were \$1,982,754 compared to net nonoperating revenues of \$804,980 for 2016. This was an increase of \$1,177,774 or 146.3%. In 2016, net nonoperating revenues increased by \$723,965 or 893.62%.

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 \$3,921,107 or 7.4% in 2017 over 2016 compared to an increase in net position of \$3,387,585 or 6.84% in 2016 over 2015, as shown in Table 1.

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

	2017	2016	2015
Assets and Deferred Outflows of Resources			
Patient accounts receivable, net	\$ 9,572,995	\$ 9,947,383	\$ 8,877,884
Other current assets	28,252,860	27,342,318	25,288,839
Capital assets, net	35,668,227	36,934,833	36,820,930
Other noncurrent assets and deferred outflows of resources	<u>3,797,755</u>	<u>2,411,441</u>	<u>5,963,530</u>
Total assets and deferred outflows of resources	<u><u>\$ 77,291,837</u></u>	<u><u>\$ 76,635,975</u></u>	<u><u>\$ 76,951,183</u></u>
Liabilities			
Long-term debt	\$ 7,069,784	\$ 8,807,913	\$ 10,443,576
Other current and long-term liabilities	<u>13,401,042</u>	<u>14,928,158</u>	<u>16,995,288</u>
Total liabilities	<u><u>20,470,826</u></u>	<u><u>23,736,071</u></u>	<u><u>27,438,864</u></u>
Net Position			
Net investment in capital assets	26,799,547	26,386,284	24,846,741
Restricted	2,008,724	2,040,508	3,086,576
Unrestricted	<u>28,012,740</u>	<u>24,473,112</u>	<u>21,579,002</u>
Total net position	<u><u>56,821,011</u></u>	<u><u>52,899,904</u></u>	<u><u>49,512,319</u></u>
Total liabilities and net position	<u><u>\$ 77,291,837</u></u>	<u><u>\$ 76,635,975</u></u>	<u><u>\$ 76,951,183</u></u>

A significant change in the Hospital's assets in 2017 is the increase in cash and investments of \$6,923,333 (33.7%) as a result of improved cash flow from operations and investment earnings. Another significant change includes a decrease of \$3,108,031 in estimated third-party settlement receivable amounts related to final settlement and payment of outstanding Electronic Health Record incentive payments.

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 outlined above.

A significant change in the Hospital's liabilities in 2017 is the decrease in estimated third-party settlement liabilities by \$1,461,793 (62.8%) as a result of changes and ultimate settlement of amounts owed to the Medicare and Medicaid programs. These amounts decreased in 2016 by \$3,624,199 (60.88%) for similar reasons.

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. These amounts were repaid in 2017.

Operating Results and Changes in the Hospital's Net Position

In 2017, the Hospital's net position increased by \$3,921,107 or 7.4%, as shown in Table 2. This increase is made up of several different components and represents an increase of 15.75% compared with the increase in net position for 2016 of \$3,387,585. The increase in net position for 2015 was \$2,238,378.

Table 2: Operating Results and Changes in Net Position

	2017	2016	2015
Operating Revenue			
Net patient service revenue	\$ 80,170,040	\$ 73,025,368	\$ 63,595,462
Other operating revenue	9,578,878	8,746,293	6,834,058
Total operating revenue	<u>89,748,918</u>	<u>81,771,661</u>	<u>70,429,520</u>
Operating Expenses			
Salaries, wages, contract labor and employee benefits	45,367,189	42,731,238	36,781,378
Purchased services and professional fees	13,802,349	11,288,285	9,136,089
Depreciation and amortization	3,883,418	3,269,849	2,778,185
Other operating expenses	24,757,609	21,899,684	19,576,145
Total operating expenses	<u>87,810,565</u>	<u>79,189,056</u>	<u>68,271,797</u>
Operating Income	<u>1,938,353</u>	<u>2,582,605</u>	<u>2,157,723</u>
Nonoperating Revenue (Expenses)			
Investment return	1,818,284	625,135	(52,031)
Interest expense	(308,473)	(296,374)	(297,864)
Noncapital grants and contributions	160,866	169,826	340,236
Noncapital appropriations - Decatur County	107,841	108,000	108,000
Other	204,236	198,393	(17,326)
Total nonoperating revenue	<u>1,982,754</u>	<u>804,980</u>	<u>81,015</u>
Increase in Net Position	<u>\$ 3,921,107</u>	<u>\$ 3,387,585</u>	<u>\$ 2,238,738</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 \$1,938,353 for 2017 compared to an operating income of \$2,582,605 for 2016, which equates to a decrease of \$644,252 or 24.95%. The operating income for 2016 increased by \$424,882 or 19.69% as compared to 2015. The primary components of the change in operating income in 2017 are:

