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July 9, 2014

Board of Directors
Witham Health Services
P.O. Box 1200
Lebanon, IN 46052

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 the Witham Health Services, as of December 31, 2013 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

WITHAM HEALTH SERVICES

Small Hospital. Big Medicine.

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013

CPAs / ADVISORS

blue

WITHAM HEALTH SERVICES

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Witham Health Services
Lebanon, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Witham Health Services and its affiliates (Hospital), which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of revenues, expenses and 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and 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 Hospital'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 Hospital'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 consolidated financial position of the Hospital as of December 31, 2013, and its results of operations, changes in net position and cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note 2 of the consolidated financial statements, in 2013, 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 Summarized Comparative Information

We have previously audited the Hospital's 2012 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated July 17, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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 consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

Board of Trustees
Witham Health Services

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net position and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
June 30, 2014

REQUIRED SUPPLEMENTARY INFORMATION

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012 AND 2011)

This section of Witham Health Services' (Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during the years ended December 31, 2013 and 2012. This MD&A does include a discussion and analysis of the activities and results of the Blended Component Units, Medical Office Properties, LLC, Creekside OB/GYN, Inc., Central Indiana Health Association, Inc. and the Discrete Component Unit, Witham Health Services Foundation, Inc. Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- The Hospital's net position increased approximately $17,522,000 or 20% in 2013 compared to $25,917,000 or 43% in 2012.

- The Hospital reported operating income of approximately $21,273,000 for the year 2013, representing a decrease of approximately $7,379,000 in comparison to 2012 results. Operating income for 2012 of approximately $28,653,000 was $18,637,000 more than 2011.

- Total revenue increased by approximately $11,626,000 in 2013 compared to 2012. In 2012, total revenue increased $144,084,000 over 2011.

- Long-term care services generated approximately $253,376,000 and $235,885,000 in gross patient service revenue during 2013 and 2012, respectively. In 2011, long-term care services generated approximately $37,113,000 in gross patient service revenue.

USING THIS ANNUAL REPORT

The Hospital's consolidated 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 consolidated financial statements and related notes provide information about the consolidated activities and the financial position of the Hospital.

The consolidated balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities).

All of the current year's revenue earned and expenses incurred are accounted for in the consolidated statement of revenues, expenses and changes in net position.

Finally, the consolidated statement of cash flows' purpose is to provide information about the Hospital's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and what was the change in cash balance during the year.

THE CONSOLIDATED BALANCE SHEET AND CONSONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The consolidated balance sheet and the consolidated 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. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. Think of the Hospital's net position, the difference between assets and liabilities, as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Consolidated Balance Sheets

	2013	2012	2013-2012 Change	2011	2012-2011 Change
Assets					
Current assets	$ 124,595,320	$ 105,482,840	$ 19,112,480	$ 73,179,944	$ 32,302,896
Assets whose use is limited	7,413,424	7,104,069	309,355	8,440,776	(1,336,707)
Capital assets, net	80,409,533	80,734,529	(324,996)	82,557,845	(1,823,316)
Other assets	707,923	634,676	73,247	981,209	(346,533)
Total assets	213,126,200	193,956,114	19,170,086	165,159,774	28,796,340
Deferred outflows	1,984,728	2,147,856	(163,128)	2,310,984	(163,128)
Total assets and deferred outflows	$ 215,110,928	$ 196,103,970	$ 19,006,958	$ 167,470,758	$ 28,633,212
Liabilities					
Current liabilities	$ 44,696,600	$ 38,554,844	$ 6,141,756	$ 31,223,407	$ 7,331,437
Long-term debt	67,275,327	71,931,765	(4,656,438)	76,547,050	(4,615,285)
Total liabilities	111,971,927	110,486,609	1,485,318	107,770,457	2,716,152
Net position					
Invested in capital assets, net of related debt	8,698,617	4,360,954	4,337,663	3,939,778	421,176
Restricted					
Trustee held for debt service and capital	9,981,253	9,978,987	2,266	9,917,352	61,635
Expendable for donor restriction	475,368	98,322	377,046	112,471	(14,149)
Total restricted	10,456,621	10,077,309	379,312	10,029,823	47,486
Unrestricted					
Designated for capital improvements	51,803	1,760	50,043	1,250,953	(1,249,193)
Undesignated	83,931,960	71,177,338	12,754,622	44,479,747	26,697,591
Total unrestricted	83,983,763	71,179,098	12,804,665	45,730,700	25,448,398
Total net position	103,139,001	85,617,361	17,521,640	59,700,301	25,917,060
Total liabilities and net position	$ 215,110,928	$ 196,103,970	$ 19,006,958	$ 167,470,758	$ 28,633,212

Total assets and deferred outflows increased approximately $19,007,000 over 2012 primarily due to activity in long-term care services. Cash, investments and assets whose use is limited increased in total by $13,264,000 over 2012 while capital assets decreased by approximately $325,000 over prior year. Current assets, such as patient accounts receivable and other receivables, comprised the remainder of the 2013 increase.

Total liabilities increased $1,485,000 over 2012 mainly due to additional accounts payable and accrued payroll and benefits related to increased activity in long-term care services.

Total assets and deferred outflows in 2012 increased $28,633,000 over 2011 primarily due to patient accounts receivable and increased activity in long-term care services. Cash, investments and assets whose use is limited increased in total by $24,757,000 while capital assets decreased approximately $1,823,000.

Total liabilities increased $2,716,000 over 2011 mainly as the result of accounts payable and accrued liabilities related to the addition of long-term care services in 2011.

Consolidated Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	2013-2012 Change	2011	2012-2011 Change
Revenues					
Net patient service revenue	$ 272,139,208	$ 258,811,635	$ 13,327,573	$ 111,266,624	$ 147,545,011
Other operating revenue	3,746,484	5,448,126	(1,701,642)	8,909,518	(3,461,392)
Total revenues	275,885,692	264,259,761	11,625,931	120,176,142	144,083,619
Expenses					
Salaries and benefits	53,246,398	46,401,012	6,845,386	44,791,418	1,609,594
Supplies	23,041,763	24,765,320	(1,723,557)	13,639,943	11,125,377
Depreciation	6,196,960	6,224,194	(27,234)	6,397,131	(172,937)
Other operating expenses	172,127,193	158,216,674	13,910,519	45,331,993	112,884,681
Total expenses	254,612,314	235,607,200	19,005,114	110,160,485	125,446,715
Operating income	21,273,378	28,652,561	(7,379,183)	10,015,657	18,636,904
Nonoperating revenue (expense), net	(3,751,738)	(2,735,501)	(1,016,237)	(3,068,329)	332,828
Change in net position	17,521,640	25,917,060	(8,395,420)	6,947,328	18,969,732
Net position					
Beginning of year	85,617,361	59,700,301	25,917,060	52,752,973	6,947,328
End of year	$ 103,139,001	$ 85,617,361	$ 17,521,640	$ 59,700,301	$ 25,917,060

The main component of the overall change in the Hospital's net position is operating income. In 2012, the Hospital reported operating income of approximately $28,653,000 compared to 2013 of approximately $21,273,000, which is a decrease of approximately $7,379,000 from 2012. The primary reason for the change in operating income was an increase in operating revenue of approximately $11,626,000 offset by an increase in operating expenses of $19,005,000. The increases can be attributed to utilization changes and long-term care services.

Nonoperating revenue (expense) consists primarily of investment income, interest expense and Foundation revenue and expenses. The nonoperating items changed from a net expense of approximately $2,736,000 in 2012 to a net expense of approximately $3,752,000 in 2013. The change of approximately $1,016,000 is primarily due to investment income, interest expense and loss on investment in affiliates.

Operating income in 2012 was approximately $18,637,000 higher than 2011 as volumes in patient service revenue outpaced corresponding expenses mainly as a result of utilization and long-term care services.

CONSOLIDATED STATEMENT OF CASH FLOWS

The final required statement is the consolidated statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing and investing 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 balance during the reporting period?"

	2013	2012	2012-2011 Change	2011	2011-2010 Change
Cash flows from					
Operating	$ 27,455,537	$ 36,452,765	$ (8,997,228)	$ 16,876,370	$ 19,576,395
Capital and related financing	(13,998,311)	(12,787,368)	(1,210,943)	(9,747,931)	(3,039,437)
Investing	7,008,400	2,884,399	4,124,001	(7,291,191)	10,175,590
Change in cash and equivalents	$ 20,465,626	$ 26,549,796	$ (6,084,170)	$ (162,752)	$ 26,712,548

Operating activities generated cash of approximately $27,456,000 in 2013. Capital and related financing activities used cash of approximately $13,998,000 in 2013. Two significant components capital and related financing activities include cash used to purchase of capital assets of $5,928,000 and cash paid for principal and interest of approximately $8,070,000. Investing activities provided cash of approximately $7,008,000 in 2013 mainly due to classification changes between investments and cash equivalents.

