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March 30, 2016

Board of Directors  
Decatur County Memorial Hospital  
1101 Michigan Avenue  
Logansport, IN 46947

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2014 to December 31, 2014. 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 Decatur County Memorial Hospital, as of December 31, 2014 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**

Auditor's Report and Financial Statements

December 31, 2014 and 2013

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**December 31, 2014 and 2013**

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## Independent Auditor's Report

Board of Trustees  
Decatur County Memorial Hospital  
Greensburg, Indiana

We have audited the accompanying balance sheets of Decatur County Memorial Hospital (Hospital), a component unit of Decatur County, Indiana, as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Decatur County Memorial Hospital's basic financial statements.

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

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Decatur County Memorial Hospital, a component unit of Decatur County, Indiana as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining schedules listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

***BKD, LLP***

Indianapolis, Indiana  
February 26, 2016

# **Decatur County Memorial Hospital**

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

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

#### **December 31, 2014 and 2013**

#### ***Introduction***

This management's discussion and analysis of the financial performance of Decatur County Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Hospital.

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

- Cash and investments increased in 2014 by \$876,272 or 4.1% compared to an increase of \$2,419,845 or 12.8% in 2013.
- The Hospital's net position decreased in 2014 by \$2,477,966 or 4.98% compared to an increase of \$825,486 or 1.7% in 2013.
- The Hospital reported an operating loss of \$2,877,639 in 2014 compared to an operating loss of \$369,973 in 2013. The operating results in 2014 decreased by \$2,507,666, while in 2013, the operating results decreased by \$2,718,775.
- Net nonoperating revenues for 2014 were \$399,673 compared to net nonoperating revenues of \$431,245 for 2013. This was a decrease of \$31,572 or 7.3%. In 2013, net nonoperating revenues decreased by \$357,204 of 45.3%.

#### ***Using This Annual Report***

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

#### ***The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position***

One of the most important questions asked about any hospital's finances is "Is the hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's total net position—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors should also be considered to assess the overall financial health of the Hospital.

### **The Statement of Cash Flows**

The statement of cash flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

### **The Hospital's Net Position**

The Hospital's net position is equal to its assets plus deferred outflows of resources, less liabilities reported in the balance sheets. The Hospital's net position decreased by \$2,477,966 or 4.98% in 2014 over 2013 compared to an increase in net position of \$825,486 or 1.7% in 2013 over 2012, as shown in Table 1.

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

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Assets and Deferred Outflows of Resources</b>			
Patient accounts receivable, net	\$ 8,006,800	\$ 6,640,422	\$ 7,610,098
Other current assets	20,300,018	18,698,770	17,082,015
Capital assets, net	33,113,773	34,363,562	28,290,903
Other noncurrent assets and deferred outflows of resources	<u>5,883,319</u>	<u>5,853,598</u>	<u>5,270,462</u>
Total assets and deferred outflows of resources	<u><u>\$ 67,303,910</u></u>	<u><u>\$ 65,556,352</u></u>	<u><u>\$ 58,253,478</u></u>
<b>Liabilities</b>			
Long-term debt	\$ 9,272,249	\$ 10,402,527	\$ 4,411,254
Other current and long-term liabilities	<u>10,758,080</u>	<u>5,402,278</u>	<u>4,916,163</u>
Total liabilities	<u><u>20,030,329</u></u>	<u><u>15,804,805</u></u>	<u><u>9,327,417</u></u>
<b>Net Position</b>			
Net investment in capital assets	23,841,524	23,961,035	23,879,649
Restricted	3,044,828	3,014,478	2,376,636
Unrestricted	<u>20,387,229</u>	<u>22,776,034</u>	<u>22,669,776</u>
Total net position	<u><u>47,273,581</u></u>	<u><u>49,751,547</u></u>	<u><u>48,926,061</u></u>
Total liabilities and net position	<u><u>\$ 67,303,910</u></u>	<u><u>\$ 65,556,352</u></u>	<u><u>\$ 58,253,478</u></u>

A significant change in the Hospital's assets in 2014 is the increase in patient accounts receivable by \$1,366,378 (20.6%). This is consistent with overall patient volumes and gross charges in 2014. Additionally, during 2014, a long-term care nursing facility was added increasing patient accounts receivable by \$539,796. In 2013, patient accounts receivable decreased by \$969,676 (12.7%), which was consistent with a decrease in net patient service revenue in 2013 by \$1,145,370 (2.4%). A significant change in the Hospital's liabilities in 2014 is the increase in estimated third-party settlements by \$4,606,542 (473.9%) as a result of changes in estimates of amounts owed to the Medicare program.