- Net patient service revenue was \$80,170,040 for 2017 compared to \$73,025,368 in 2016, which is an increase of \$7,144,672 or 9.78%. Net patient service revenue in 2016 represented an increase of \$9,429,906 or 14.83% compared to 2015.
- Salaries, wages, contract labor and employee benefits for the Hospital was \$45,367,189 for 2017 compared to \$42,731,238 for 2016, which results in an increase of \$2,635,951 or 6.17%. In 2016, salaries, wages and benefits increased by \$5,949,860 or 16.18% compared to 2015.
- Other operating expenses were \$42,443,376 for 2017 compared to \$36,457,818 in 2016, which is an increase of \$5,985,558 or 16.42%.

The increase in net patient service revenue in 2017 is the result of an increase in Hospital operations. Employee salaries and wages and benefits increased in 2017 in connection with the Hospital's retention and recruitment efforts, as well as changes in long-term care operations.

Expenditures for medical supplies, prescription drugs and other supplies are a major component of the Hospital's costs. In 2017, medical supplies and prescription drug costs totaled \$12,179,986 or 13.9% of total operating expenses, compared to 2016 when they totaled \$10,170,221 or 12.8% of total operating expenses, which was an increase of \$2,009,765 or 19.8% from 2016.

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 2017 as compared to 2016, other than investment return which improved \$1,193,149 as a result of market conditions.

The Hospital's Cash Flows

Changes in the Hospital's cash flows fluctuated with operating cash receipts and increased investing activity. Increases in cash balances provided by and used in operating activities was attributed to lower settlement of estimated amounts due to the Medicare and Medicaid programs as well as increases in Medicaid Disproportionate Share Hospital (DSH) payments and other operating results.

Capital Asset and Debt Administration

Capital Assets

At the end of 2017, the Hospital had \$35,668,227 invested in capital assets, net of accumulated depreciation, compared to \$36,934,833 at the end of 2016, as detailed in Note 6 to the financial statements. These decreases are a result of continued deprecation of previously made renovations and improvements in information systems and a decline in capital outlays in 2017.

Debt

At December 31, 2017, the Hospital had \$8,868,680 in revenue bonds, notes payable and capital lease obligations outstanding compared to \$10,548,549 at December 31, 2016. During 2016, the Hospital entered into a new line of credit agreement to assist with operating activities during the information system conversion. These changes are outlined in Note 9 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, 2017 and 2016

Assets and Deferred Outflows of Resources

	2017	2016
Current Assets		
Cash and cash equivalents	\$ 9,264,293	\$ 7,846,293
Short-term investments	14,512,801	10,424,951
Patient accounts receivable, net of allowance; 2017 - \$6,690,191, 2016 - \$7,890,816	9,572,995	9,947,383
Contributions receivable	17,817	103,607
Supplies	1,289,113	1,098,737
Estimated third-party settlements	-	3,108,031
Prepaid expenses and other assets	3,168,836	4,760,699
Total current assets	37,825,855	37,289,701
Noncurrent Cash and Investments		
Internally designated for capital improvements	1,704,265	353,637
Held by trustee for debt service	950,363	953,399
Restricted by contributors and grantors	1,058,361	988,470
	3,712,989	2,295,506
Capital Assets, net	35,668,227	36,934,833
Other Assets	51,000	51,000
Total assets	77,258,071	76,571,040
Deferred Outflows of Resources - losses on debt refunding	33,766	64,935
Total assets and deferred outflows of resources	\$ 77,291,837	\$ 76,635,975
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 1,798,896	\$ 1,740,636
Line of credit	-	1,000,000
Accounts payable and accrued expenses	10,735,005	9,858,588
Estimated third-party settlements	867,141	2,328,934
Total current liabilities	13,401,042	14,928,158
Long-Term Debt	7,069,784	8,807,913
Total liabilities	20,470,826	23,736,071
Net Position		
Net investment in capital assets	26,799,547	26,386,284
Restricted:		
For debt service	950,363	953,399
Expendable for capital acquisitions	827,515	861,543
Expendable for specific operating activities	230,846	225,566
Unrestricted	28,012,740	24,473,112
Total net position	56,821,011	52,899,904
Total liabilities and net position	\$ 77,291,837	\$ 76,635,975