2012 generated cash and cash equivalents of approximately $26,550,000 compared to a use of cash and cash equivalents of approximately of $163,000 in 2011. The main difference related to classification changes between investments and cash equivalents during the year.

SOURCES OF REVENUE

During 2013, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 55% of the Hospital's gross revenues in 2013, 53% in 2012 and 55% in 2011.

Following is a table of major sources of gross patient revenues for 2013, 2012 and 2011:

	2013	2012	2011
Medicare	39%	38%	39%
Medicaid	16%	15%	16%
Commercial	37%	39%	39%
Self Pay	8%	8%	6%
	100%	100%	100%

CAPITAL ASSETS

At the end of 2013, the Hospital had approximately $80,410,000 invested in capital assets, net of accumulated depreciation, as detailed below.

	2013	2012	2013-2012 Change	2011	2012-2011 Change
Land and improvements	$ 7,721,719	$ 7,269,626	$ 452,093	$ 7,269,626	$ -0-
Buildings and improvements	80,510,465	78,934,686	1,575,779	78,497,524	437,162
Equipment	41,884,462	39,545,615	2,338,847	36,330,179	3,215,436
Construction in progress	2,060,815	641,461	1,419,354	41,176	600,285
Total property and equipment	132,177,461	126,391,388	5,786,073	122,138,505	4,252,883
Less accumulated depreciation	51,767,928	45,656,859	6,111,069	39,580,660	6,076,199
Capital assets, net	$ 80,409,533	$ 80,734,529	$ (324,996)	$ 82,557,845	$ (1,823,316)

Net capital assets decreased by approximately $325,000 in 2013 compared to 2012 as depreciation expense outpaced current year additions. The change between 2012 and 2011 was $1,823,000 as depreciation expense outpaced 2012 property additions.

DEBT

The Hospital's debt consists of revenue bonds, loans payable and capital lease obligations. There were no new borrowings or significant changes in long-term debt during 2013 and 2012. More detailed information about the Hospital's long-term debt is presented in the notes to the consolidated financial statements.

ECONOMIC OUTLOOK

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The significant factor affecting the Hospital is finding the balance in maintaining and controlling labor costs in the face of declining volumes and pressures on pricing for its services in this increasingly competitive environment.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide 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. If you have questions about this report or need additional financial information, contact the Hospital Controller's Office, at PO Box 1200, Lebanon, IN, 46052.

WITHAM HEALTH SERVICES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013				2012
ASSETS AND DEFERRED OUTFLOWS	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Current assets					
Cash and cash equivalents	$ 60,800,826	$ 2,839,074	$ -0-	$ 63,639,900	$ 44,659,503
Investments	14,544,473	1,136,973	-0-	15,681,446	21,827,084
Patient accounts receivable, less allowance for uncollectible accounts of $8,309,000 in 2013 and $5,509,000 in 2012	26,834,386	-0-	-0-	26,834,386	22,418,864
Other receivables	11,122,182	1,053	-0-	11,123,235	4,848,565
Inventory and other current assets	4,144,571	76,782	-0-	4,221,353	8,753,824
Current portion of assets whose use is limited	3,095,000	-0-	-0-	3,095,000	2,975,000
Total current assets	120,541,438	4,053,882	-0-	124,595,320	105,482,840
Assets whose use is limited					
Held by trustee for debt service and capital	9,981,253	-0-	-0-	9,981,253	9,978,987
Designated for capital improvements	51,803	-0-	-0-	51,803	1,760
Donor restricted	-0-	475,368	-0-	475,368	98,322
Total assets whose use is limited	10,033,056	475,368	-0-	10,508,424	10,079,069
Less current portion	3,095,000	-0-	-0-	3,095,000	2,975,000
Noncurrent assets whose use is limited	6,938,056	475,368	-0-	7,413,424	7,104,069
Capital assets					
Land and improvements	7,721,719	-0-	-0-	7,721,719	7,269,626
Depreciable capital assets	122,394,927	-0-	-0-	122,394,927	118,480,301
Construction in progress	2,060,815	-0-	-0-	2,060,815	641,461
	132,177,461	-0-	-0-	132,177,461	126,391,388
Less accumulated depreciation	51,767,928	-0-	-0-	51,767,928	45,656,859
Capital assets, net	80,409,533	-0-	-0-	80,409,533	80,734,529
Other assets					
Investment in affiliates and other	211,411	-0-	-0-	211,411	556,591
Other	501,506	-0-	(4,994)	496,512	78,085
Total other assets	712,917	-0-	(4,994)	707,923	634,676
Total assets	208,601,944	4,529,250	(4,994)	213,126,200	193,956,114
Deferred outflows					
Deferred loss on bond refunding	1,984,728	-0-	-0-	1,984,728	2,147,856
Total assets and deferred outflows	$ 210,586,672	$ 4,529,250	$ (4,994)	$ 215,110,928	$ 196,103,970

See accompanying notes to consolidated financial statements.

WITHAM HEALTH SERVICES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013				2012
LIABILITIES AND NET POSITION	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Current liabilities					
Accounts payable	$ 28,227,111	$ -0-	$ -0-	$ 28,227,111	$ 21,317,667
Accrued salaries and related liabilities	8,665,801	-0-	-0-	8,665,801	8,614,711
Accrued expenses and other current liabilities	2,432,226	16,897	(4,994)	2,444,129	2,632,999
Estimated third-party settlements	923,970	-0-	-0-	923,970	1,547,657
Current portion of long-term debt					
Capital lease obligation	1,042,000	-0-	-0-	1,042,000	1,178,849
Loans payable	298,589	-0-	-0-	298,589	287,961
Revenue bonds payable	3,095,000	-0-	-0-	3,095,000	2,975,000
Total current liabilities	44,684,697	16,897	(4,994)	44,696,600	38,554,844
Long-term debt, net of current portion					
Capital lease obligation	-0-	-0-	-0-	-0-	1,134,917
Loans payable	1,647,325	-0-	-0-	1,647,325	1,915,455
Revenue bonds payable	65,628,002	-0-	-0-	65,628,002	68,881,393
Total long-term debt	67,275,327	-0-	-0-	67,275,327	71,931,765
Total liabilities	111,960,024	16,897	(4,994)	111,971,927	110,486,609
Net position					
Invested in capital assets, net of related debt	8,698,617	-0-	-0-	8,698,617	4,360,954
Restricted					
Trustee held for debt service and capital	9,981,253	-0-	-0-	9,981,253	9,978,987
Expendable for donor restriction	-0-	475,368	-0-	475,368	98,322
Total restricted	9,981,253	475,368	-0-	10,456,621	10,077,309
Unrestricted					
Designated for capital improvements	51,803	-0-	-0-	51,803	1,760
Undesignated	79,894,975	4,036,985	-0-	83,931,960	71,177,338
Total unrestricted	79,946,778	4,036,985	-0-	83,983,763	71,179,098
Total net position	98,626,648	4,512,353	-0-	103,139,001	85,617,361
Total liabilities and net position	$ 210,586,672	$ 4,529,250	$ (4,994)	$ 215,110,928	$ 196,103,970

See accompanying notes to consolidated financial statements.

