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September 2, 2015

Board of Trustees  
Harrison County Hospital  
1141 Hospital Drive, NW  
Corydon, IN 47112

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2013 to December 31, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Harrison County Hospital, as of December 31, 2013 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

A handwritten signature in cursive script that reads 'Paul D. Joyce'.

Paul D. Joyce, CPA  
State Examiner



**HARRISON COUNTY HOSPITAL  
AND AFFILIATED ORGANIZATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2013**

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Harrison County Hospital and  
Affiliated Organization  
Corydon, Indiana

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Harrison County Hospital and Affiliated Organization (collectively the "Hospital"), which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of operations, changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We did not audit the financial statements of Harrison MOB, LLC ("MOB"), a 61 percent owned subsidiary, which statements reflect total assets of \$6,394,274 as of December 31, 2013, and total revenues of \$893,900 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the MOB, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2013, and the results of its operations, its changes in net position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Changes in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, the Hospital adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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.

*Blue & Co., LLC*

Louisville, KY  
July 14, 2015

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013

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Management's discussion and analysis of the financial performance of Harrison County Hospital ("HCH") and Affiliated Organizations, which include Harrison MOB, LLC ("the MOB"), (collectively described as "the Hospital") provides an overview of the Hospital's financial activities and performance for the year ended December 31, 2013. This discussion and analysis should be read in conjunction with the accompanying the Hospital's consolidated financial statements.

Prior to 2013, the Hospital's financial statements were not presented on a consolidated basis. Rather, the financial statements of the MOB were reported as a "discretely presented component unit" alongside those of HCH. For comparison purposes, the 2012 financial statements are presented as if they had been prepared on a consolidated basis, with the appropriate intercompany eliminations made. As a result of these intercompany offsetting eliminations, total assets and net assets are \$1,128,876 less at December 31, 2012 than what was originally presented on a combined basis, while total operating revenues and total operating expenses were \$792,304 less than what was originally presented.

### FINANCIAL HIGHLIGHTS

The Hospital's net position increased \$219,625 from 2012 to 2013 and included income from operations of \$10,852. During 2013, the Hospital's total operating revenue increased by 1.7% to \$46,386,319 with total operating expenses increasing by 2.0% to \$46,375,467.

- The Hospital raised rates by 5% in 2013.
- In 2012 and 2013, the Hospital qualified for electronic health record meaningful use payments from both Medicare and Medicaid. The amount recorded in income from operations is \$2,233,915 in 2013 and \$373,695 in 2012.
- In an effort to increase Medicaid reimbursement to hospitals, the State of Indiana implemented a Hospital Assessment Fee program in 2012. Indiana hospitals are assessed a fee which allows the state to access Federal funds allowing it to pay Medicaid patient claims at higher rates, not to exceed Medicare reimbursement. The Hospital incurred \$1,469,857 in Hospital Assessment Fees expense in 2013, an increase of \$239,268 over the \$1,230,589 incurred in 2012.
- There was no increase in wage and salary pay rates in 2013.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2013

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## FINANCIAL STATEMENTS

The consolidated financial statements of the Hospital present information about the Hospital using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information. The consolidated balance sheet includes all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). It also provides the basis for compiling rate of return, evaluating the capital structure and assessing the liquidity and financial flexibility of the Hospital. All of the current and prior year's revenues and expenses are accounted for in the consolidated statement of operations. This statement measures the financial results of the Hospital's operations and presents revenues earned and expenses incurred. The consolidated statement of statement of changes in net position provide information concerning the components of changes to net position. In addition, this statement segregates the total amount of net position between controlling and noncontrolling interests. The consolidated statement of cash flows provides information about the Hospital's cash flows from operating activities, capital and related financing activities, and investing activities, plus provide information on the sources and uses of cash during both the current and prior year.

## FINANCIAL ANALYSIS

The consolidated balance sheet, consolidated statement of operations, and consolidated statement of changes in net position report information about the Hospital's activities. These three statements report the net position of the Hospital and its changes. Increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population changes (including uninsured and medically indigent individuals and families) and new or changed governmental legislation should also be considered.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013

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### CONDENSED FINANCIAL INFORMATION

A summary of the Hospital's consolidated balance sheets as of December 31, 2013 and 2012 is presented below:

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Assets</b>				
Cash and investments	\$ 16,132,459	\$ 15,782,262	\$ 350,197	2.2%
Capital assets	40,620,881	43,790,601	(3,169,720)	-7.2%
Other assets	7,499,536	6,639,098	860,438	13.0%
Deferred outflows	<u>348,593</u>	<u>368,608</u>	<u>(20,015)</u>	-5.4%
Total assets and deferred outflows	<u>\$ 64,601,469</u>	<u>\$ 66,580,569</u>	<u>\$ (1,979,100)</u>	-3.0%
<b>Liabilities</b>				
Long-term debt, including current portion	\$ 14,391,506	\$ 14,876,739	\$ (485,233)	-3.3%
Other current and noncurrent liabilities	<u>7,169,952</u>	<u>8,883,444</u>	<u>(1,713,492)</u>	-19.3%
Total liabilities	21,561,458	23,760,183	(2,198,725)	-9.3%
<b>Net position</b>				
Net investment in capital assets	26,577,968	29,282,470	(2,704,502)	-9.2%
Restricted net position	3,403,188	4,069,907	(666,719)	-16.4%
Unrestricted	13,274,015	9,769,803	3,504,212	35.9%
Restricted non-expendable net position	<u>(215,160)</u>	<u>(301,794)</u>	<u>86,634</u>	28.7%
Total net position	<u>43,040,011</u>	<u>42,820,386</u>	<u>219,625</u>	0.5%
Total liabilities and net position	<u>\$ 64,601,469</u>	<u>\$ 66,580,569</u>	<u>\$ (1,979,100)</u>	-3.0%

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013

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### CONDENSED FINANCIAL INFORMATION

A summary of the Hospital's consolidated statements of operations and changes in net position for the years ended December 31, 2013 and 2012 is presented below:

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Operating revenues</b>				
Net patient service revenue	\$ 42,341,796	\$ 43,611,175	\$ (1,269,379)	-2.9%
Other revenue	<u>4,044,523</u>	<u>1,981,002</u>	<u>2,063,521</u>	104.2%
Total operating revenues	46,386,319	45,592,177	794,142	1.7%
<b>Operating expenses</b>				
Salaries and benefits	25,693,055	25,457,080	235,975	0.9%
Supplies and drugs	4,917,368	4,984,910	(67,542)	-1.4%
Depreciation and amortization	4,529,757	4,704,546	(174,789)	-3.7%
Other operating expenses	<u>11,235,287</u>	<u>10,327,463</u>	<u>907,824</u>	8.8%
Total operating expenses	<u>46,375,467</u>	<u>45,473,999</u>	<u>901,468</u>	2.0%
Income from operations	10,852	118,178	(107,326)	-90.8%
<b>Nonoperating revenues (expenses)</b>	241,573	(1,569,515)	1,811,088	115.4%
<b>Member distributions</b>	<u>(32,800)</u>	<u>-0-</u>	<u>(32,800)</u>	100.0%
Change in net position	<u>\$ 219,625</u>	<u>\$ (1,451,337)</u>	<u>\$ 1,670,962</u>	115.1%
<b>Net position, end of year</b>	<u>\$ 43,040,011</u>	<u>\$ 42,820,386</u>	<u>\$ 219,625</u>	0.5%