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 - \$6,025,905, 2016 - \$7,984,078	\$ 80,170,040	\$ 73,025,368
Other	9,578,878	8,746,293
Total operating revenues	89,748,918	81,771,661
Operating Expenses		
Salaries, wages and contract labor	39,062,868	37,037,558
Employee benefits	6,304,321	5,693,680
Purchased services and professional fees	13,802,349	11,288,285
Medical supplies, drugs and other supplies	12,179,986	10,170,221
Utilities	1,281,690	1,231,432
Repairs and maintenance	2,386,468	2,291,512
Lease and rentals	2,654,581	1,803,068
Insurance	1,071,751	1,035,903
Depreciation and amortization	3,883,418	3,269,849
Other	3,494,843	4,222,475
Provider hospital assessment fee	1,688,290	1,145,073
Total operating expenses	87,810,565	79,189,056
Operating Income	1,938,353	2,582,605
Nonoperating Revenues (Expenses)		
Investment return	1,818,284	625,135
Interest expense	(308,473)	(296,374)
Noncapital grants and contributions	160,866	169,826
Noncapital appropriations - Decatur County	107,841	108,000
Other	204,236	198,393
Total nonoperating revenues	1,982,754	804,980
Excess of Revenues Over Expenses and Increase in Net Position	3,921,107	3,387,585
Net Position, Beginning of Year	52,899,904	49,512,319
Net Position, End of Year	\$ 56,821,011	\$ 52,899,904

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	\$ 85,046,597	\$ 66,268,063
Payments to suppliers and contractors	(36,296,565)	(30,851,411)
Payments to employees	(45,015,735)	(42,953,338)
Other receipts, net	6,639,135	4,983,370
Net cash provided by (used in) operating activities	10,373,432	(2,553,316)
Noncapital Financing Activities		
Noncapital grants and contributions	160,866	169,826
Noncapital appropriations - Decatur County	107,841	108,000
Net cash provided by noncapital financing activities	268,707	277,826
Capital and Related Financing Activities		
Acquisition and construction of capital assets	(2,790,160)	(4,319,883)
Capital grants and contributions	85,790	117,253
Net borrowings (repayments) under line of credit	(1,000,000)	1,000,000
Principal paid on long-term debt	(1,722,110)	(1,390,653)
Principal paid on capital leases	(21,123)	(22,841)
Interest paid on long-term debt and capital leases	(293,723)	(281,624)
Net cash used in capital and related financing activities	(5,741,326)	(4,897,748)
Investing Activities		
Interest and dividends on investments	660,700	461,339
Purchase of investments	(5,623,898)	(1,986,360)
Proceeds from disposition of investments	975,888	1,522,043
Other investing activities	204,236	88,252
Net cash provided by (used in) investing activities	(3,783,074)	85,274
Increase (Decrease) in Cash and Cash Equivalents	1,117,739	(7,087,964)
Cash and Cash Equivalents, Beginning of Year	8,676,477	15,764,441
Cash and Cash Equivalents, End of Year	\$ 9,794,216	\$ 8,676,477
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 9,264,293	\$ 7,846,293
Noncurrent cash and cash equivalents	529,923	830,184
	\$ 9,794,216	\$ 8,676,477
Reconciliation of Operating Income to		
Net Cash Provided by (Used in) Operating Activities		
Operating income	\$ 1,938,353	\$ 2,692,746
Depreciation and amortization	3,883,418	3,269,849
Provision for uncollectible accounts	6,025,905	7,984,078
Changes in operating assets and liabilities:		
Patient accounts receivable	(5,651,517)	(9,053,577)
Supplies and other current assets	1,406,588	(1,999,623)
Estimated third-party settlements	1,646,238	(6,732,230)
Accounts payable and accrued expenses	1,124,447	1,285,441
Net cash provided by (used in) operating activities	\$ 10,373,432	\$ (2,553,316)
Supplemental Cash Flows Information		
Capital asset additions included in accounts payable	\$ 142,500	\$ 390,530
Capital asset acquired through capital lease	79,783	-

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

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.

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

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, 2017 and 2016, 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. Investments in certificates of deposit are stated at cost plus accrued interest, which approximates fair value. 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 \$3,102,562 for 2017 compared to \$1,620,482 for 2016.

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 additional revenue related to the program was recorded in 2017.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. The reclassifications had no effect on the changes in net position.

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Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. 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 56% and 54%, respectively, of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital participates in a state-specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$1,640,000 and \$1,145,000 related to this Medicaid program for 2017 and 2016, respectively, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position.

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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 through December 31, 2016. The expense reduction for the period January 1, 2017 to June 30, 2017 approximated \$147,000. Fees assessed for the period beginning July 1, 2017 were assessed at the full rate. Outstanding fees owed at December 31, 2017 and 2016 approximate \$386,000 and \$470,000, respectively, 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 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 \$1.3 and \$1.7 million within net patient service revenue related to this supplemental payment program for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, \$674,000 and \$2,022,000 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.

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 \$2.9 million and \$3.9 million related to this supplemental payment program for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, \$837,000 and \$1,145,000, 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.