WITHAM HEALTH SERVICES

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013				2012
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Operating revenues					
Net patient service revenue	$ 272,139,208	$ -0-	$ -0-	$ 272,139,208	$ 258,811,635
Other operating revenue	3,746,484	-0-	-0-	3,746,484	5,448,126
Total operating revenues	275,885,692	-0-	-0-	275,885,692	264,259,761
Operating expenses					
Salaries and wages	40,609,600	-0-	-0-	40,609,600	35,137,808
Employee benefits	12,636,798	-0-	-0-	12,636,798	11,263,204
Professional medical fees	5,103,081	-0-	-0-	5,103,081	5,437,876
Purchased services	108,952,707	-0-	-0-	108,952,707	107,599,169
Supplies	23,041,763	-0-	-0-	23,041,763	24,765,320
Repairs and maintenance	3,880,940	-0-	-0-	3,880,940	3,597,240
Equipment and facility rental	20,213,088	-0-	-0-	20,213,088	17,931,838
Utilities	9,132,477	-0-	-0-	9,132,477	4,839,509
Depreciation	6,196,960	-0-	-0-	6,196,960	6,224,194
Insurance	1,011,902	-0-	-0-	1,011,902	1,031,657
HAF Program	3,614,457	-0-	-0-	3,614,457	4,009,932
Other expenses	20,218,541	-0-	-0-	20,218,541	13,769,453
Total operating expenses	254,612,314	-0-	-0-	254,612,314	235,607,200
Operating income	21,273,378	-0-	-0-	21,273,378	28,652,561
Nonoperating revenue (expense)					
Investment income	(53,494)	162,374	-0-	108,880	489,874
Interest expense	(3,503,407)	-0-	-0-	(3,503,407)	(3,707,743)
Foundation revenue	-0-	460,166	-0-	460,166	483,628
Foundation expense	-0-	(184,450)	20,000	(164,450)	(215,995)
Gain (loss) on investment in affiliates	(782,729)	-0-	-0-	(782,729)	45,278
Other nonoperating revenue	149,802	-0-	(20,000)	129,802	169,457
Total nonoperating revenue (expense), net	(4,189,828)	438,090	-0-	(3,751,738)	(2,735,501)
Change in net position	17,083,550	438,090	-0-	17,521,640	25,917,060
Net position					
Beginning of year	81,543,098	4,074,263	-0-	85,617,361	59,700,301
End of year	$ 98,626,648	$ 4,512,353	$ -0-	$ 103,139,001	$ 85,617,361

See accompanying notes to consolidated financial statements.

WITHAM HEALTH SERVICES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013				2012
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Operating activities					
Cash received from patient services	$ 263,485,542	$ -0-	$ -0-	$ 263,485,542	$ 251,403,446
Cash paid for salaries, wages and benefits	(53,195,308)	-0-	-0-	(53,195,308)	(44,543,852)
Cash paid to vendors and suppliers	(186,579,462)	-0-	-0-	(186,579,462)	(177,249,726)
Other receipts, net	3,746,484	(1,719)	-0-	3,744,765	6,842,897
Net cash flows from operating activities	27,457,256	(1,719)	-0-	27,455,537	36,452,765
Capital and related financing activities					
Acquisition and construction of capital assets	(5,927,836)	-0-	-0-	(5,927,836)	(4,615,490)
Cash paid for interest on long-term debt	(3,566,207)	-0-	-0-	(3,566,207)	(3,774,793)
Principal payments for long-term debt	(4,504,268)	-0-	-0-	(4,504,268)	(4,397,085)
Net cash flows from capital and related financing activities	(13,998,311)	-0-	-0-	(13,998,311)	(12,787,368)
Investing activities					
Investment income	(53,494)	162,374	-0-	108,880	355,089
Purchase of investments	(8,125,444)	(276,181)	-0-	(8,401,625)	(7,094,017)
Proceeds from sale of investments	15,811,364	272,510	-0-	16,083,874	9,578,049
Cash from (to) investments in affiliates, net	(782,729)	-0-	-0-	(782,729)	45,278
Net cash flows from investing activities	6,849,697	158,703	-0-	7,008,400	2,884,399
Net change in cash and cash equivalents	20,308,642	156,984	-0-	20,465,626	26,549,796
Cash and cash equivalents					
Beginning of year	47,546,285	3,157,458	-0-	50,703,743	24,163,022
End of year	$ 67,854,927	$ 3,314,442	$ -0-	$ 71,169,369	$ 50,712,818
Reconciliation of cash and cash equivalents to the consolidated balance sheets					
Cash and cash equivalents					
Included in current assets	$ 60,800,826	$ 2,839,074	$ -0-	$ 63,639,900	$ 44,659,503
In investments	-0-	-0-	-0-	-0-	76
In assets whose use is limited - held by trustee	7,002,298	-0-	-0-	7,002,298	5,953,157
In assets whose use is limited - designated	51,803	-0-	-0-	51,803	1,760
In assets whose use is limited - donor restricted	-0-	475,368	-0-	475,368	98,322
Total cash and cash equivalents	$ 67,854,927	$ 3,314,442	$ -0-	$ 71,169,369	$ 50,712,818

See accompanying notes to consolidated financial statements.

WITHAM HEALTH SERVICES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013				2012
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Reconciliation of operating income to net cash flows from operating activities					
Operating income	$ 21,273,378	$ -0-	$ -0-	$ 21,273,378	$ 28,652,561
Adjustment to reconcile operating income to net cash flows from operating activities					
Depreciation	6,196,960	-0-	-0-	6,196,960	6,224,194
Provision for bad debts	15,149,909	-0-	-0-	15,149,909	13,357,457
Changes in operating assets and liabilities					
Patient accounts receivable	(19,565,431)	-0-	-0-	(19,565,431)	(15,548,245)
Other receivables	(6,277,206)	2,536	-0-	(6,274,670)	508,032
Inventory and other current assets	4,543,553	(11,082)	-0-	4,532,471	(4,542,428)
Accounts payable	6,909,444	-0-	-0-	6,909,444	5,940,921
Accrued salaries and related liabilities	51,090	-0-	-0-	51,090	1,858,850
Accrued expenses and other current liabilities	(200,754)	6,827	-0-	(193,927)	(336,345)
Estimated third-party settlements	(623,687)	-0-	-0-	(623,687)	337,768
Net cash flows from operating activities	$ 27,457,256	$ (1,719)	$ -0-	$ 27,455,537	$ 36,452,765

See accompanying notes to consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Witham Health Services (Hospital) is a county owned facility operating under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient, outpatient health care and long-term care services. The Board of County Commissioners of Boone County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Boone County.

In 2000, the Board of County Commissioners of Boone County, upon written request of the Hospital Board of Trustees, created the Boone County Hospital Association (Association). The Association was created pursuant to the provisions of IC 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

For financial reporting purposes, the Hospital's reporting entity consists of the primary government and component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government.

The consolidated financial statements include certain prior year summarized comparative information in total but not by discrete component unit. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Hospital's consolidated financial statements as of December 31, 2012 and for the year ended, from which the summarized information was derived.

Blended Component Units

Blended component units, although legally separate entities are in substance part of the government's operations and exist solely to provide services for the government; data from these units is consolidated with data of the primary government. The Hospital appoints a voting majority of the Medical Office Properties, LLC (MOP, LLC), Creekside OB/GYN, Inc. (Creekside), and Central Indiana Health Association, Inc. (CIHA) boards and is able to impose its will and a financial benefit/burden relationship exists between the Hospital and MOP, LLC, Creekside, and CIHA. Although they are legally separate from the Hospital, MOP, LLC, Creekside, and CIHA are reported as if they were part of the Hospital because the boards are substantively the same and they provide services entirely or almost entirely to the Hospital. The Hospital is 100% owner of MOP, LLC and Creekside and is the sole corporate member of CIHA. Thus, there is no non-controlling interest that is required to be disclosed.

The Association is a blended component unit consolidated within the Hospital's activities for financial reporting purposes. All significant transactions between the Hospital, MOP, LLC, Creekside, CIHA and the Association have been eliminated for financial reporting purposes.

Discrete Component Units

Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the consolidated financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Witham Health Services Foundation, Inc. (Foundation) is considered a discrete component unit for reporting purposes. All significant transactions between the Hospital and the Foundation have been eliminated for financial reporting purposes.

Long-Term Care Services

The Hospital owns the operations of various long-term care facilities through arrangements with multiple managers (the Managers) of the long-term care facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the Managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

The Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital pays the Managers a management fee to manage the facilities on behalf of the Hospital in accordance with the terms of the agreements. The agreements expire at various times through March 2027. All parties involved can terminate the agreements without cause with 90 days written notice.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise Fund Accounting

The Hospital utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include all demand deposits and investments in highly liquid debt instruments with an original maturity date of three months.

Investments

Nonparticipating certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at contract value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or an United States Government Agency. Debt securities are reported at fair value. Mutual funds are reported at fair value based on the fund's market price. Other investments are generally reported at fair value. Investment income, including changes in the fair value of investments, is reported as non-operating income in the consolidated statements of revenues, expenses and changes in net position.

Patient Accounts Receivable and Net Patient Service Revenue

The Hospital provides services to patients who reside primarily in the local geographic region. Patient accounts receivable and patient service revenues are recorded when patient services are performed and are reported based on gross charges, net of certain deductions from those charges. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue.

At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2011.