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013

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### SOURCES OF REVENUE

The Hospital derives the majority of its revenue from charges for patient care and related services. The Hospital is reimbursed for services from a variety of sources including the Medicare and Medicaid programs, insurance carriers, managed care plans, and patients. The Hospital has established payment arrangements with Medicare, Medicaid, and various commercial insurance carriers. Services provided under those arrangements are paid at predetermined rates and/or reimbursable cost as defined. Provisions have been made in the consolidated financial statements for contractual adjustments representing the difference between the standard charges for services and the actual or estimated payment.

The Hospital's percentages of gross revenue by payor for 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Medicare	40 %	41 %
Medicaid	18	17
Blue Cross	15	14
Other third-party payors	19	20
Self-pay	<u>8</u>	<u>8</u>
Total	<u>100 %</u>	<u>100 %</u>

### OPERATING AND FINANCIAL PERFORMANCE

The Hospital's financial performance from operations declined in 2013 in comparison to 2012 and the Hospital's overall financial performance improved from 2012 to 2013. A discussion of the highlights of 2013 operations and changes in activity is presented below:

#### Revenues

Net patient service revenues of the Hospital decreased by \$1,269,379 in 2013. This was due primarily to decreased outpatient utilization in 2013 compared to 2012. Outpatient gross revenues decreased by \$5,083,181 or 7.4%. The number of emergency room visits, a primary driver of outpatient revenues, declined by 10.4% in 2013 in comparison to 2012. As a result, 2013 outpatient volumes (and related revenues) in most of the ancillary departments were down by 10 – 15%. 2013 outpatient surgery volumes were down by 7%. The primary cause of the decline in outpatient volume is believed to be attributable to cyclical factors, as the number of emergency ambulance runs were also down by 12%. Other possible causes include decreases in utilization driven by increasing numbers of patients with high deductible health insurance, increased efforts by health insurance companies to direct patients to lower cost providers (such as free-standing imaging centers), and reduced referrals for outpatient services from hospital-employed physician offices due to the hospital-wide adoption of an electronic health record system in December, 2012, which temporarily reduced patient capacity in the physician offices as physicians and staff became familiar with the new software.

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# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013

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### Expenses

Total operating expenses increased by \$901,468 in 2013. Highlights of this change are as follows:

- Salary costs increased by \$709,758 in 2013 over 2012. Nearly all of this increase was attributable to the expansion of hospital-owned physician practices. During 2013, the Hospital developed a hospitalist program, employing two full-time internists. The Hospital also acquired Kids First pediatric group, employing three physicians and supporting staff. A second nurse practitioner was added to First Capital Medical Group in early 2013. Also a full year's impact on salaries was realized in 2013, on a primary care physician and nurse practitioner who were hired in late, 2012.
- The total cost of Employee Benefits declined by \$473,783 in 2013, primarily due to favorable claims experience in the Hospital's partially self-funded health insurance plan.
- Purchased services increased \$430,922 in 2013 over 2012, primarily due to a \$422,918 increase in information technology costs from \$361,913 in 2012 to \$784,831 in 2013. These increased costs consisted largely of remote software hosting fees and increased software support fees resulting from the conversion to the Cerner hospital information system in late 2012.

### FINANCIAL ANALYSIS – CASH FLOWS

The Hospital's 2013 cash flows increased \$293,462, primarily due to positive cash inflows received for patient services, which exceeded cash outflows for cash paid to employees and vendors. These cash flows include \$2,233,915 in Medicare and Medicaid electronic health record meaningful use payments and \$3,907,673 in Medicaid disproportionate share program revenue recognized in 2013.

### Capital Assets

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Land and land improvements	\$ 6,332,256	\$ 6,320,981	\$ 11,275	0.2%
Leasehold improvements	3,553,580	3,523,555	30,025	0.9%
Buildings	40,651,778	40,634,463	17,315	0.0%
Equipment	23,797,773	22,562,388	1,235,385	5.5%
Construction in progress	81,521	32,619	48,902	149.9%
	<u>74,416,908</u>	<u>73,074,006</u>	<u>1,342,902</u>	<u>1.8%</u>
Less accumulated depreciation	<u>33,796,027</u>	<u>29,283,405</u>	<u>4,512,622</u>	<u>15.4%</u>
Capital assets, net	<u>\$ 40,620,881</u>	<u>\$ 43,790,601</u>	<u>\$ (3,169,720)</u>	<u>-7.2%</u>

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013

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The Hospital's capital assets increased \$1,342,902 in 2013. \$837,260 of this amount is related to the Cerner hospital information system conversion for which HCH received \$2,233,915 in electronic health record meaningful use payments in 2013. Other major capital expenditures of HCH include \$235,167 for two ambulances, for which HCH was subsequently reimbursed by the County, and a storage area network upgrade costing \$120,483. There were no capital expenditures by the MOB in 2013.

See additional information on capital assets in the notes to the consolidated financial statements in footnote number 6.

### Long-Term Debt

At December 31, 2013, the Hospital had total long-term debt (including \$507,157 current portion) of \$14,391,506. This is comprised of \$9,100,351 in Hospital revenue bonds outstanding and \$5,291,155 in MOB notes payable.

See additional information on long-term debt in the notes to the consolidated financial statements in footnote number 11.

## ECONOMIC FACTORS AND 2014 BUDGET

The Hospital's Board and management considered many factors when establishing the 2014 budget. Included was the status of the economy, which takes into consideration market factors and other environmental factors such as the following items:

- Advances in medical equipment and information systems technology and the need to replace obsolete equipment
- Decreasing reimbursement from governmental and commercial insurance payors
- Increasing number of uninsured, underinsured and/or indigent patients
- Increasing costs of medical supplies and pharmaceuticals
- Nationwide workforce shortages in nursing and other healthcare specialist positions
- Increasing awareness and expectations from the public on the quality of services
- Increased competition from niche providers
- Size, composition, and needs of the Hospital's physician medical staff

## CONTACTING THE HOSPITAL

This report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances. These consolidated financial statements include the activities of Harrison County Hospital ("HCH"), and Harrison MOB, LLC ("MOB"). Separately-issued audited financial statements are available for the MOB. If you have questions about this report or need additional information, contact Jeff Davis, Chief Financial Officer at 812-738-4251.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## CONSOLIDATED BALANCE SHEET DECEMBER 31, 2013