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Note 3: 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.

At December 31, 2017 and 2016, the Hospital had the following investments and maturities:

Type	Fair Value	2017			
		Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 1,034,205	\$ 1,034,205	\$ -	\$ -	\$ -
Equity mutual funds	9,953,957	9,953,957	-	-	-
Fixed income mutual funds	5,230,194	5,230,194	-	-	-
Balanced mutual funds	1,377,511	1,377,511	-	-	-
	<u>\$ 17,595,867</u>	<u>\$ 17,595,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
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>

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

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital does not have a formal investment policy for credit risk. At December 31, 2017 and 2016, 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%.

Summary of Carrying Values

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

	2017	2016
Carrying value:		
Deposits	\$ 9,894,216	\$ 8,776,477
Investments	17,595,867	11,790,273
	\$ 27,490,083	\$ 20,566,750
Included in the following balance sheets captions:		
Cash and cash equivalents	\$ 9,264,293	\$ 7,846,293
Short-term investments	14,512,801	10,424,951
Noncurrent cash and investments		
Internally designated for capital improvements	1,704,265	353,637
Held by trustee for debt service	950,363	953,399
Restricted by contributors and grantors	1,058,361	988,470
	\$ 27,490,083	\$ 20,566,750

Nonnegotiable certificates of deposit totaling \$100,000 are included in deposit balances at December 31, 2017 and 2016, respectively.

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Investment Return

Investment return for the years ended December 31 consisted of:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 660,700	\$ 461,339
Net increase in fair value of investments	<u>1,157,584</u>	<u>163,796</u>
	<u>\$ 1,818,284</u>	<u>\$ 625,135</u>

Note 4: Patient Accounts Receivable

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

	<u>2017</u>	<u>2016</u>
Medicare	\$ 2,736,702	\$ 4,153,874
Medicaid	2,045,756	2,086,115
Other third-party payers	3,594,101	5,054,641
Patients	<u>7,886,627</u>	<u>6,543,570</u>
	16,263,186	17,838,200
Less allowance for uncollectible accounts	<u>6,690,191</u>	<u>7,890,817</u>
	<u>\$ 9,572,995</u>	<u>\$ 9,947,383</u>

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Note 5: 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, 2017 and 2016 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>2017</u>	<u>2016</u>
Current and total assets	\$ 131,728	\$ 157,944
Current and total liabilities	<u>53,809</u>	<u>24,399</u>
Net assets	<u>\$ 77,919</u>	<u>\$ 133,545</u>
Revenues	\$ 400,648	\$ 485,276
Excess of revenues over expenses	\$ 93,638	\$ 115,947

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Note 6: Capital Assets

Capital assets activity for the years ended December 31 was:

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,127,637	\$ -	\$ -	\$ -	\$ 1,127,637
Land improvements	464,037	7,160	-	74,817	546,014
Buildings and leasehold improvements	39,486,310	168,008	-	1,180,185	40,834,503
Equipment	3,354,725	4,536	-	-	3,359,261
Major moveable equipment	25,912,973	609,774	(291,332)	519,661	26,751,076
Vehicles	89,373	32,000	-	-	121,373
Construction in progress	94,981	1,800,435	-	(1,774,663)	120,753
	<u>70,530,036</u>	<u>2,621,913</u>	<u>(291,332)</u>	<u>-</u>	<u>72,860,617</u>
Less accumulated depreciation:					
Land improvements	384,339	20,325	-	-	404,664
Buildings and leasehold improvements	13,919,140	1,299,909	-	-	15,219,049
Equipment	2,171,755	245,501	-	-	2,417,256
Major moveable equipment	17,040,754	2,306,558	(286,231)	-	19,061,081
Vehicles	79,215	11,125	-	-	90,340
	<u>33,595,203</u>	<u>3,883,418</u>	<u>(286,231)</u>	<u>-</u>	<u>37,192,390</u>
Capital assets, net	<u>\$ 36,934,833</u>	<u>\$ (1,261,505)</u>	<u>\$ (5,101)</u>	<u>\$ -</u>	<u>\$ 35,668,227</u>
	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
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>

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Note 7: 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 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents. 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 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 420,000	\$ 530,000
Current year claims incurred and changes in estimates for		
claims incurred in prior years	3,264,133	2,738,152
Claims and expenses paid	<u>(3,434,053)</u>	<u>(2,848,152)</u>
Balance, end of year	<u>\$ 250,080</u>	<u>\$ 420,000</u>

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Note 9: Long-Term Obligations