Amounts for unresolved cost reports for 2012 through 2013 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2013 and 2012, the Hospital recognized a decrease in net patient service revenue and net position of approximately $157,000 and $245,000, respectively, in the consolidated statements of revenues, expenses and changes in net position, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net practice revenue. The charity care charges foregone during 2013 and 2012 were approximately $5,762,000 and $5,832,000, respectively.

Of the Hospital's total expenses reported, an estimated $1,984,000 and $1,947,000 arose from providing services to charity patients during 2013 and 2012, respectively. 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 expenses (approximately $255,000,000 and $236,000,000 for 2013 and 2012, respectively, which includes interest expense and excludes Hospital Assessment Fee Program expense) to gross patient service revenue.

Inventory and Other Current Assets

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory at year-end consists mainly of pharmaceuticals and medical supplies.

Other current assets consist of prepaid expenses, other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized during 2014.

Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes, investments held by trustees for debt service and capital improvements and assets that are donor restricted. These investments consist primarily of cash and cash equivalents, certificates of deposit, United States government securities and mutual funds. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenue (expense) in the consolidated statements of revenues, expenses and changes in net position.

Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed $500 and which meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred.

The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The range of useful lives in computing depreciation is as follows:

Description	Range of Useful Lives
Land improvements	5 to 20 years
Buildings and improvements	10 to 40 years
Fixed equipment	10 to 40 years
Major moveable equipment	3 to 15 years
Minor equipment	3 to 15 years

Net Position

Net position of the Hospital is classified in three components. Invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted includes net position held by trustee for debt service requirements and capital or donor restrictions. Unrestricted net position includes designated for capital improvements and undesignated net position that does not meet the definition of invested in capital assets net of related debt or restricted.

Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Hospital's consolidated statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenue and expense. 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 or incidental transactions such as investment activities are reported as nonoperating revenue and expense.

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the 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 September 30). 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. The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as revenue 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 and 2012, the Hospital recognized approximately $221,000 and $1,828,000, respectively, in EHR incentive payments as revenue using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other operating revenue in the consolidated statements of revenues, expenses and changes in net position. EHR incentive income recognized is 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 programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Grants and Contributions

From time to time, the reporting entity receives contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all requirements are met. Grants may be restricted for either specific operation purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statues. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

The Association is a governmental instrumentality organized under IC 16-22-6 and is exempt from Federal income tax under Section 115 of the Internal Revenue. As such, the Association is generally exempt from income taxes and is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

The Foundation and CIHA are tax-exempt organizations under section 501(c)(3). As such, they are generally exempt from income taxes. However, they are required to file Federal Form 990 – Return of Organization from Income Tax.

MOP, LLC is organized as a limited liability company, whereby net taxable income is taxed directly to the members and not the entity. Thus, the consolidated financial statements do not include any provision for Federal or state income taxes.

Creekside is organized as a S corporation, whereby net taxable income is taxed directly to the shareholders and not the entity. Thus, the consolidated financial statements do not include any provision for Federal or state income taxes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital (and its affiliates) and recognize a tax liability if the Hospital has taken an uncertain 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 the Hospital and has concluded that as of December 31, 2013 and 2012, 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. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

These entities have filed their Federal and state income tax returns for periods through December 31, 2012. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. The estimated amount of unused time off is reported as a liability in the consolidated financial statements.

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; employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. The Indiana Medical Malpractice Act provides for a maximum recovery of $1,250,000 per occurrence ($7,500,000 annual aggregate) with the first $250,000 covered by the Hospital's insurance and the remainder by the Indiana Patient Compensation Fund.

On July 1, 2006, the Hospital became a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund the Hospital's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage.

This provides protection from liability in an amount not to exceed $250,000 per incident and aggregate liability protection not to exceed $7,500,000 per year. In addition, the Hospital maintains a commercial umbrella/excess liability policy with a limit of $1,000,000 each occurrence, $1,000,000 fire legal liability, $1,000,000 personal and advertising injury, and a $3,000,000 total policy aggregate.

Litigation

The Hospital is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position, results from operations or cash flows.

Advertising

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expense was approximately $534,000 and $556,000 for 2013 and 2012, respectively.

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the current year presentation. The reclassifications had no effect on the previously reported consolidated net position and consolidated change in net position.

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to 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 June 30, 2014.

2. NEW STANDARDS IMPLEMENTATION

During 2013, the Hospital implemented GASB Statement 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 the Blended Component Units note, the Hospital adopted GASB Statement No. 61 which requires reporting condensed combining information in the notes to the consolidated financial statements for blended component units of primary governments that are business-type activities.

Also 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 are now 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 consolidated financial statements have been retroactively restated to address the implementation of these new standards and the effects on the consolidated financial statements are detailed below:

	December 31, 2012		
	Previously Reported	Adjustment	Restated
Consolidated balance sheet			
Debt issue costs, net	$ 830,201	$ (830,201)	$ -0-
Total assets	$ 194,786,315	$ (830,201)	$ 193,956,114
Deferred outflows	$ -0-	$ 2,147,856	$ 2,147,856
Total assets and deferred outflows	$ 194,786,315	$ 1,317,655	$ 196,103,970
Long-term debt	$ 69,783,909	$ 2,147,856	$ 71,931,765
Total liabilities	$ 108,338,753	$ 2,147,856	$ 110,486,609
Net position			
Invested in capital assets, net of related debt	$ 6,517,885	$ (2,156,931)	$ 4,360,954
Designated - held by trustee	$ 9,969,912	$ 9,075	$ 9,978,987
Unrestricted	$ 69,859,683	$ 1,317,655	$ 71,177,338
Total net position	$ 86,447,562	$ (830,201)	$ 85,617,361
Total liabilities and net position	$ 194,786,315	$ 1,317,655	$ 196,103,970
Consolidated statement of revenues, expenses and changes in net position			
Depreciation	$ 6,283,772	$ (59,578)	$ 6,224,194
Total expenses	$ 235,666,778	$ (59,578)	$ 235,607,200
Change in net position	$ 25,857,482	$ 59,578	$ 25,917,060
Net position, December 31, 2011	$ 60,590,080	$ (889,779)	$ 59,700,301

The impact of the implementation of the new standards on the consolidated statement of cash flows was not significant.

3. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

Medicare

Medicare inpatient services are reimbursed based on a predetermined amount for each case based on the diagnosis associated with the patient (Prospective Payment Hospital). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment. The Hospital's classification of patients under the Prospective Payment Hospital and the appropriateness of patient admissions are subject to validation reviews by the Medicare peer review organization, which is under contract with the Hospital to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

Medicaid and the Hospital Assessment Fee Program

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.

During 2012, Hospital Assessment Fee (HAF) Program was approved by Centers for Medicare & Medicaid Services. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) 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 payments are designed to follow the patients and result in increased Medicaid rates.

During 2013 and 2012, the Hospital recognized HAF Program expense of approximately $3,614,000 and $4,010,000, respectively. The HAF Program expense is included in expenses in the consolidated statements of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program are included in patient service revenue in the consolidated statements of revenues, expenses and changes in net position. The HAF Program was approved for extension in March 2014 by CMS for the period July 1, 2013 through June 30, 2017.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately $2,967,000 and $632,000 during 2013 and 2012, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

Other Payors

The Hospital also has entered into payment agreements with certain commercial insurance carriers 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. The following is a summary of net patient service revenue for 2013 and 2012:

	2013	2012
Inpatient routine services	$ 15,035,863	$ 14,479,174
Inpatient ancillary services	38,698,901	37,048,365
Outpatient ancillary services	212,375,358	201,997,131
Long-term care	253,376,263	235,885,314
Gross patient service revenue	519,486,385	489,409,984
Contractual allowances	226,434,853	211,409,296
Charity care	5,762,415	5,831,596
Provision for bad debts	15,149,909	13,357,457
Deductions from revenue	247,347,177	230,598,349
Net patient service revenue	$ 272,139,208	$ 258,811,635

4. INVESTMENTS

Investments are recorded at fair value and consist of the following as of December 31:

	2013	2012
Cash and cash equivalents	$ -0-	$ 76
Certficates of Deposit	2,950,000	-0-
Mutual funds	1,136,973	857,586
US Government securities	11,594,473	20,969,422
	$ 15,681,446	$ 21,827,084

5. ASSETS WHOSE USE IS LIMITED

Held by trustee for debt service and capital – Amounts deposited with a trustee and limited to use in accordance with the requirements of a trust indenture and funds from long-term debt borrowings to be expended for debt service and capital.

Designated for capital improvements – Amounts designed internally for capital improvements.

Donor restricted – Amounts designated by donor restrictions.