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### ASSETS

#### Current assets

Cash and cash equivalents	\$ 9,848,159
Patient accounts receivable, net of estimated uncollectibles of \$6,917,835	4,625,529
Inventories	877,420
Prepaid expenses and other current assets	1,167,898
Estimated third-party payor settlements	725,000
Other assets, current portion	<u>25,000</u>
Total current assets	17,269,006

#### Assets whose use is limited

6,284,300

#### Property and equipment, net

40,620,881

#### Other assets, net of current portion

78,689

Total assets

64,252,876

#### Deferred outflows - deferred loss on bond refunding

348,593

Total assets and deferred outflows

\$ 64,601,469

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*See accompanying notes to consolidated financial statements.*

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## CONSOLIDATED BALANCE SHEET DECEMBER 31, 2013

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### LIABILITIES AND NET POSITION

#### Current liabilities

Accounts payable	\$ 2,161,830
Accrued payroll and payroll withholdings	1,096,613
Accrued expenses	1,775,752
Current portion of long-term debt	<u>507,157</u>
Total current liabilities	5,541,352

#### Long-term liabilities

Long-term debt, net of current portion	13,884,349
Interest rate swap	<u>2,135,757</u>
Total long-term liabilities	<u>16,020,106</u>

Total liabilities 21,561,458

#### Net position

Controlling interest net position	
Net investment in capital assets	26,577,968
Restricted	
Expendable for interest rate swaps	3,403,188
Unrestricted	<u>13,274,015</u>
Total controlling interest net position	43,255,171
Restricted net position - non-expendable	<u>(215,160)</u>
Total net position	<u>43,040,011</u>
Total liabilities and net position	<u>\$ 64,601,469</u>

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*See accompanying notes to consolidated financial statements.*

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## CONSOLIDATED STATEMENT OF OPERATIONS YEAR ENDED DECEMBER 31, 2013

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### Operating revenues

Net patient service revenue	\$42,341,796
Rent revenue	370,578
Other revenue	<u>3,673,945</u>
Total operating revenues	46,386,319

### Operating expenses

Salaries and wages	20,895,320
Employee benefits and payroll taxes	4,797,735
Professional medical fees	1,558,869
Medical supplies	2,538,894
Other supplies	1,067,309
Drugs	1,311,165
Purchased services	5,280,759
Utilities	1,185,226
Insurance	736,184
Depreciation and amortization	4,529,757
Hospital assessment fee	1,469,857
Other operating expenses	<u>1,004,392</u>
Total operating expenses	<u>46,375,467</u>

Income from operations 10,852

### Nonoperating revenues (expenses)

241,573

Excess revenues (expenses) 252,425

### Member distributions

(32,800)

Change in net position \$ 219,625

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*See accompanying notes to consolidated financial statements.*

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2013

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	Controlling Interest	Restricted Net Position - Non-Expendable	Total
<b>Net position balances</b>			
December 31, 2012, as adjusted - see Note 2	\$ 43,122,180	\$ (301,794)	\$ 42,820,386
Excess revenues (expenses)	132,991	119,434	252,425
Distributions	-0-	(32,800)	(32,800)
Change in net position	132,991	86,634	219,625
December 31, 2013	<u>\$ 43,255,171</u>	<u>\$ (215,160)</u>	<u>\$ 43,040,011</u>

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*See accompanying notes to consolidated financial statements.*

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2013

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### Operating activities

Cash received for patient services	\$ 40,922,078
Cash paid to/for employees	(25,475,743)
Cash paid to vendors and suppliers	(15,832,115)
Other receipts, net	<u>4,044,523</u>
Net cash flows from operating activities	3,658,743

### Noncapital financing activities

Noncapital contributions	65,153
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### Capital and related financing activities

Principal payments on long-term debt	(485,233)
Interest paid	(1,078,638)
Purchase of capital assets	(1,266,565)
Member distributions	<u>(32,800)</u>
Net cash flows from capital and related financing activities	(2,863,236)

### Investing activities

Investment income	63,073
Other nonoperating revenues (expenses)	(651,352)
Change in investments	-0-
Change in assets whose use is limited	(56,735)
Change in other assets	<u>77,816</u>
Net cash flows from investing activities	<u>(567,198)</u>
Net change in cash and cash equivalents	293,462

**Cash and cash equivalents, beginning of year** 12,518,727

**Cash and cash equivalents, end of year** \$ 12,812,189

### Reconciliation of cash and cash equivalents to the balance sheets

Cash and cash equivalents in current assets	\$ 9,848,159
Cash and cash equivalents in assets whose use is limited	<u>2,964,030</u>
Total cash and cash equivalents	<u><u>\$ 12,812,189</u></u>

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*See accompanying notes to consolidated financial statements.*

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2013

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### Reconciliation of income from operations to net cash flows from operating activities

Income from operations	\$ 10,852
Adjustments to reconcile income from operations to net cash flows from operating activities	
Depreciation	4,512,550
Amortization	17,207
Provision for bad debts	8,385,399
Changes in operating assets and liabilities	
Patient accounts receivable	(8,536,510)
Inventories	(56,617)
Prepaid expenses and other current assets	(22,733)
Accounts payable	338,701
Accrued payroll and payroll withholdings	217,312
Accrued expenses	61,189
Estimated third-party payor settlements	(1,268,607)
Net cash flows from operating activities	<u>\$ 3,658,743</u>

### Supplemental disclosures of noncash activities

Property and equipment acquired included in accounts payable	\$ 76,265
Change in interest rate swap	\$ (1,863,352)

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*See accompanying notes to consolidated financial statements.*

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### 1. NATURE OF OPERATIONS

Harrison County Hospital (“HCH”) is a not-for-profit, acute care hospital located in Corydon, Indiana. The Hospital is county owned and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital is organized for the purpose of providing healthcare services to the residents of Harrison County and the surrounding area. The Hospital's primary sources of support are from patient revenues and other ancillary income. Patient revenues include funds received from Medicare, state agencies, insurance companies, and the patients themselves.

Harrison MOB, LLC (“MOB”) is a limited liability company that is 61% owned by the Hospital and 39% owned by individual physicians. MOB was organized to construct, own and operate a medical office building adjacent to the Hospital in Corydon, Indiana. MOB's primary source of revenue is from rental income.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by HCH and MOB (collectively the “Hospital”) in the preparation of the consolidated financial statements are summarized below:

#### Reporting Entity and Consolidation Policy

The accompanying consolidated financial statements include the accounts of HCH and MOB. The Board of County Commissioners of Harrison County appoints the Governing Board of HCH and a financial benefit/burden relationship exists between the County and HCH. For these reasons, the HCH is considered a component unit of Harrison County. Similarly, due to its organized purpose, MOB is considered a blended component unit of HCH. Intercompany transactions and balances have been eliminated in consolidation. The separate audited financial statements of MOB may be obtained by contacting HCH as follows:

Harrison County Hospital  
1141 Hospital Drive NW  
Corydon, IN 47112

#### Management's Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, if any, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### Proprietary Fund Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis of accounting using the economic resources measurement focus. Substantially all revenues and expenses are subject to accrual.