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

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds payable:					
First mortgage refunding bonds, series 2011	\$ 857,500	\$ -	\$ (335,000)	\$ 522,500	\$ 345,000
Capital improvement bond, series 2012	6,406,185	-	(482,619)	5,923,566	495,513
Note payable to bank	3,229,459	-	(904,491)	2,324,968	938,429
Plus: bond premium	34,207	-	(16,419)	17,788	-
Capital lease obligations	21,198	79,783	(21,123)	79,858	19,954
Total long-term debt	<u>\$ 10,548,549</u>	<u>\$ 79,783</u>	<u>\$ (1,759,652)</u>	<u>\$ 8,868,680</u>	<u>\$ 1,798,896</u>
	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
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
Total long-term debt	<u>\$ 11,974,189</u>	<u>\$ 4,273</u>	<u>\$ (1,429,913)</u>	<u>\$ 10,548,549</u>	<u>\$ 1,740,636</u>

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, 2017 and 2016 related to these bonds was \$522,500 and \$857,500, 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, 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, 2017 and 2016 related to these bonds was \$5,923,566 and \$6,406,185, respectively. The Series 2012 Bond is secured by a mortgage on certain improvements and real property of the Hospital.

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%, (4.1% at December 31, 2017). The Hospital was 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, 2017 and 2016 under this agreement was \$2,324,968 and \$3,229,459, 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.

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The debt service requirements on the bonds and note payable as of December 31, 2017, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2018	\$ 2,007,558	\$ 1,778,942	\$ 228,616
2019	1,829,452	1,655,745	173,707
2020	1,069,337	939,754	129,583
2021	648,703	537,049	111,654
2022	648,703	551,657	97,046
2023 - 2027	3,243,516	2,938,284	305,232
2028	372,980	369,603	3,377
	<u>\$ 9,820,249</u>	<u>\$ 8,771,034</u>	<u>\$ 1,049,215</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 5.5% to 5.6% together with the present value of the future minimum lease payments as of December 31, 2017:

2018	\$ 23,861
2019	21,241
2020	21,241
2021	21,160
2022	1,689
Total minimum lease payments	89,192
Less amount representing interest	9,334
Present value of future minimum lease payments	\$ 79,858

Assets under capital leases at December 31, 2017 and 2016, totaled:

	2017	2016
Machinery and equipment	\$ 119,905	\$ 106,146
Accumulated depreciation	(34,643)	(86,498)
	\$ 85,262	\$ 19,648

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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%. Outstanding principal and unpaid interest were paid in full prior to May 27, 2017, which was the maturity of the line of credit. The line of credit was secured by substantially all assets of the Hospital. At December 31, 2016, the Hospital had borrowed \$1.0 million against the line of credit.

Note 10: 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 2017 and 2016. Hospital expense related to the employer contributions to the plan approximated \$801,000 for 2017 compared to \$805,000 for 2016.

Note 11: 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, 2017 and 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Investment by fair value level				
Money market mutual funds	\$ 1,034,205	\$ 1,034,205	\$ -	\$ -
Equity mutual funds	9,953,957	9,953,957	-	-
Fixed income mutual funds	5,230,194	5,230,194	-	-
Balanced mutual funds	1,377,511	1,377,511	-	-
	<u>\$ 17,595,867</u>	<u>\$ 17,595,867</u>	<u>\$ -</u>	<u>\$ -</u>

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016				
Investment by fair value level				
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>

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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, 2017 and 2016.

Note 12: 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 13: 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 approximately \$108,000 for each of 2017 and 2016.

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Note 14: Condensed Combining Information

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2017 and 2016:

	December 31, 2017			Total
	Hospital	Foundation	Eliminations	
Assets				
Current assets	\$ 37,182,842	\$ 643,013	\$ -	\$ 37,825,855
Due from related party	30,829	-	(30,829)	-
Capital assets, net	35,668,227	-	-	35,668,227
Other assets	2,716,581	1,047,408	-	3,763,989
Total assets	<u>75,598,479</u>	<u>1,690,421</u>	<u>(30,829)</u>	<u>77,258,071</u>
Deferred Outflows of Resources				
	33,766	-	-	33,766
Total assets and deferred outflows of resources	<u>\$ 75,632,245</u>	<u>\$ 1,690,421</u>	<u>\$ (30,829)</u>	<u>\$ 77,291,837</u>
Liabilities				
Current liabilities	\$ 13,401,042	\$ -	\$ -	\$ 13,401,042
Due to related party	-	30,829	(30,829)	-
Noncurrent liabilities	7,069,784	-	-	7,069,784
Total liabilities	<u>20,470,826</u>	<u>30,829</u>	<u>(30,829)</u>	<u>20,470,826</u>
Net Position				
Net investment in capital assets	26,799,547	-	-	26,799,547
Restricted	961,316	1,047,408	-	2,008,724
Unrestricted	27,400,556	612,184	-	28,012,740
Total net position	<u>55,161,419</u>	<u>1,659,592</u>	<u>-</u>	<u>56,821,011</u>
Total liabilities and net position	<u>\$ 75,632,245</u>	<u>\$ 1,690,421</u>	<u>\$ (30,829)</u>	<u>\$ 77,291,837</u>
	December 31, 2016			Total
	Hospital	Foundation	Eliminations	
Assets				
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>
Deferred Outflows of Resources				
	64,935	-	-	64,935
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>
Liabilities				
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>
Net Position				
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>

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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, 2017 and 2016.