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited includes the following as of December 31:

	2013	2012
Held by trustee for debt service and capital		
Cash and cash equivalents	$ 7,002,298	$ 5,953,157
Certificates of deposit	-0-	1,000,000
US Government securities	2,978,955	3,025,830
Total held by trustee for debt service and capital	9,981,253	9,978,987
Designated for capital improvements		
Cash and cash equivalents	51,803	1,760
Donor restricted		
Cash and cash equivalents	475,368	98,322
Total assets whose use is limited	$ 10,508,424	$ 10,079,069

6. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments are carried at fair market value except for certificates of deposit and money market funds which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. The Hospital's investments generally are reported at fair value. As of December 31, 2013 and 2012, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

	December 31, 2013				
		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1-5	6-10	More than 10
US Government securities	$ 14,573,428	$ -0-	$ 11,722,348	$ 2,851,080	$ -0-
Certificates of deposit	2,950,000	-0-	2,950,000	-0-	-0-
Mutual funds	1,136,973	1,136,973	-0-	-0-	-0-
	$ 18,660,401	$ 1,136,973	$ 14,672,348	$ 2,851,080	$ -0-

	December 31, 2012				
		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1-5	6-10	More than 10
US Government securities	$ 23,995,252	$ -0-	$ 17,720,459	$ 6,274,793	$ -0-
Certificates of deposit	1,000,000	1,000,000	-0-	-0-	-0-
Mutual funds	857,586	857,586	-0-	-0-	-0-
	$ 25,852,838	$ 1,857,586	$ 17,720,459	$ 6,274,793	$ -0-

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market 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 US Government or US Government Agency obligations.

Concentration of credit risk – 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.

Deposits and investments consist of the following as of December 31:

	2013	2012
Carrying amount		
Deposits	$ 71,169,369	$ 50,712,818
Investments	18,660,401	25,852,838
	$ 89,829,770	$ 76,565,656
Included in the balance sheets		
Cash and cash equivalents	$ 63,639,900	$ 44,659,503
Investments	15,681,446	21,827,084
Held by trustee	9,981,253	9,978,987
Designated	51,803	1,760
Donor restricted	475,368	98,322
	$ 89,829,770	$ 76,565,656

7. FAIR VALUE MEASUREMENTS

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 markets 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.

- 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 as of December 31, 2013 and 2012.

- *Money market funds*: Valued based at the 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 securities.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price.

- *US Government securities:* Valued at the closing price reported on the active market on which the individual securities are traded, when available. The fair value of the securities for which quoted market price is not available are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

The following table sets forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 and 2012.

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Growth & Income	$ 285,893	$ 285,893	$ -0-	$ -0-
Income	468,314	468,314	-0-	-0-
Aggressive	51,358	51,358	-0-	-0-
Growth	161,463	161,463	-0-	-0-
International equity	169,945	169,945		
Total mutual funds	1,136,973	1,136,973	-0-	-0-
US Government securities				
Federal Home Loan Mortgage	6,582,576	-0-	6,582,576	-0-
FNMA	5,011,897	-0-	5,011,897	-0-
Total US Government securities	11,594,473	-0-	11,594,473	-0-
	12,731,446	$ 1,136,973	$ 11,594,473	$ -0-
Certificates of deposit	2,950,000			
Total investments	$ 15,681,446			
Assets whose use is limited				
Cash and cash equivalents				
Money market funds	$ 7,529,469	$ -0-	$ 7,529,469	$ -0-
US Government securities				
Federal Home Loan Mortgage	2,978,955	-0-	2,978,955	-0-
Total assets whose use is limited	$ 10,508,424	$ -0-	$ 10,508,424	$ -0-

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Growth & Income	$ 227,409	$ 227,409	$ -0-	$ -0-
Income	360,716	360,716	-0-	-0-
Aggressive	87,327	87,327	-0-	-0-
Growth	182,134	182,134	-0-	-0-
Total mutual funds	857,586	857,586	-0-	-0-
US Government securities				
Federal Home Loan Mortgage	10,309,297	-0-	10,309,297	-0-
FNMA	10,660,125	-0-	10,660,125	-0-
Total US Government securities	20,969,422	-0-	20,969,422	-0-
	21,827,008	$ 857,586	$ 20,969,422	$ -0-
Cash	76			
Total investments	$ 21,827,084			
Assets whose use is limited				
Cash and cash equivalents				
Money market funds	$ 6,053,239	$ -0-	$ 6,053,239	$ -0-
US Government securities				
Federal Home Loan Mortgage	3,025,830	-0-	3,025,830	-0-
	9,079,069	$ -0-	$ 9,079,069	$ -0-
Certificates of deposit	1,000,000			
Total assets whose use is limited	$ 10,079,069			

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2013 and 2012.

Realized gains and losses are included in the consolidated statements of revenues, expenses and changes in net position as a component of investment income. Market value of investments and assets whose use is limited exceeded cost by approximately $310,000 and $261,000 as of December 31, 2013 and 2012, respectively. The changes in unrealized gains and losses relating to assets held at year end are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment income.

The Hospital holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

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

Cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements: The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements approximate fair value based on short term maturity.

Long-term debt: Fair value of the Hospital fixed rate revenue bonds is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2013, the carrying value of the fixed rate long-term debt was $66,500,000 with a fair value of approximately $69,427,000. The carrying value of loans payable and capital lease obligations approximates fair value based on incremental borrowing rates of similarly rated entities.

8. CAPITAL ASSETS

A summary of property and equipment for 2013 and 2012 follow:

	December 31 2012	Additions	Disposals	Transfers	December 31 2013
Land and improvements	$ 7,269,626	$ 452,093	$ -0-	$ -0-	$ 7,721,719
Buildings and improvements	78,934,686	1,047,155	(1,301)	529,925	80,510,465
Equipment	39,545,615	2,352,230	(140,462)	127,079	41,884,462
Construction in progress	641,461	2,076,358	-0-	(657,004)	2,060,815
Total capital assets	126,391,388	5,927,836	(141,763)	-0-	132,177,461
Less accumulated depreciation					
Land improvements	1,342,627	216,330	-0-	-0-	1,558,957
Buildings and improvements	15,844,410	2,353,929	-0-	-0-	18,198,339
Equipment	28,469,822	3,626,701	(85,891)	-0-	32,010,632
Total accumulated depreciation	45,656,859	6,196,960	(85,891)	-0-	51,767,928
Capital assets, net	$ 80,734,529	$ (269,124)	$ (55,872)	$ -0-	$ 80,409,533

	December 31 2011	Additions	Disposals	Transfers	December 31 2012
Land and improvements	$ 7,269,626	$ -0-	$ -0-	$ -0-	$ 7,269,626
Buildings and improvements	78,497,524	317,234	(307,955)	427,883	78,934,686
Equipment	36,330,179	2,836,916	(54,652)	433,172	39,545,615
Construction in progress	41,176	1,461,340	-0-	(861,055)	641,461
Total capital assets	122,138,505	4,615,490	(362,607)	-0-	126,391,388
Less accumulated depreciation					
Land improvements	1,246,407	96,220	-0-	-0-	1,342,627
Buildings and improvements	13,693,364	2,249,926	(98,880)	-0-	15,844,410
Equipment	24,640,889	3,878,048	(49,115)	-0-	28,469,822
Total accumulated depreciation	39,580,660	6,224,194	(147,995)	-0-	45,656,859
Capital assets, net	$ 82,557,845	$ (1,608,704)	$ (214,612)	$ -0-	$ 80,734,529

There were no significant outstanding commitments on capital assets as of December 31, 2013.

9. LONG TERM DEBT

A summary of long-term debt is as follows:

- The Hospital issued Lease Rental Revenue Bonds, Series 2010, in the amount of $40 million through the Association. The proceeds from the Series 2010 Bonds were used for the acquisition, construction, renovation and equipping of certain improvements to the Hospital facilities. The Series 2010 Bond payments are due in semiannual installments through January 2030 ranging from $650,000 to $1,485,000, with interest rates between 2% and 5.25%. The Series 2010 Bonds are secured by net revenues and certain assets held by the trustee.

- Revenue Bonds, Series 2005 with annual principal payments ranging from $1,305,000 to $2,995,000, plus fixed interest ranging from 3.5% to 5.5% due in 2027 secured by net revenues of the Hospital.

- Loan payable with local financial institutions, due in monthly installments at an interest rate of 4.50%, due through 2023, secured by property with net book value of approximately $2,300,000 and $2,500,000 as of December 31, 2013 and 2012, respectively.