The most significant change in the Hospital's financial position in 2013 was the increase in capital assets of \$6,072,659, which was primarily the result of the expansion and construction project that occurred during 2013 and 2012. During 2012, the Hospital also increased capital assets by \$3,466,051 for this expansion. This project was essentially complete at the end of 2013.

Additionally, for the significant ongoing expansion, the Hospital issued new debt during 2012 with \$1,118,745 out of an available \$8,000,000 drawn as of December 31, 2012. Additional draws of \$6,881,255 were taken on these bonds during 2013. No additional amounts were drawn during 2014 on this debt issued.

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

In 2014, the Hospital's net position decreased by \$2,477,966 or 4.98%, as shown in Table 2. This decrease is made up of several different components and represents a decrease of 400.2% compared with the increase in net position for 2013 of \$825,486. The increase in net position for 2012 was \$3,782,866.

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

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Operating Revenue</b>			
Net patient service revenue	\$ 46,400,008	\$ 47,183,026	\$ 48,328,396
Other operating revenue	1,133,734	975,074	987,764
Total operating revenue	<u>47,533,742</u>	<u>48,158,100</u>	<u>49,316,160</u>
<b>Operating Expenses</b>			
Salaries, wages, contract labor and employee benefits	28,542,769	29,775,485	28,089,390
Purchased services and professional fees	6,811,092	5,789,283	5,422,416
Depreciation and amortization	2,852,868	2,602,979	2,357,286
Other operating expenses	12,204,652	10,360,326	11,098,266
Total operating expenses	<u>50,411,381</u>	<u>48,528,073</u>	<u>46,967,358</u>
<b>Operating Income (Loss)</b>	<u>(2,877,639)</u>	<u>(369,973)</u>	<u>2,348,802</u>
<b>Nonoperating Revenue (Expenses)</b>			
Investment income	430,416	314,489	653,527
Interest expense	(290,256)	(207,595)	(126,723)
Noncapital grants and contributions	189,375	343,111	339,927
Noncapital appropriations - Decatur County	108,000	108,000	108,000
Other	(37,862)	(126,760)	(186,282)
Total nonoperating revenue	<u>399,673</u>	<u>431,245</u>	<u>788,449</u>
<b>Capital Grants and Contributions</b>	<u>-</u>	<u>764,214</u>	<u>645,615</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ (2,477,966)</u>	<u>\$ 825,486</u>	<u>\$ 3,782,866</u>



## **Operating Income**

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2014 and 2013, the Hospital reported operating losses. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Decatur County and the surrounding area. The Hospital implements strong cost controls to provide sufficient resources to enable the Hospital to serve lower income and other residents. During late 2013, the Hospital took steps to adjust personnel and improve operating results.

The operating loss was \$2,877,639 for 2014 compared to an operating loss of \$369,973 for 2013, which equates to a decrease of \$2,507,666 or 677.8%, while the operating income for 2013 decreased by \$2,718,775 or 115.8% as compared to 2012. The primary components of the change in operating loss in 2014 are:

- Net patient service revenue was \$46,400,008 for 2014 compared to \$47,183,026 in 2013, which is a decrease of \$783,018 or 1.66%. Net patient service revenue in 2013 represented a decrease of \$1,145,370 or 2.4% under 2012.
- Salaries, wages, contract labor and employee benefits for the Hospital was \$28,542,769 for 2014 compared to \$29,775,485 for 2013, which results in a decrease of \$1,232,716, or 4.14%. In 2013, salaries, wages and benefits increased by \$1,686,095 or 6.0% compared to 2012.
- Other operating expenses were \$12,204,652 for 2014 compared to \$10,360,326 in 2013, which is an increase of \$1,844,326 or 17.8%. This change is primarily attributable to the long-term care facility acquired during 2014 as well as changes to Indiana's Medicaid provider assessment program as discussed in the attached notes to the financial statements.