	December 31, 2017			Total
	Hospital	Foundation	Eliminations	
Operating Revenue				
Net patient service revenue	\$ 80,170,040	\$ -	\$ -	\$ 80,170,040
Other operating revenue	9,578,878	-	-	9,578,878
Total operating revenue	<u>89,748,918</u>	<u>-</u>	<u>-</u>	<u>89,748,918</u>
Operating Expenses				
Salaries, wages, contract labor and employee benefits	45,367,189	-	-	45,367,189
Purchased services and professional fees	13,802,349	-	-	13,802,349
Depreciation and amortization	3,883,418	-	-	3,883,418
Other operating expenses	24,757,609	-	-	24,757,609
Total operating expenses	<u>87,810,565</u>	<u>-</u>	<u>-</u>	<u>87,810,565</u>
Operating Income	<u>1,938,353</u>	<u>-</u>	<u>-</u>	<u>1,938,353</u>
Nonoperating Revenue (Expenses)				
Investment return	1,731,277	87,007	-	1,818,284
Interest expense	(308,473)	-	-	(308,473)
Noncapital grants and contributions	20,472	160,866	(20,472)	160,866
Noncapital appropriations - Decatur County	107,841	-	-	107,841
Other	328,631	(144,867)	20,472	204,236
	<u>1,879,748</u>	<u>103,006</u>	<u>-</u>	<u>1,982,754</u>
Increase in Net Position	<u>\$ 3,818,101</u>	<u>\$ 103,006</u>	<u>\$ -</u>	<u>\$ 3,921,107</u>
	December 31, 2016			
	Hospital	Foundation	Eliminations	Total
Operating Revenue				
Net patient service revenue	\$ 73,025,368	\$ -	\$ -	\$ 73,025,368
Other operating revenue	8,746,293	-	-	8,746,293
Total operating revenue	<u>81,771,661</u>	<u>-</u>	<u>-</u>	<u>81,771,661</u>
Operating Expenses				
Salaries, wages, contract labor and employee benefits	42,731,238	-	-	42,731,238
Purchased services and professional fees	11,288,285	-	-	11,288,285
Depreciation and amortization	3,269,849	-	-	3,269,849
Other operating expenses	21,899,684	-	-	21,899,684
Total operating expenses	<u>79,189,056</u>	<u>-</u>	<u>-</u>	<u>79,189,056</u>
Operating Income	<u>2,582,605</u>	<u>-</u>	<u>-</u>	<u>2,582,605</u>
Nonoperating Revenue (Expenses)				
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	290,885	(566,636)	474,144	198,393
	<u>1,163,509</u>	<u>(358,529)</u>	<u>-</u>	<u>804,980</u>
Increase (Decrease) in Net Position	<u>\$ 3,746,114</u>	<u>\$ (358,529)</u>	<u>\$ -</u>	<u>\$ 3,387,585</u>

Decatur County Memorial Hospital
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Notes to Financial Statements
December 31, 2017 and 2016

Note 15: 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 included original expiration dates at various times through September 2017 and are operating currently in optional two year extension periods. 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 \$2.3 million and \$1.6 million in 2017 and 2016, respectively. Future minimum rent payments for the years ending December 31, 2018 and 2019, approximate \$2.8 million and \$780,000, respectively, which represent future minimum rentals required during the two year extension period for properties where the base rental term has ended.

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 \$1.6 million and \$2.0 million in 2017 and 2016, 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 \$6.3 million and \$5.5 million at December 31, 2017 and 2016, reflect amounts due to the Managers and their vendors.

Note 16: Future Accounting Standards

In fiscal year 2020, the Hospital will implement GASB Statement No. 87, *Leases*. The statement provides a new framework for accounting for leases under the principal that leases are financings and lessees should recognize an intangible asset and a corresponding liability while the lessor will recognize a lease receivable and related deferred inflow of resources. The Hospital has not determined the impact of this new standard on its financial statements, however, it could have a material future impact.