- Capital lease obligation, due in monthly installments with interest at 3.85% through December 2014 secured by equipment. The total cost of the equipment was approximately $5,963,000 as of December 31, 2013 and 2012 with accumulated amortization of approximately $3,644,000 and $2,386,000, respectively.

Certain long-term debt agreements require the Hospital to maintain certain financial ratios. As of December 31, 2013, the Hospital believed it was in compliance with the ratios.

The following represents a progression of long-term debt for 2013 and 2012:

	December 31, 2012	Additional Borrowings	Payments	December 31, 2013	Current Portion
2005 Revenue bonds	$ 32,235,000	$ -0-	$ 1,460,000	$ 30,775,000	$ 1,540,000
2010 Revenue bonds	37,240,000	-0-	1,515,000	35,725,000	1,555,000
Loans payable	2,203,417	-0-	257,502	1,945,915	298,589
Capital lease obligation	2,313,766	-0-	1,271,766	1,042,000	1,042,000
	73,992,183	$ -0-	$ 4,504,268	69,487,915	$ 4,435,589
Unamortized bond premium	2,381,392			2,223,001	
	$ 76,373,575			$ 71,710,916	

	December 31, 2011	Additional Borrowings	Payments	December 31, 2012	Current Portion
2005 Revenue bonds	$ 33,615,000	$ -0-	$ 1,380,000	$ 32,235,000	$ 1,460,000
2010 Revenue bonds	38,700,000	-0-	1,460,000	37,240,000	1,515,000
Loans payable	2,496,924	-0-	293,507	2,203,417	287,961
Capital lease obligation	3,577,344	-0-	1,263,578	2,313,766	1,178,849
	78,389,268	$ -0-	$ 4,397,085	73,992,183	$ 4,441,810
Unamortized bond premium	2,539,783			2,381,392	
	$ 80,929,051			$ 76,373,575	

Scheduled principal and interest repayments on long-term debt and payments on loans payable for the years succeeding December 31, 2013 are as follows:

Year Ending December 31,	Principal	Interest	Total
2014	$ 4,435,589	$ 3,256,907	$ 7,692,496
2015	4,394,589	3,076,031	7,470,620
2016	3,409,605	2,919,516	6,329,121
2017	3,566,593	2,767,006	6,333,599
2018	3,724,543	2,611,578	6,336,121
2019-2023	21,464,434	10,160,780	31,625,214
2024-2028	23,970,000	4,230,052	28,200,052
2029-2030	4,522,562	227,375	4,749,937
	$ 69,487,915	$ 29,249,245	$ 98,737,160

10. OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating expenses as incurred. Equipment and facility rental expense for leases for 2013 and 2012 approximated $2,254,000 and $1,847,000, respectively. The following is a schedule of future minimum non-cancelable lease payments expiring through 2017 for the years succeeding December 31, 2013:

Year Ending December 31,	
2014	$ 31,050
2015	7,800
2016	7,800
2017	2,279
	$ 48,929

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately $17,959,000 and $16,116,000 for 2013 and 2012, respectively. Annual rent expense for the next five years will approximate $18,000,000 under these leases.

11. PENSION PLAN

Plan Description

The Hospital has a defined contribution pension plan (Plan) as authorized by IC 16-22-3-11. The Plan provides retirement, disability and death benefits to plan members and beneficiaries who meet the eligibility requirements for age and hours worked. 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. The report is available by contacting the Hospital's accounting department.

Funding Policy

The contribution requirements of Plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. There are two parts to the Plan, the Money Purchase Base Contribution and the Matching Contribution. Plan members are not required to contribute to the Money Purchase Base Contribution portion of the Plan. The Hospital contributes either 2% or 3% based on the number of years of service for this portion of the Plan. Plan members may contribute to the Matching Contribution portion of the Plan up to the maximum allowed by the Internal Revenue Service. The Hospital matches up to either 3% or 4% of the employee's annual salary based on years of service and employee contributions. Pension expense was approximately $1,396,000 and $1,278,000 for 2013 and 2012, respectively.

12. CONCENTRATION OF CREDIT RISK

The Hospital is located in Lebanon, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and revenues from patients and third-party payors as of and for the years ended December 31, 2013 and 2012 was as follows:

	Receivables		Revenues	
	2013	2012	2013	2012
Medicare	24%	25%	39%	38%
Medicaid	12%	12%	16%	15%
Commercial	36%	39%	37%	39%
Self-Pay and other	28%	24%	8%	8%
	100%	100%	100%	100%

Under the long-term care leases, the Hospital recorded expenses related to purchased services from the Managers of the facilities of approximately $108,953,000 and $107,599,000 during 2013 and 2012, respectively. Amounts due to the Managers, included in current liabilities, as of December 31, 2013 and 2012 approximated $24,757,000 and $19,007,000, respectively.

13. INVESTMENTS IN AFFILIATED COMPANIES

Witham St. Vincent Cancer Institute, LLC

The Hospital has a 33%-equity interest in Witham St. Vincent Cancer Institute, LLC. The investment is recorded on the equity method at approximately $201,000 and $176,000 as of December 31, 2013 and 2012, respectively.

Suburban Health Organization Captive

The Hospital has an equity interest in its captive insurance company, Suburban Health Organization Captive recorded on the equity method at approximately $11,000 and $381,000 as of December 31, 2013 and 2012, respectively.

14. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its Blended Component Units, MOP, LLC, Creekside and CIHA as of and for the years ended December 31, 2013 and 2012:

	2013			
	MOP, LLC	Creekside	CIHA	Total
Balance sheet				
Assets and deferred outflows				
Current assets	$ 193,585	$ 343,337	$ 713,808	$ 1,250,730
Capital assets	3,321,705	386,310	-0-	3,708,015
Other assets	-0-	-0-	85,592	85,592
Total assets and deferred outflows	$ 3,515,290	$ 729,647	$ 799,400	$ 5,044,337
Liabilities				
Current liabilities	$ 287,433	$ 4,963,522	$ 25,779	$ 5,276,734
Long-term liabilities	1,145,208	-0-	-0-	1,145,208
Total liabilities	1,432,641	4,963,522	25,779	6,421,942
Net position	2,082,649	(4,233,875)	773,621	(1,377,605)
Total liabilities and net position	$ 3,515,290	$ 729,647	$ 799,400	$ 5,044,337
Statement of revenue, expenses and changes in net position				
Revenues				
Net patient service revenue	$ -0-	$ 1,563,733	$ -0-	$ 1,563,733
Other revenue	700,397	826	542,201	1,243,424
Total revenues	700,397	1,564,559	542,201	2,807,157
Expenses				
Depreciation	139,429	35,939	-0-	175,368
Other expenses	363,415	2,291,325	471,480	3,126,220
Total expenses	502,844	2,327,264	471,480	3,301,588
Operating income (loss)	197,553	(762,705)	70,721	(494,431)
Nonoperating	(34,690)	(3)	-0-	(34,693)
Change in net position	162,863	(762,708)	70,721	(529,124)
Net position				
Beginning of year	1,919,786	(3,471,167)	702,900	(848,481)
End of year	$ 2,082,649	$ (4,233,875)	$ 773,621	$ (1,377,605)
Statement of cash flows				
Cash provided by (used in)				
Operating activities	$ 300,076	$ 6,478	$ 199,436	$ 505,990
Capital and related financing activities	(260,651)	(34,275)	-0-	(294,926)
Investing activities	-0-	-0-	-0-	-0-
Change	39,425	(27,797)	199,436	211,064
Cash equivalents				
Beginning of year	120,262	145,639	514,372	780,273
End of year	$ 159,687	$ 117,842	$ 713,808	$ 991,337