The decrease in net patient service revenue in 2014 is the result of a slight increase in volumes, along with the addition of a long-term care nursing facility as discussed in the notes to the financial statements. While volumes increased, management accrued an estimated amount they believe is adequate to cover amounts potentially owed to the Medicare program. Additionally, during 2013, management adjusted their methodology in estimating net realizable value of net patient accounts receivable.

Employee salaries and wages and benefits decreased in 2014 in connection with the Hospital's retention and recruitment efforts, and steps taken by management in late 2013 to adjust personnel.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Expenditures for medical supplies and prescription drugs are a major component of the Hospital's costs. In 2014, medical supplies and prescription drug costs totaled \$5,168,692 or 10.3% of total operating expenses, compared to 2013 when they totaled \$4,673,546 or 9.6%, of total operating expenses, which was an increase of \$495,146 or 10.6% from 2013. Some of the major factors contributing to the increased medical supply and drug costs include an aging population, the introduction of new drugs that cannot be obtained in generic form, changes in therapeutic mix and pharmaceutical marketing.

Operating loss for 2014 of \$2,877,639 was from a decrease in operating revenue of \$624,358 recognized in 2014. The decrease in net patient service revenue of \$783,018 along with an increase in total operating expenses factored into the Hospital recording an operating loss in 2014.

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

Nonoperating revenues and expenses consist primarily of investment income, noncapital grants and interest expense, all of which remained relatively constant in 2014 as compared to 2013. Investment income increased slightly as a result of market conditions. The Hospital recognized an increase in its investment return in 2014 compared to 2013, resulting primarily from favorable changes in interest rates on short- and intermediate-term debt securities.

## ***Capital Grants and Contributions***

The Hospital received gifts of \$764,214 and \$645,615 from organizations and various individuals as part of the capital campaign during 2013 and 2012, respectively, for significant additions and renovations done during 2013 and 2012 to the Hospital in order to further serve the community. These funds are held as restricted portion of net position at year end until the funds are fully collected and utilized for the capital project. No additional funds were recognized during 2014 for this campaign.

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

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2014 and 2013, discussed earlier.

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

### ***Capital Assets***

At the end of 2014, the Hospital had \$33,113,773 invested in capital assets, net of accumulated depreciation, compared to \$34,363,562 at the end of 2013, as detailed in Note 5 to the financial statements. In 2013 and 2012, the Hospital spent significant funds as part of the Hospital renovations and additions as discussed throughout the notes to these financial statements. The Hospital opened the expanded and renovated portion of the Hospital facilities during the fall of 2013.

### ***Debt***

At December 31, 2014, the Hospital had \$9,272,249 in revenue bonds and capital lease obligations outstanding compared to \$10,402,527 at December 31, 2013. During 2012, the Hospital issued new debt to assist in the financing of the ongoing capital expansion and renovation. With this issuance, the Hospital had access to \$8 million with approximately \$6.9 million drawn during 2013 and \$1.1 million drawn during 2012.

## ***Contacting the Hospital's Financial Management***

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital's Administration by telephoning (812) 663-4331.

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Balance Sheets**  
**December 31, 2014 and 2013**