### New Accounting Standards

During 2013, the Hospital implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. For certain transactions resulting in defeasance of debt reported by the Hospital, the difference between the reacquisition price and the net carrying amount of the old debt should now be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. Previously, such amounts were included as a component of the long-term debt liability. In addition, debt issuance costs should now be recognized as an expense in the period incurred. Previously, debt issuance costs were capitalized at issuance and amortized over the term of the related debt.

The 2012 net position balance has been retroactively adjusted to address the implementation of this new standard and the effects on the consolidated financial statements are detailed below:

Consolidated balance sheet:

MOB net position, as previously reported - 12/31/12	\$ (197,547)
Hospital net position, as previously reported - 12/31/12	44,023,914
Total net position, as previously reported - 12/31/12	<u>43,826,367</u>
Effect of eliminations during 2012 consolidation	<u>(807,744)</u>
Total consolidated net position	43,018,623
Effect of implementation of GASB 65 Statement No. 65	<u>(198,237)</u>
Consolidated net position 12/31/12, as restated	<u>\$ 42,820,386</u>

During 2013, the Hospital implemented GASB No. 61, *The Financial Reporting Entity: Omnibus*, an amendment of GASB Statements No. 14, *The Financial Reporting Entity*, and 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The objective of the implementation is to improve financial reporting for a governmental financial reporting entity. As discussed in Note 23 to the consolidated financial statements, the Hospital adopted GASB Statement No. 61 which requires reporting condensed combining information in the notes to the financial statements for blended component units of primary governments that are business-type activities.

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# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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In addition, GASB Statement No. 61 requires that minority equity interests, which represent the portion of the net position that is attributable to investors that are external to and not included in the Hospital's consolidated financial statements, to now be presented as restricted net position – non-expendable.

### 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; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Hospital is insured for medical malpractice claims and judgments.

### Cash and Cash Equivalents

Cash and cash equivalents as reported on the consolidated balance sheet include petty cash and other cash on hand amounts, checking accounts, and savings accounts that are readily available for use. Cash and cash equivalents as reported on the consolidated statement of cash flows include investments in highly liquid assets with maturity dates of 90 days or less when purchased.

### Investment Derivative Instrument - Interest Rate Swap

The Hospital uses interest rate swap agreements to manage financial risks related to interest rate movements and the effects on its cash flows. The Hospital accounts for the interest rate swap agreements as investment derivative instruments. As a result, the agreements are recorded at fair value on the consolidated balance sheet. The net cash payments or receipts under the interest rate swap agreements are recorded as an increase or decrease to interest expense, which is included in nonoperating revenues (expenses) on the consolidated statement of operations.

### Investments

Short-term investments are investments with remaining maturities of up to 90 days. Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### Patient Accounts Receivable and Net Patient Service Revenue

The Hospital recognizes net patient service revenues on the accrual basis of accounting in the reporting period in which services are performed based on the current gross charge structure, less actual adjustments and estimated discounts for contractual allowances, principally for patients covered by Medicare, Medicaid, managed care, and other health plans. Gross patient service revenue is recorded in the accounting records using the established rates for the types of service provided to the patient. The Hospital recognizes an estimated contractual allowance to reduce gross patient charges to the estimated net realizable amount for service rendered based upon previously agreed-to rates with a payor. The Hospital utilizes the patient accounting system to calculate contractual allowances on a payor-by-payor basis based on the rates in effect for each primary third-party payor. Another factor that is considered and could further influence the level of the contractual reserves includes the status of accounts receivable balances as inpatient or outpatient. The Hospital's management continually reviews the contractual estimation process to consider and incorporate updated laws and regulations and the frequent changes in managed care contractual terms that result from contract negotiations and renewals.

Payors include federal and state agencies, including Medicare and Medicaid, managed care health plans, commercial insurance companies, and patients. These third-party payors provide payments to the Hospital at amounts different from its established rates based on negotiated reimbursement agreements. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and fee schedule payments. Retroactive adjustments under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

### Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts based on the Hospital's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to the service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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For receivables associated with services provided to patients who have third-party payor coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulty that make the realization of amounts due unlikely). For receivables associated with self-pay payments, which includes both patients without insurance and patient with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

The Hospital's current allowance for doubtful accounts policy is to reserve 90 percent of self-pay accounts less than 180 days, 100 percent of self-pay accounts 180 and older, and 100 percent of all other payor accounts 180 days and older, net of contractual allowances already taken. The December 31, 2013 allowance for doubtful accounts balance was comprised of the following:

Reserve for third-party payor balances	\$ 838,765
Reserve for self-pay balances	<u>6,079,070</u>
Total allowance for doubtful accounts	<u>\$ 6,917,835</u>

### Inventories

Inventories consist of medical supplies, pharmaceuticals, and office supplies and are valued at the lower of cost or market, with cost being determined on the first-in, first-out (FIFO) method.

### Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the respective Boards for future capital improvements, over which the Boards retain control and may at their discretion subsequently use for other purposes; assets held by trustees under indenture agreements; assets that have been restricted by donors for specific purposes; and amounts that have been set aside as part of deferred compensation plans. Investment income or loss, including realized gains and losses on investments and assets whose use is limited, net change in the market value of assets whose use is limited, and interest, is included in nonoperating revenues (expenses) when earned.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### Capital Assets

The Hospital's capital assets are reported at historical cost and include expenditures for additions and repairs which substantially increase the useful lives of capital assets. Maintenance, repairs, and minor improvements are expensed as incurred. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated using the straight-line method of depreciation over their estimated useful lives based upon the American Hospital Association Guide for Estimated Useful Lives for Fixed Assets.

### Classification of Net Position

The net position of the Hospital is classified in four components. (1) *Net investment in capital assets* consists of capital assets net of accumulated depreciation plus deferred outflows related to losses on bond refunding which are reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) *Restricted expendable net position* includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. (3) *Restricted nonexpendable net position* includes the principal portion of permanent endowments and non-controlling interests owned by external investors. (4) *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

### Consolidated Statements of Operations

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenues and expenses. Peripheral and incidental transactions are reported as nonoperating revenues (expenses). Nonoperating revenues (expenses) which are excluded from income from operations include investment income, contributions received, interest expense, restricted expenditures, and the net change in the market value of assets whose use is limited.