	2012			
	MOP, LLC	Creekside	CIHA	Total
Balance sheet				
Assets and deferred outflows				
Current assets	$ 143,431	$ 404,950	$ 514,372	$ 1,062,753
Capital assets	3,445,253	387,973	-0-	3,833,226
Other assets	-0-	-0-	220,729	220,729
Total assets and deferred outflows	$ 3,588,684	$ 792,923	$ 735,101	$ 5,116,708
Liabilities				
Current liabilities	$ 305,190	$ 4,264,090	$ 32,201	$ 4,601,481
Long-term liabilities	1,363,708	-0-	-0-	1,363,708
Total liabilities	1,668,898	4,264,090	32,201	5,965,189
Net position	1,919,786	(3,471,167)	702,900	(848,481)
Total liabilities and net position	$ 3,588,684	$ 792,923	$ 735,101	$ 5,116,708
Statement of revenue, expenses and changes in net position				
Revenues				
Net patient service revenue	$ -0-	$ 1,447,906	$ -0-	$ 1,447,906
Other revenue	704,519	2	406,806	1,111,327
Total revenues	704,519	1,447,908	406,806	2,559,233
Expenses				
Depreciation	139,044	21,719	-0-	160,763
Other expenses	361,814	2,201,537	353,744	2,917,095
Total expenses	500,858	2,223,256	353,744	3,077,858
Operating income (loss)	203,661	(775,348)	53,062	(518,625)
Nonoperating	(44,132)	-0-	-0-	(44,132)
Change in net position	159,529	(775,348)	53,062	(562,757)
Net position				
Beginning of year	1,760,257	(2,695,819)	649,838	(285,724)
End of year	$ 1,919,786	$ (3,471,167)	$ 702,900	$ (848,481)
Statement of cash flows				
Cash provided by (used in)				
Operating activities	$ 611,373	$ 392,610	$ (172,666)	$ 831,317
Capital and related financing activities	(547,156)	(314,638)	-0-	(861,794)
Investing activities	-0-	-0-	-0-	-0-
Change	64,217	77,972	(172,666)	(30,477)
Cash equivalents				
Beginning of year	56,045	67,667	687,038	810,750
End of year	$ 120,262	$ 145,639	$ 514,372	$ 780,273

15. RISK MANAGEMENT

Medical Benefits to Employees and Dependents

The Hospital is self-funded for medical and related health benefits provided to employees and their families. A third-party administrator has been retained to process and present all benefit claims to the Hospital for payment. Under a stop/loss agreement, the Hospital is responsible for the funding of all claims and related administrative costs up to $200,000 per individual per policy year. There is no aggregate limit for the Plan under the stop loss agreement.

Claim expenditures and liabilities of the fund 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. Self-funded health insurance and related expenses were approximately $7,506,000 and $6,177,000 in 2013 and 2012, respectively. Changes in health claim liabilities for 2013 and 2012 are as follows:

	2013	2012
Unpaid claims, beginning of year	$ 897,032	$ 827,962
Incurred claims and changes in estimates	7,505,500	6,176,975
Claim payments	(7,478,708)	(6,107,905)
Unpaid claims, end of year	$ 923,824	$ 897,032

16. UPCOMING GASB PRONOUNCEMENTS

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

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.

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.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68 making it effective for periods beginning after June 15, 2014. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

SUPPLEMENTARY INFORMATION

WITHAM HEALTH SERVICES

TOTAL HOSPITAL – CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2013

ASSETS AND DEFERRED OUTFLOWS	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
Current assets						
Cash and cash equivalents	$ 59,809,489	$ 159,687	$ 117,842	$ 713,808	$ -0-	$ 60,800,826
Investments	14,544,473	-0-	-0-	-0-	-0-	14,544,473
Patient accounts receivable, net	26,608,891	-0-	225,495	-0-	-0-	26,834,386
Other receivables	11,088,284	33,898	-0-	-0-	-0-	11,122,182
Inventory and other current assets	4,144,571	0	0	0	-0-	4,144,571
Current portion of assets whose use is limited	3,095,000	-0-	-0-	-0-	-0-	3,095,000
Total current assets	119,290,708	193,585	343,337	713,808	-0-	120,541,438
Assets whose use is limited						
Held by trustee for debt service and capital	9,981,253	-0-	-0-	-0-	-0-	9,981,253
Designated for capital improvements	51,803	-0-	-0-	-0-	-0-	51,803
Total assets whose use is limited	10,033,056	-0-	-0-	-0-	-0-	10,033,056
Less current portion	3,095,000	-0-	-0-	-0-	-0-	3,095,000
Noncurrent assets whose use is limited	6,938,056	-0-	-0-	-0-	-0-	6,938,056
Capital assets						
Land and improvements	7,721,719	-0-	-0-	-0-	-0-	7,721,719
Depreciable capital assets	116,631,658	5,207,716	555,553	-0-	-0-	122,394,927
Construction in progress	2,060,815	-0-	-0-	-0-	-0-	2,060,815
	126,414,192	5,207,716	555,553	-0-	-0-	132,177,461
Less accumulated depreciation	49,712,674	1,886,011	169,243	-0-	-0-	51,767,928
Capital assets, net	76,701,518	3,321,705	386,310	-0-	-0-	80,409,533
Other assets						
Investment in affiliates and other	(1,166,194)	-0-	-0-	-0-	1,377,605	211,411
Other	5,320,191	-0-	-0-	85,592	(4,904,277)	501,506
Total other assets	4,153,997	-0-	-0-	85,592	(3,526,672)	712,917
Total assets	207,084,279	3,515,290	729,647	799,400	(3,526,672)	208,601,944
Deferred outflows						
Deferred loss on bond refunding	1,984,728	-0-	-0-	-0-	-0-	1,984,728
Total assets and deferred outflows	$ 209,069,007	$ 3,515,290	$ 729,647	$ 799,400	$ (3,526,672)	$ 210,586,672

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WITHAM HEALTH SERVICES

TOTAL HOSPITAL – CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2013

LIABILITIES AND NET POSITION	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
Current liabilities						
Accounts payable	$ 28,124,236	$ 34,923	$ 42,173	$ 25,779	$ -0-	$ 28,227,111
Accrued salaries and related liabilities	8,633,354	-0-	32,447	-0-	-0-	8,665,801
Accrued expenses and other current liabilities	2,444,050	3,551	4,888,902	-0-	(4,904,277)	2,432,226
Estimated third-party settlements	923,970	-0-	-0-	-0-	-0-	923,970
Current portion of long-term debt						
Capital lease obligation	1,042,000	-0-	-0-	-0-	-0-	1,042,000
Loans payable	49,630	248,959	-0-	-0-	-0-	298,589
Revenue bonds payable	3,095,000	-0-	-0-	-0-	-0-	3,095,000
Total current liabilities	44,312,240	287,433	4,963,522	25,779	(4,904,277)	44,684,697
Long-term debt, net of current portion						
Loans payable	502,117	1,145,208	-0-	-0-	-0-	1,647,325
Revenue bonds payable	65,628,002	-0-	-0-	-0-	-0-	65,628,002
Total long-term debt	66,130,119	1,145,208	-0-	-0-	-0-	67,275,327
Total liabilities	110,442,359	1,432,641	4,963,522	25,779	(4,904,277)	111,960,024
Net position						
Invested in capital assets, net of related debt	6,384,769	1,927,538	386,310	-0-	-0-	8,698,617
Restricted						
Trustee held for debt service and capital	9,981,253	-0-	-0-	-0-	-0-	9,981,253
Unrestricted						
Designated for capital improvements	51,803	-0-	-0-	-0-	-0-	51,803
Undesignated	82,208,823	155,111	(4,620,185)	773,621	1,377,605	79,894,975
Total unrestricted	82,260,626	155,111	(4,620,185)	773,621	1,377,605	79,946,778
Total net position	98,626,648	2,082,649	(4,233,875)	773,621	1,377,605	98,626,648
Total liabilities and net position	$ 209,069,007	$ 3,515,290	$ 729,647	$ 799,400	$ (3,526,672)	$ 210,586,672

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WITHAM HEALTH SERVICES

TOTAL HOSPITAL – CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2013

	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
Operating revenues						
Net patient service revenue	$ 270,575,475	$ -0-	$ 1,563,733	$ -0-	$ -0-	$ 272,139,208
Other operating revenue	2,503,060	700,397	826	542,201	-0-	3,746,484
Total operating revenues	273,078,535	700,397	1,564,559	542,201	-0-	275,885,692
Operating expenses						
Salaries and wages	39,244,320	9,589	1,355,691	-0-	-0-	40,609,600
Employee benefits	12,335,249	-0-	289,933	11,616	-0-	12,636,798
Professional medical fees	5,022,971	1,573	537	78,000	-0-	5,103,081
Purchased services	108,758,895	-0-	12,262	181,550	-0-	108,952,707
Supplies	22,686,260	4,849	340,791	9,863	-0-	23,041,763
Repairs and maintenance	3,818,278	56,336	6,326	-0-	-0-	3,880,940
Equipment and facility rental	20,069,841	22,204	121,043	-0-	-0-	20,213,088
Utilities	8,994,045	138,432	-0-	-0-	-0-	9,132,477
Depreciation	6,021,592	139,429	35,939	-0-	-0-	6,196,960
Insurance	857,330	10,999	143,573	-0-	-0-	1,011,902
HAF Program	3,614,457	-0-	-0-	-0-	-0-	3,614,457
Other expenses	19,887,488	119,433	21,169	190,451	-0-	20,218,541
Total operating expenses	251,310,726	502,844	2,327,264	471,480	-0-	254,612,314
Operating income (loss)	21,767,809	197,553	(762,705)	70,721	-0-	21,273,378
Nonoperating revenue (expense)						
Investment income	(53,494)	-0-	-0-	-0-	-0-	(53,494)
Interest expense	(3,468,714)	(34,690)	(3)	-0-	-0-	(3,503,407)
Gain (loss) on investment in affiliates	(1,311,853)	-0-	-0-	-0-	529,124	(782,729)
Other nonoperating revenue	149,802	-0-	-0-	-0-	-0-	149,802
Total nonoperating revenue (expense), net	(4,684,259)	(34,690)	(3)	-0-	529,124	(4,189,828)
Change in net position	17,083,550	162,863	(762,708)	70,721	529,124	17,083,550
Net position						
Beginning of year	81,543,098	1,919,786	(3,471,167)	702,900	848,481	81,543,098
End of year	$ 98,626,648	$ 2,082,649	$ (4,233,875)	$ 773,621	$ 1,377,605	$ 98,626,648