Supplementary Information

Decatur County Memorial Hospital
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Combining Balance Sheet Information
December 31, 2017

	2017					
	Hospital	LTC	Hospital Foundation		Eliminations	Total
Assets and Deferred Outflows of Resources						
Current Assets						
Cash and cash equivalents	\$ 5,935,463	\$ 2,911,420	\$ 417,410	\$ -	\$ -	\$ 9,264,293
Short-term investments	14,305,015	-	207,786	-	-	14,512,801
Patient accounts receivable, net of allowance of Hospital - \$5,886,144; LTC - \$804,047	7,349,544	2,223,451	-	-	-	9,572,995
Contributions receivable	-	-	17,817	-	-	17,817
Supplies	1,289,113	-	-	-	-	1,289,113
Prepaid expenses and other assets	2,133,100	1,035,736	-	-	-	3,168,836
Due from related party	30,829	-	-	(30,829)	-	-
Total current assets	<u>31,043,064</u>	<u>6,170,607</u>	<u>643,013</u>	<u>(30,829)</u>	<u>-</u>	<u>37,825,855</u>
Noncurrent Cash and Investments						
Internally designated for capital improvements	1,704,265	-	-	-	-	1,704,265
Held by trustee for debt service	950,363	-	-	-	-	950,363
Restricted by contributors and grantors	10,953	-	1,047,408	-	-	1,058,361
	<u>2,665,581</u>	<u>-</u>	<u>1,047,408</u>	<u>-</u>	<u>-</u>	<u>3,712,989</u>
Capital Assets, net	<u>35,668,227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,668,227</u>
Other Assets	<u>51,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,000</u>
Total assets	69,427,872	6,170,607	1,690,421	(30,829)	-	77,258,071
Deferred Outflows of Resources - debt defeasance costs	<u>33,766</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,766</u>
Total assets and deferred outflows of resources	<u>\$ 69,461,638</u>	<u>\$ 6,170,607</u>	<u>\$ 1,690,421</u>	<u>\$ (30,829)</u>	<u>\$ -</u>	<u>\$ 77,291,837</u>
Liabilities and Net Position						
Current Liabilities						
Current maturities of long-term debt	\$ 1,798,896	\$ -	\$ -	\$ -	\$ -	\$ 1,798,896
Line of credit	-	-	-	-	-	-
Accounts payable and accrued expenses	4,434,724	6,300,281	-	-	-	10,735,005
Estimated third-party settlements	867,141	-	-	-	-	867,141
Due to related party	-	-	30,829	(30,829)	-	-
Total current liabilities	<u>7,100,761</u>	<u>6,300,281</u>	<u>30,829</u>	<u>(30,829)</u>	<u>-</u>	<u>13,401,042</u>
Long-Term Debt	<u>7,069,784</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,069,784</u>
Total liabilities	<u>14,170,545</u>	<u>6,300,281</u>	<u>30,829</u>	<u>(30,829)</u>	<u>-</u>	<u>20,470,826</u>
Net Position						
Net investment in capital assets	26,799,547	-	-	-	-	26,799,547
Restricted:						
For debt service	950,363	-	-	-	-	950,363
Expendable for capital acquisitions	-	-	827,515	-	-	827,515
Expendable for specific operating activities	10,953	-	219,893	-	-	230,846
Unrestricted	27,530,230	(129,674)	612,184	-	-	28,012,740
Total net position	<u>55,291,093</u>	<u>(129,674)</u>	<u>1,659,592</u>	<u>-</u>	<u>-</u>	<u>56,821,011</u>
Total liabilities and net position	<u>\$ 69,461,638</u>	<u>\$ 6,170,607</u>	<u>\$ 1,690,421</u>	<u>\$ (30,829)</u>	<u>\$ -</u>	<u>\$ 77,291,837</u>

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

	2016				
	Hospital	LTC	Hospital Foundation	Eliminations	Total
Assets and Deferred Outflows of Resources					
Current Assets					
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>
Noncurrent Cash and Investments					
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>
Capital Assets, net	<u>36,934,833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,934,833</u>
Other Assets	<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
Deferred Outflows of Resources - debt defeasance costs	<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>
Liabilities and Net Position					
Current Liabilities					
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>
Long-Term Debt	<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>
Net Position					
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	23,943,859	41,332	487,921	-	24,473,112
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>