### Advertising and Marketing Costs

Advertising and marketing costs are charged to operations when incurred. Advertising and marketing costs charged to operations were \$278,968 for the year ended December 31, 2013, and are included within the line item purchased services on the consolidated statement of operations.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### Income Taxes

HCH has been granted exemption from taxation as a not-for-profit organization by the Internal Revenue Service under Section 115, and in 2005 was also granted exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code for purposes of maintaining a 403b deferred compensation plan. Therefore, no provision for income taxes has been provided in the consolidated statement of operations. The MOB has elected to be treated as a partnership for federal and state income tax purposes. Under existing provisions of the Internal Revenue Code, a partnership is not a taxpaying entity for federal or state income tax purposes. Accordingly, no income tax expense has been recorded in the consolidated financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by each entity comprising the Hospital and recognize a tax liability if any Hospital entity has taken an uncertain tax position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by each entity of the Hospital, and has concluded that as of December 31, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. Each entity of the Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

### Grants and Contributions

From time to time, the Hospital receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

### Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued, which is July 14, 2015.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

### 3. DEPOSITS AND INVESTMENTS

Deposits and investments are comprised of the following at December 31, 2013:

Carrying amount:	
Cash and cash equivalents	\$ 12,729,271
Money market funds	82,918
Certificates of deposit	<u>3,320,270</u>
Total	<u>\$ 16,132,459</u>
Included in the consolidated balance sheet captions:	
Cash and cash equivalents	\$ 9,848,159
Assets whose use is limited	<u>6,284,300</u>
Total	<u>\$ 16,132,459</u>

#### Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. Deposits with financial institutions are insured by the Federal Depository Insurance Corporation ("FDIC") up to FDIC limits or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories. This includes any deposit accounts issued or offered by a qualifying institution. The Hospital maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Hospital has not experienced any losses on such accounts. The Hospital believes it is not exposed to any significant credit risk on cash.

As of December 31, 2013, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks or investment companies that are agents of the Hospital.

Carrying Amount	Investment Maturities (in years)			
	Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	<u>\$ 3,320,270</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### Interest Rate Risk

Interest risk rate is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy for interest rate risk for investments. The Hospital believes it is not exposed to any significant interest rate risk on investments.

### Credit Risk – Investments

Credit risk is the risk that, in the event of a failure of a financial institution, the Hospital would not be able to recover deposits, the value of its investments, or collateral securities that are in the possession of an outside party. The Hospital does not have a formal investment policy for credit risk for investments. The Hospital believes it is not exposed to any significant credit risk on investments.

### Concentration of Credit Risk

The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

### Foreign Currency Risk

The Hospital does not have a formal policy in regards to foreign currency risk. The Hospital's investments did not have foreign currency risk.

### Fair Value Measurements and Disclosures

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active market for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2013:

- *Money market funds:* Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

The following table set forth by level, within the hierarchy, the Hospital's asset and liability measured at fair value on a recurring basis as of December 31, 2013 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Money market funds	<u>\$ -0-</u>	<u>\$ 82,918</u>	<u>\$ -0-</u>	\$ 82,918
Cash				12,729,271
Certificates of deposit				<u>3,320,270</u>
Total deposits and investments				<u>\$ 16,132,459</u>
<u>Liabilities</u>				
Interest rate swaps	<u>\$ -0-</u>	<u>\$ 2,135,757</u>	<u>\$ -0-</u>	<u>\$ 2,135,757</u>

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### 4. PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets at December 31, 2013 consist of the following:

Medicare	\$ 5,206,241
Medicaid	2,795,461
Blue Cross	1,294,065
Other insurance carriers	4,248,871
Patients	<u>6,223,978</u>
Total patient accounts receivable	19,768,616
Less allowance for contractals	8,225,252
Less allowance for uncollectible amounts	<u>6,917,835</u>
Patient accounts receivable, net	<u><u>\$ 4,625,529</u></u>

### 5. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. Assets whose use is limited are reported at market value and include the following at December 31, 2013:

#### Investment Summary by Type

Cash and cash equivalents	\$ 2,881,112	45.8 %
Money market funds	82,918	1.3
Certificates of deposit	<u>3,320,270</u>	<u>52.9</u>
Total assets whose use is limited	<u>\$ 6,284,300</u>	<u>100.0 %</u>

#### Investment Summary by Fund

Board-Designated Funds	\$ 2,881,112	45.8 %
Swap-Restricted Funds	<u>3,403,188</u>	<u>54.2</u>
Total	<u>\$ 6,284,300</u>	<u>100.0 %</u>

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# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

### Board-Designated Funds

The Hospital's Board of Trustees approved the funding of depreciation expense to meet the capital asset replacement needs of the facility. Depreciation is funded totally with expenditures for capital items reducing the funded depreciation balance. Board-designated funds also include amounts intended for specific purposes, as established by the Hospital's Board. All income earned by the board-designated accounts is left to accumulate as additions to the funds. Board-designated funds remain under the control of the Board, which may at their discretion later use for other purposes. Therefore, all board-designated funds are included in unrestricted net position.

### Swap-Restricted Funds

Swap-restricted funds represent amounts that have been restricted by creditors for the potential payoff of the Hospital's interest rate swaps (see footnote #12).

## 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Ending Balance</u>
Land	\$ 3,001,138	\$ -0-	\$ -0-	\$ 3,001,138
Land improvements	3,319,843	-0-	11,275	3,331,118
Leasehold improvements	3,523,555	30,025	-0-	3,553,580
Buildings	40,634,463	17,315	-0-	40,651,778
Fixed equipment	22,562,388	448,635	786,750	23,797,773
Construction in progress	<u>32,619</u>	<u>846,855</u>	<u>(797,953)</u>	<u>81,521</u>
Total historical cost	73,074,006	1,342,830	72	74,416,908
Less accumulated depreciation for				
Land improvements	(1,206,918)	(257,178)	-0-	(1,464,096)
Leasehold improvements	(790,346)	(235,055)	-0-	(1,025,401)
Buildings	(10,231,534)	(2,042,855)	(72)	(12,274,461)
Fixed equipment	<u>(17,054,607)</u>	<u>(1,977,462)</u>	<u>-0-</u>	<u>(19,032,069)</u>
Total accumulated depreciation	<u>(29,283,405)</u>	<u>(4,512,550)</u>	<u>(72)</u>	<u>(33,796,027)</u>
Capital assets, net	<u>\$43,790,601</u>	<u>\$ (3,169,720)</u>	<u>\$ -0-</u>	<u>\$ 40,620,881</u>

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### 7. OTHER ASSETS

At December 31, 2013, other assets consist of the following:

Physician notes receivable	\$ 40,385
Intangible assets	<u>63,304</u>
Total other assets	103,689
Other assets, current portion	<u>(25,000)</u>
Other assets, net of current portion	<u>\$ 78,689</u>

Physician notes receivable are in varying amounts maturing through July 2015. If the physicians meet the period of service requirement, the Hospital will forgive these notes. If the physicians do not meet the period-of-service requirement, the notes are immediately due in full. Interest rates are prime rate + 1 percent (4.25 percent at December 31, 2013).

The Hospital has intangible assets that are being amortized over their remaining estimated useful life using the straight line method.