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WITHAM HEALTH SERVICES

TOTAL HOSPITAL – CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2012

ASSETS AND DEFERRED OUTFLOWS	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
Current assets						
Cash and cash equivalents	$ 40,820,094	$ 120,262	$ 145,639	$ 514,372	$ -0-	$ 41,600,367
Investments	20,969,498	-0-	-0-	-0-	-0-	20,969,498
Patient accounts receivable, net	22,161,231	-0-	257,633	-0-	-0-	22,418,864
Other receivables	4,828,884	16,092	-0-	-0-	-0-	4,844,976
Inventory and other current assets	8,679,369	7,077	1,678	-0-	-0-	8,688,124
Current portion of assets whose use is limited	2,975,000	-0-	-0-	-0-	-0-	2,975,000
Total current assets	100,434,076	143,431	404,950	514,372	-0-	101,496,829
Assets whose use is limited						
Held by trustee for debt service and capital	9,978,987	-0-	-0-	-0-	-0-	9,978,987
Designated for capital improvements	1,760	-0-	-0-	-0-	-0-	1,760
Total assets whose use is limited	9,980,747	-0-	-0-	-0-	-0-	9,980,747
Less current portion	2,975,000	-0-	-0-	-0-	-0-	2,975,000
Noncurrent assets whose use is limited	7,005,747	-0-	-0-	-0-	-0-	7,005,747
Capital assets						
Land and improvements	7,269,626	-0-	-0-	-0-	-0-	7,269,626
Depreciable capital assets	112,767,187	5,191,836	521,278	-0-	-0-	118,480,301
Construction in progress	641,461	-0-	-0-	-0-	-0-	641,461
	120,678,274	5,191,836	521,278	-0-	-0-	126,391,388
Less accumulated depreciation	43,776,971	1,746,583	133,305	-0-	-0-	45,656,859
Capital assets, net	76,901,303	3,445,253	387,973	-0-	-0-	80,734,529
Other assets						
Investment in affiliates and other	(291,890)	-0-	-0-	-0-	848,481	556,591
Other	4,065,892	-0-	-0-	220,729	(4,198,485)	88,136
Total other assets	3,774,002	-0-	-0-	220,729	(3,350,004)	644,727
Total assets	188,115,128	3,588,684	792,923	735,101	(3,350,004)	189,881,832
Deferred outflows						
Deferred loss on bond refunding	2,147,856	-0-	-0-	-0-	-0-	2,147,856
Total assets and deferred outflows	$ 190,262,984	$ 3,588,684	$ 792,923	$ 735,101	$ (3,350,004)	$ 192,029,688

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WITHAM HEALTH SERVICES

TOTAL HOSPITAL – CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2012

LIABILITIES AND NET POSITION	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
Current liabilities						
Accounts payable	21,183,429	$ 64,650	$ 48,264	$ 21,324	$ -0-	$ 21,317,667
Accrued salaries and related liabilities	8,584,989	-0-	29,722	-0-	-0-	8,614,711
Accrued expenses and other current liabilities	2,634,484	-0-	4,186,104	10,877	(4,198,485)	2,632,980
Estimated third-party settlements	1,547,657	-0-	-0-	-0-	-0-	1,547,657
Current portion of long-term debt						
Capital lease obligation	1,178,849	-0-	-0-	-0-	-0-	1,178,849
Loans payable	47,421	240,540	-0-	-0-	-0-	287,961
Revenue bonds payable	2,975,000	-0-	-0-	-0-	-0-	2,975,000
Total current liabilities	38,151,829	305,190	4,264,090	32,201	(4,198,485)	38,554,825
Long-term debt, net of current portion						
Capital lease obligation	1,134,917	-0-	-0-	-0-	-0-	1,134,917
Loans payable	551,747	1,363,708	-0-	-0-	-0-	1,915,455
Revenue bonds payable	68,881,393	-0-	-0-	-0-	-0-	68,881,393
Total long-term debt	70,568,057	1,363,708	-0-	-0-	-0-	71,931,765
Total liabilities	108,719,886	1,668,898	4,264,090	32,201	(4,198,485)	110,486,590
Net position						
Invested in capital assets, net of related debt	2,131,976	1,841,005	387,973	-0-	-0-	4,360,954
Restricted						
Trustee held for debt service and capital	9,978,987	-0-	-0-	-0-	-0-	9,978,987
Unrestricted						
Designated for capital improvements	1,760	-0-	-0-	-0-	-0-	1,760
Undesignated	69,430,375	78,781	(3,859,140)	702,900	848,481	67,201,397
Total unrestricted	69,432,135	78,781	(3,859,140)	702,900	848,481	67,203,157
Total net position	81,543,098	1,919,786	(3,471,167)	702,900	848,481	81,543,098
Total liabilities and net position	$ 190,262,984	$ 3,588,684	$ 792,923	$ 735,101	$ (3,350,004)	$ 192,029,688

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WITHAM HEALTH SERVICES

TOTAL HOSPITAL – CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2012

	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
Operating revenues						
Net patient service revenue	$ 257,363,729	$ -0-	$ 1,447,906	$ -0-	$ -0-	$ 258,811,635
Other operating revenue	4,336,799	704,519	2	406,806	-0-	5,448,126
Total operating revenues	261,700,528	704,519	1,447,908	406,806	-0-	264,259,761
Operating expenses						
Salaries and wages	33,767,937	20,035	1,349,836	-0-	-0-	35,137,808
Employee benefits	10,996,031	-0-	263,473	3,700	-0-	11,263,204
Professional medical fees	5,361,068	18	440	76,350	-0-	5,437,876
Purchased services	107,484,517	-0-	16,242	98,410	-0-	107,599,169
Supplies	24,467,597	-0-	283,427	14,296	-0-	24,765,320
Repairs and maintenance	3,547,797	43,289	6,154	-0-	-0-	3,597,240
Equipment and facility rental	17,797,058	20,482	114,298	-0-	-0-	17,931,838
Utilities	4,681,429	158,080	-0-	-0-	-0-	4,839,509
Depreciation	6,063,431	139,044	21,719	-0-	-0-	6,224,194
Insurance	868,894	8,825	153,938	-0-	-0-	1,031,657
HAF Program	4,009,932	-0-	-0-	-0-	-0-	4,009,932
Other expenses	13,483,651	111,085	13,729	160,988	-0-	13,769,453
Total operating expenses	232,529,342	500,858	2,223,256	353,744	-0-	235,607,200
Operating income (loss)	29,171,186	203,661	(775,348)	53,062	-0-	28,652,561
Nonoperating revenue (expense)						
Investment income	384,629	-0-	-0-	-0-	-0-	384,629
Interest expense	(3,663,611)	(44,132)	-0-	-0-	-0-	(3,707,743)
Gain (loss) on investment in affiliates	(517,479)	-0-	-0-	-0-	562,757	45,278
Other nonoperating revenue	194,455	-0-	-0-	-0-	-0-	194,455
Total nonoperating revenue (expense), net	(3,602,006)	(44,132)	-0-	-0-	562,757	(3,083,381)
Change in net position	25,569,180	159,529	(775,348)	53,062	562,757	25,569,180
Net position						
Beginning of year	55,973,918	1,760,257	(2,695,819)	649,838	285,724	55,973,918
End of year	$ 81,543,098	$ 1,919,786	$ (3,471,167)	$ 702,900	$ 848,481	$ 81,543,098

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