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, 2017

	2017				Total
	Hospital	LTC	Hospital Foundation	Eliminations	
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts of Hospital - \$5,692,047; LTC - \$333,858	\$ 56,620,080	\$ 23,549,960	\$ -	\$ -	\$ 80,170,040
Other	6,561,740	3,017,138	-	-	9,578,878
Total operating revenues	<u>63,181,820</u>	<u>26,567,098</u>	<u>-</u>	<u>-</u>	<u>89,748,918</u>
Operating Expenses					
Salaries, wages and contract labor	26,397,631	12,665,237	-	-	39,062,868
Employee benefits	6,304,321	-	-	-	6,304,321
Purchased services and professional fees	9,142,750	4,659,599	-	-	13,802,349
Medical supplies, drugs and other supplies	10,130,411	2,049,575	-	-	12,179,986
Utilities	678,293	603,397	-	-	1,281,690
Repairs and maintenance	2,232,176	154,292	-	-	2,386,468
Lease and rentals	68,909	2,585,672	-	-	2,654,581
Insurance	618,211	453,540	-	-	1,071,751
Depreciation and amortization	3,883,418	-	-	-	3,883,418
Other	1,017,530	2,477,313	-	-	3,494,843
Provider hospital assessment fee	1,688,290	-	-	-	1,688,290
Total operating expenses	<u>62,161,940</u>	<u>25,648,625</u>	<u>-</u>	<u>-</u>	<u>87,810,565</u>
Operating Income	<u>1,019,880</u>	<u>918,473</u>	<u>-</u>	<u>-</u>	<u>1,938,353</u>
Nonoperating Revenues (Expenses)					
Investment return	1,731,277	-	87,007	-	1,818,284
Interest expense	(308,473)	-	-	-	(308,473)
Noncapital grants and contributions	20,472	-	160,866	(20,472)	160,866
Noncapital appropriations - Decatur County	107,841	-	-	-	107,841
Other	328,631	-	(144,867)	20,472	204,236
Total nonoperating revenues	<u>1,879,748</u>	<u>-</u>	<u>103,006</u>	<u>-</u>	<u>1,982,754</u>
Excess of Revenues Over Expenses Before Transfers	2,899,628	918,473	103,006	-	3,921,107
Transfers	<u>1,089,479</u>	<u>(1,089,479)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	3,989,107	(171,006)	103,006	-	3,921,107
Net Position, Beginning of Year	<u>51,301,986</u>	<u>41,332</u>	<u>1,556,586</u>	<u>-</u>	<u>52,899,904</u>
Net Position, End of Year	<u>\$ 55,291,093</u>	<u>\$ (129,674)</u>	<u>\$ 1,659,592</u>	<u>\$ -</u>	<u>\$ 56,821,011</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
Operating Revenues					
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	4,825,419	3,920,874	-	-	8,746,293
Total operating revenues	<u>56,612,665</u>	<u>25,158,996</u>	<u>-</u>	<u>-</u>	<u>81,771,661</u>
Operating Expenses					
Salaries, wages and contract labor	25,102,305	11,935,253	-	-	37,037,558
Employee benefits	5,693,680	-	-	-	5,693,680
Purchased services and professional fees	6,694,934	4,593,351	-	-	11,288,285
Medical supplies, drugs and other supplies	8,661,694	1,508,527	-	-	10,170,221
Utilities	695,514	535,918	-	-	1,231,432
Repairs and maintenance	2,143,022	148,490	-	-	2,291,512
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	1,050,353	3,172,122	-	-	4,222,475
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>
Operating Income	<u>1,533,315</u>	<u>1,049,290</u>	<u>-</u>	<u>-</u>	<u>2,582,605</u>
Nonoperating Revenues (Expenses)					
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	290,885	-	(566,636)	474,144	198,393
Total nonoperating revenues (expenses)	<u>1,163,509</u>	<u>-</u>	<u>(358,529)</u>	<u>-</u>	<u>804,980</u>
Excess (Deficiency) of Revenues Over Expenses Before Transfers	2,696,824	1,049,290	(358,529)	-	3,387,585
Transfers	<u>1,428,692</u>	<u>(1,428,692)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	4,125,516	(379,402)	(358,529)	-	3,387,585
Net Position, Beginning of Year	<u>47,176,470</u>	<u>420,734</u>	<u>1,915,115</u>	<u>-</u>	<u>49,512,319</u>
Net Position, End of Year	<u>\$ 51,301,986</u>	<u>\$ 41,332</u>	<u>\$ 1,556,586</u>	<u>\$ -</u>	<u>\$ 52,899,904</u>

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

Independent Auditor's Report

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, 2017, 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 15, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from 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 finding identified in our audit is 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.

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

BKD, LLP

Indianapolis, Indiana
May 15, 2018

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Schedule of Findings and Responses
Year Ended December 31, 2017

Reference Number	Finding
2017-001	<p>Criteria or Specific Requirement: Internal Control Over Financial Reporting</p> <p>Condition: 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>Context: 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>Effect: Potential misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner.</p> <p>Cause: 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>Recommendation: 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 included in Hospital financial statements on a routine basis.</p> <p>Views of Responsible Officials and Planned Corrective Action: 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>