### 8. COMPENSATED ABSENCES

The Hospital's policy on paid days off (which includes vacation, sick leave, personal leave, and holidays) allows full-time employees and regular part-time employees to accrue paid days off, to a maximum of 60 days.

Paid days off are accrued when incurred and reported as a liability. The paid days off accrual December 31, 2013 was \$886,348 and is reported in accrued expenses in the consolidated financial statements.

### 9. EMPLOYEE HEALTH BENEFIT PLAN

The Hospital operates a self-funded health plan covering substantially all employees. The Hospital has an annual stop loss limit on the plan of \$50,000 per insured per year. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay out, and other economic and social factors. The accrued liability for claims liabilities is recorded in accrued expenses on the consolidated balance sheet.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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Changes in the balance of claims liabilities during the years ended December 31, 2013 were as follows:

Accrued liability, beginning of year	\$ 342,365
Incurred claims, changes in estimates, and fees/premiums	2,118,880
Claim payments	<u>(2,191,849)</u>
Accrued liability, end of year	<u>\$ 269,396</u>

### 10. DEFINED CONTRIBUTION PENSION PLAN

#### Plan Description

The Hospital has a defined contribution pension plan administered by MetLife as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

MetLife  
c/o FasCare, LLC  
P.O. Box 173768  
Denver, Colorado 80217-3768  
Ph. (800) 543-2520

#### Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are voluntary and are established by written authorization for payroll deduction into an annuity savings account. The current rate is 5 percent of annual covered payroll. Employer contributions to the plan were \$703,202 for the year ended December 31, 2013.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### 11. LONG-TERM DEBT

At December 31, 2013, the Hospital was obligated for long-term debt agreements as follows:

Harrison County, Indiana Economic Development Revenue Refunding Bonds, Series 2011 (Harrison County Hospital Project) dated June 2011, payable in annual principal installments commencing July 2011 through June 2031, in amounts ranging from \$347,495 to \$676,531. Variable interest rate is 71% of the Wall Street Journal Prime rate with a floor of 3.55%. Interest rate was 3.55% at December 31, 2013. Secured by gross revenues.	\$ 9,100,351
Mortgage note payable to bank, due July 2017; payable in annual principal installments, in amounts ranging from \$70,698 to \$134,206; variable interest rate at one month LIBOR plus 1.25% (1.42% at December 31, 2013). Secured by substantially all assets.	4,978,293
Mortgage note payable to bank, due September 2017; monthly payments, including interest of \$2,103; Fixed interest at 5.00%. Secured by substantially all assets.	<u>312,862</u>
	14,391,506
Less current portion	<u>(507,157)</u>
Long-term debt, net of current portion	<u>\$ 13,884,349</u>

In June 2011, the Hospital defeased the 2005 bonds with proceeds from the issuance of the 2011 bonds, a contribution from Harrison County, and current cash. However, the swap agreement associated with the 2005 bonds was not terminated as part of the defeasance. The 2011 bonds require that the Hospital establish and maintain a separate deposit account (cash reserve), so long as the swap agreement is in full force and effect. The Hospital shall maintain a cash reserve in an amount equal to any payment that may be due by the Hospital under the swap master agreement due to the termination of the swap agreement. The amount of the cash reserve shall be determined as of the date of the 2011 bond agreement and upon the receipt from time to time of the Hospital's annual financial statements as though the swap agreement was terminated as of such date. The purchaser of the 2011 bonds may consent to release the funds from the cash reserve in the event the amount of the funds then on deposit in the cash reserve exceeds the termination payment on such date. The Hospital must maintain the reserve while the swap agreement is in effect.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

The amount of cash and investments set aside in assets whose use is limited was \$3,403,188 at December 31, 2013.

Long-term debt activity for the years ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 2011	\$ 9,467,333	\$ -0-	\$ 366,982	\$ 9,100,351	\$ 380,740
Mortgage note payable	5,087,421	-0-	109,128	4,978,293	116,720
Mortgage note payable	<u>321,985</u>	<u>-0-</u>	<u>9,123</u>	<u>312,862</u>	<u>9,697</u>
Total long-term debt	<u>\$ 14,876,739</u>	<u>\$ -0-</u>	<u>\$ 485,233</u>	<u>\$ 14,391,506</u>	<u>\$ 507,157</u>

Debt service requirements on long-term debt at December 31, 2013 are based on the interest rate modes in effect and are as follows:

Year Ending December 31,	Principal	Interest
2014	\$ 507,157	\$ 1,579,689
2015	530,023	1,519,215
2016	553,198	1,456,821
2017	5,308,520	1,114,126
2018	439,571	729,211
2019 - 2023	2,450,496	2,844,470
2024 - 2028	2,932,869	1,321,054
2029 - 2031	<u>1,669,672</u>	<u>85,746</u>
Total	<u>\$ 14,391,506</u>	<u>\$ 10,650,332</u>

The Hospital's debt agreements contain various restrictive covenants, including debt service coverage ratio and audited financial statement submission requirements. The Hospital is in violation of the audit submission requirements and has obtained a covenant waiver for the violation.

## 12. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAPS

In accordance with GASB Codification Section D40, governmental entities are required to evaluate each derivative instrument to determine whether the instrument is an effective hedge.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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For those instruments deemed to be an effective hedge, governmental entities are required to practice hedge accounting and the instrument continues to be reevaluated at the end of each future reporting period. Under hedge accounting, the fair value of the instrument is recorded on the consolidated balance sheet with the offsetting entry to deferred outflows or deferred inflows, which is reported on the consolidated balance sheet.

For those instruments deemed to be an ineffective hedge, governmental entities are required to practice investment accounting and the instruments are not evaluated in future reporting periods. Once deemed ineffective, the instrument is considered ineffective for the remainder of its term. Under investment accounting, the fair value of the instrument is recorded on the consolidated balance sheet with the offsetting entry posted to investment income within nonoperating revenues (expenses) on the consolidated statement of operations.

During 2011, the Hospital's interest rate swap on the 2011 revenue bonds (previously 2005 revenue bonds refinanced with 2011 revenue bonds) was determined to be an ineffective hedge. During 2013, the Hospital's interest rate swap on the mortgage note payable was determined to be an ineffective hedge. Therefore, the interest rate swap agreements are ineffective through the remainder of their terms. As a result, the fair value of the instruments have been recorded as liabilities on the consolidated balance sheet with the offsetting entries recorded under nonoperating revenues (expenses) in the consolidated statement of operations.

### Contracts

The Hospital has two interest rate swap agreements in effect as of December 31, 2013 for the 2011 revenue bonds and the mortgage note payable.

### Objectives and Strategies for Using Derivatives

As a means to manage the risk associated with interest rate risk on its variable rate debt, the Hospital entered into interest rate swap agreements in connection with its 2011 revenue bonds and mortgage note payable. The intention of the swap agreements was to effectively change the Hospital's variable interest rate on the Series 2011 Bonds to a fixed rate of 3.81% and change the Hospital's variable interest rate on the mortgage note payable to a fixed rate of 5.97% plus an additional 1.25% credit spread as noted in footnote 11.

### Terms, Fair Values, and Credit Risk

The swap agreements relate to the 2011 revenue bonds and mortgage note payable with original notional amounts of \$25,000,000 and \$5,600,000, respectively. The counter party to the swap agreements is U.S. Bank for the 2011 revenue bonds and Regions Bank for the mortgage note payable.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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The terms and fair values of the outstanding swaps as of December 31, 2013 are as follows:

	2011 Revenue Bonds	Mortgage note payable
Original notional amount	\$ 25,000,000	\$ 5,600,000
Current notional amount	\$ 8,783,000	\$ 5,138,301
Effective date	December 1, 2005	February 15, 2009
Fixed rate	3.81%	5.97%
Variable rate	70% of USD- LIBOR-BBA	USD-LIBOR-BBA
Fair value	\$ (1,262,232)	\$ (873,525)
Termination date	October 1, 2030	July 1, 2017
Counterparty credit rating (1)	AA-	BBB

(1) As rated by Fitch

As of December 31, 2013, the negative fair values of the agreements may be countered by reductions in total interest payments under the swap agreements should the variable rates on the 2011 revenue bonds and mortgage note payable increase.

### Basis Risk

The swaps variable rates are pegged to USD-LIBOR-BBA index. The 2011 Bonds and mortgage note payable variable rates are determined based on the Wall Street Journal Prime Rate and LIBOR, respectively. Therefore basis risk relating to the swaps could be significant.

### Termination Risk

The Hospital or the counter party may terminate the swaps if the other party fails to perform under the terms of the contracts. If at the time of termination, the swaps have a negative fair value, the Hospital could be liable to the counter party for a payment equal to the swaps' fair values. As of December 31, 2013, the Hospital was in compliance with the terms of the swap contracts.

### Swap Payments and Associated Debt

Using rates as of December 31, 2013, debt service requirements of the variable rate debt and net swap payments of the Series 2011 Bonds and mortgage note payable, assuming current interest rates remain the same for the term of the bonds are disclosed in the Long Term Debt note. As rates vary, variable-rate bond interest payments and net swap payments will vary.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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The Hospital has determined the swaps to be ineffective hedges. Accordingly, the fair value of the swaps have been recorded and subsequent changes in fair value will be recorded in the consolidated balance sheets with the offsetting entry recorded under nonoperating revenues (expenses) in the consolidated statement of operations.

Following is an analysis of the recording of the interest rate swap agreements as of, and for the year ended December 31, 2013:

<u>Swap agreement</u>	<u>Interest rate swap liability</u>
2011 Revenue Bonds	\$ 1,262,232
Mortgage note payable	<u>873,525</u>
	<u>\$ 2,135,757</u>
	Change in market value
<u>Swap agreement</u>	<u>Change in market value</u>
2011 Revenue Bonds	\$ 852,570
Mortgage note payable	<u>339,415</u>
Change in market value of interest rate swaps	<u>\$ 1,191,985</u>

See the Fair Value Measurements and Long Term Debt footnotes for additional information.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### 13. NET PATIENT SERVICE REVENUE

For the years ended December 31, 2013, net patient service revenue was as follows:

Gross patient service revenue	
Inpatient services	\$ 23,524,441
Outpatient services	<u>84,125,408</u>
Total gross patient service revenue	107,649,849
Deductions from revenue	
Contractual allowances	58,290,542
Charity care	2,539,785
Bad debts	8,385,399
Medicaid DSH payments recognized	<u>(3,907,673)</u>
Total deductions from revenue	<u>65,308,053</u>
Total net patient service revenue	<u>\$ 42,341,796</u>

The Hospital grants credit without collateral to its patients, most of whom are local residents and insured under third-party payor agreements. The mix of gross revenues and receivables from patients and third-party payors December 31, 2013 was as follows:

	<u>Revenues</u>		<u>Receivables</u>	
Medicare	40	%	26	%
Medicaid	18		14	
Blue Cross	15		7	
Other third-party payors	19		21	
Patients	8		32	
	<u>100</u>	<u>%</u>	<u>100</u>	<u>%</u>

The Hospital has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare.** The Hospital is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The Hospital is classified as Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. As of December 31, 2013, the Hospital's submitted Medicare cost reports have been final settled with the Fiscal Intermediary through December 31, 2011.

- **Medicaid.** The Hospital is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.
- **Charity Care.** The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total operating expenses divided by gross patient service revenue. For the year ended December 31, 2013, the Hospital incurred estimated costs of \$1,119,586.
- **Other.** The Hospital has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes discounts from established charges, fee schedules, as well as inpatient diagnosis-related group reimbursement methodologies.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Hospital believes that it is in compliance with all applicable laws and regulations.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### 14. ELECTRONIC HEALTH RECORDS (EHR) INCENTIVE PAYMENTS

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for EHR incentive payments, the Hospital must meet “meaningful use” criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending on September 30<sup>th</sup>). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital’s cost reports. For Critical Access Hospitals, the payment calculation is based upon the net book value of the qualifying assets, multiplied by the Medicare utilization using Medicare to total inpatient days plus 20%, not to exceed 100%. The total days are multiplied by a factor of total charges excluding charity care to total charges. Critical Access Hospitals can be reimbursed over a four year period for additional qualifying assets not claimed in the first year. The transitional factor ranges from 100% in first payment year and decreases by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2013, the Hospital recognized approximately \$2,233,915 in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Hospital records income at the end of EHR reporting period in which compliance is achieved. EHR incentive income is included in other revenue on the consolidated statement of operations and changes in net position. EHR incentive income is recognized based on management’s estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

### 15. HOSPITAL ASSESSMENT FEE

In 2012, Hospital Assessment Fee (HAF) Program was approved by Centers for Medicare and Medicaid Services (CMS). The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced claims are designed to follow patients and result in increased Medicaid rates.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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During 2013, the Hospital recognized HAF program expense of \$1,469,857 which resulted in Medicaid rate increases. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the consolidated statement of operations. The HAF program was reinstated retroactively to include the period from July 1, 2013 through December 31, 2013, and the net accounts receivable amount relating to the reinstatement as of December 31, 2013 was \$1,050,110. The receivable amount is included in estimated third-party payor settlements on the consolidated balance sheet. The HAF Program was approved for extension through June 30, 2017.

### 16. NONOPERATING REVENUES (EXPENSES)

For the year ended December 31, 2013, nonoperating revenues (expenses) were as follows:

Investment income	\$ 63,073
Interest expense	(1,078,638)
Contributions and grants	65,153
Change in market value of interest rate swaps	<u>1,191,985</u>
Total nonoperating revenues (expenses)	<u>\$ 241,573</u>

GASB requires interest expense to be reported as nonoperating expense while FASB requires interest expense to be reported as an operating expense.

### 17. PROFESSIONAL LIABILITY INSURANCE

The Indiana Medical Malpractice Act, IC 34-18, provides a maximum recovery of \$250,000 for an occurrence of malpractice and \$1,250,000 for an injury or death of a patient due to an act of malpractice. The Act requires physicians to maintain medical malpractice liability insurance in the minimum amount of \$250,000 per occurrence and \$750,000 in the annual aggregate and hospitals to maintain medical malpractice liability insurance in the minimum amount of \$250,000 per occurrence and \$5,000,000 in the annual aggregate for hospitals with fewer than 100 occupied beds. The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund. This fund may be used to pay medical malpractice claims in excess of the annual aggregate amount noted above, under certain terms and conditions.

Liabilities for incurred but not reported losses at December 31, 2013 are not determinable; however, in management's opinion, such liabilities, if any, will not have a material effect on the Hospital's financial position and its malpractice and general liability insurance is adequate to cover losses, if any. Should the policies not be renewed or replaced with appropriate insurance coverage, claims based upon occurrences during these terms, but reported subsequently, will be uninsured. The Hospital intends to continue carrying such insurance.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### 18. RELATED PARTY TRANSACTIONS

#### Harrison-Floyd Health Services, LLC

In 2004, the Hospital entered into an agreement with Floyd Memorial Hospital and Health Services to establish and operate a limited liability company, Harrison-Floyd Health Services, LLC. In accordance with this agreement, each hospital invested \$150,000 for 50 percent equity interest in the Harrison-Floyd Health Services, LLC. The investment was made in the fiscal years 2004 and 2005. The Harrison-Floyd Health Services, LLC, began operations in 2004. The Harrison-Floyd Health Services, LLC, ceased operations on December 31, 2012, and was dissolved on February 20, 2013. The Harrison-Floyd Health Services, LLC's fixed assets were subsequently acquired by the Hospital for \$22,060. On April 30, 2013, each Hospital received \$31,889 as a return of their initial equity contribution.

### 19. OPERATING LEASES – LESSEE

The Hospital leases certain building space under cancelable operating leases. The Hospital incurred \$150,319 in total rent expense for the year ended December 31, 2013, under its cancelable operating leases.

### 20. OPERATING LEASES – LESSOR

The Hospital leases medical office space to tenants under operating leases expiring within the next five years. The leases contain annual escalation provisions which increase rentals relative to increases in the Consumer Price Index. The leases also contain provisions which require tenants to pay their proportionate share of certain expenses and costs in connection with the Hospital's ownership and operation of the building and common area.

Following is a schedule by years of future minimum rentals to be received under the operating leases with remaining noncancellable lease terms in excess of one year as of December 31, 2013:

Year ended December 31:	
2014	\$ 199,368
2015	199,368
2016	199,368
2017	199,368
2018	117,422
Total minimum future rentals	<u>\$ 914,894</u>

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# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### 21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

#### Cash and Cash Equivalents

The carrying amount reported in the consolidated balance sheet for cash and cash equivalents approximates its fair value based on the short maturities of those items.

#### Assets Whose Use is Limited

These assets are reported in the consolidated balance sheet at fair value. The fair value amounts are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

#### Accounts Payable, Accrued Payroll and Payroll Withholdings, and Accrued Expenses

The carrying amounts reported in the consolidated balance sheet for accounts payable, accrued payroll and payroll withholdings, and accrued expenses approximate their fair value based on the short maturities of those items.

#### Estimated Third-Party Payor Settlements

The carrying amount reported in the consolidated balance sheet for estimated third-party payor settlements approximates its fair value because they are expected to be settled in the near future.

#### Long-Term Debt

The carrying amount reported in the consolidated balance sheet for long-term debt approximates its fair value because the vast majority of the outstanding debt carries variable interest rates.

#### Interest Rate Swap Agreements

Interest rate swap agreements are reported in the consolidated balance sheet at fair value. Interest rate swap agreements are valued using pricing models that are derived principally from observable market data based on discounted cash flows and interest rate yield curves at quoted intervals for the full term of the swap.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### 22. CONTINGENCIES

There are a variety of legal proceedings and claims by others against the Hospital in a variety of matters arising out of the conduct of the Hospital's business. The ultimate resolution of such claims would not, in the opinion of management, have a material adverse effect on the consolidated financial statements.

### 23. COMMITMENTS

As of December 31, 2013, the Hospital has construction and renovation project commitments as follows:

<u>Project</u>	<u>Expected Date of Completion</u>	<u>Estimated Total Cost of Project</u>	<u>Costs Incurred as of 12/31/2013</u>
Crawford County Health Facility	2015	\$ 150,000	\$ 7,307
Cerner System Upgrade	2014	110,000	68,895
Other	2015	10,000	5,319
		<u>\$ 270,000</u>	<u>\$ 81,521</u>

### 24. CONDENSED FINANCIAL INFORMATION

The Hospital includes one blended component unit, the MOB, in its reporting entity. Condensed component unit information for its blended component unit as of and for the year ended December 31, 2013 is as follows:

#### **Balance sheet**

##### Assets

Current assets	\$ 89,981
Capital assets, net	6,240,989
Other assets	63,304
Total assets	<u>\$ 6,394,274</u>

##### Liabilities

Current liabilities	\$ 207,477
Long-term liabilities	6,162,476
Total liabilities	6,369,953

##### Net position

Net investment in capital assets	784,213
Unrestricted	(759,892)
Total net position	<u>24,321</u>
Total liabilities and net position	<u>\$ 6,394,274</u>

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# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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### Statement of operations and changes in net position

Operating revenues	
Other operating revenue	\$ -0-
Operating expenses	
Depreciation and amortization	291,828
Other operating expenses	228,590
Total operating expenses	<u>520,418</u>
Income from operations	(520,418)
Nonoperating revenues (expenses)	<u>(67,614)</u>
Change in net position	(588,032)
Member distributions	(84,000)
Net position - beginning of year	<u>(197,547)</u>
Net position - end of year	<u><u>\$ (869,579)</u></u>

### Statement of cash flows

Cash provided by	
Operating activities	\$ 217,552
Capital and related financing activities	<u>(286,629)</u>
Total	<u>(69,077)</u>
Cash - beginning of year	126,125
Cash - end of year	<u><u>\$ 57,048</u></u>

## 25. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future financial statements:

**GASB Statement No. 69**, *Government Combinations and Disposals of Government Operations*, issued January 2013, will be effective for government combinations and disposals of government operations occurring in financial reporting periods for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations (mergers, acquisitions, and transfers of operations) and disposals of government operations. The disclosures required by this Statement will enable financial statement users to evaluate the nature and financial effects of those transactions.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2013

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**GASB Statement No. 70**, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013, will be effective for financial reporting periods beginning after June 15, 2013. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. Additional disclosures will be required by both governments that extend and receive financial guarantees.