**Assets and Deferred Outflows of Resources**

	<b>2014</b>	<b>2013</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 6,736,518	\$ 6,547,732
Short-term investments	9,995,680	9,603,579
Patient accounts receivable, net of allowance of 2014 - \$4,365,091, 2013 - \$3,854,940	8,006,800	6,640,422
Contributions receivable	145,211	215,164
Supplies	484,748	400,310
Prepaid expenses and other assets	2,937,861	1,931,985
Total current assets	28,306,818	25,339,192
<b>Noncurrent Cash and Investments</b>		
Internally designated for capital improvements	2,849,434	2,846,500
Held by trustee for debt service	1,686,187	1,642,649
Restricted by contributors and grantors	992,439	743,526
	5,528,060	5,232,675
<b>Capital Assets, net</b>	33,113,773	34,363,562
<b>Other Assets</b> - contributions receivable	215,417	415,811
Total assets	67,164,068	65,351,240
<b>Deferred Outflows of Resources</b> - losses on debt refunding	139,842	205,112
Total assets and deferred outflows of resources	\$ 67,303,910	\$ 65,556,352
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 1,112,269	\$ 1,086,317
Accounts payable	1,712,238	1,256,488
Accrued expenses	3,467,159	3,173,649
Estimated third-party settlements	5,578,683	972,141
Total current liabilities	11,870,349	6,488,595
<b>Long-Term Debt</b>	8,159,980	9,316,210
Total liabilities	20,030,329	15,804,805
<b>Net Position</b>		
Net investment in capital assets	23,841,524	23,961,035
Restricted:		
For debt service	1,686,187	1,642,649
Expendable for capital acquisitions	1,302,821	1,303,019
Expendable for specific operating activities	55,820	68,810
Unrestricted	20,387,229	22,776,034
Total net position	47,273,581	49,751,547
Total liabilities and net position	\$ 67,303,910	\$ 65,556,352

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts of \$5,919,497 and \$6,755,302	\$ 46,400,008	\$ 47,183,026
Other	1,133,734	975,074
Total operating revenues	47,533,742	48,158,100
<b>Operating Expenses</b>		
Salaries, wages and contract labor	22,291,571	23,723,550
Employee benefits	6,251,198	6,051,935
Purchased services and professional fees	6,811,092	5,789,283
Medical supplies and drugs	5,168,692	4,673,546
Utilities	814,066	727,338
Repairs and maintenance	1,606,538	1,485,362
Lease and rentals	402,706	147,004
Insurance	496,490	398,031
Other supplies	732,127	659,448
Depreciation and amortization	2,852,868	2,602,979
Other	1,544,899	1,460,161
Provider hospital assessment fee	1,434,192	719,169
Loss on sale of capital assets	4,942	90,267
Total operating expenses	50,411,381	48,528,073
<b>Operating Loss</b>	(2,877,639)	(369,973)
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	430,416	314,489
Interest expense	(290,256)	(207,595)
Noncapital grants and contributions	189,375	343,111
Noncapital appropriations - Decatur County	108,000	108,000
Other	(37,862)	(126,760)
Total nonoperating revenues (expenses)	399,673	431,245
<b>Excess (Deficiency) of Revenues Over Expenses Before Capital     Grants and Contributions</b>	(2,477,966)	61,272
<b>Capital Grants and Contributions</b>	-	764,214
<b>Increase (Decrease) in Net Position</b>	(2,477,966)	825,486
<b>Net Position, Beginning of Year</b>	49,751,547	48,926,061
<b>Net Position, End of Year</b>	\$ 47,273,581	\$ 49,751,547

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Statements of Cash Flows**  
**Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 49,640,172	\$ 48,900,425
Payments to suppliers and contractors	(18,126,736)	(15,017,327)
Payments to employees	(28,240,941)	(28,859,061)
Other receipts (payments), net	(383,496)	265,462
Net cash provided by operating activities	2,888,999	5,289,499
<b>Noncapital Financing Activities</b>		
Noncapital grants and contributions	189,375	343,111
Noncapital appropriations - Decatur County	108,000	108,000
Net cash provided by noncapital financing activities	297,375	451,111
<b>Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(1,679,421)	(9,943,263)
Capital grants and contributions	270,347	620,674
Insurance proceeds from destruction of capital assets	70,000	-
Proceeds from issuance of long-term debt	-	6,881,255
Principal paid on long-term debt	(1,050,306)	(839,230)
Principal paid on capital leases	(36,797)	(32,744)
Interest paid on long-term debt and capital leases	(276,479)	(195,186)
Net cash used in capital and related financing activities	(2,702,656)	(3,508,494)
<b>Investing Activities</b>		
Interest and dividends on investments	521,029	363,296
Purchase of investments	(1,041,294)	(842,690)
Proceeds from disposition of investments	263,195	8,777
Other investing activities	(37,862)	(126,760)
Net cash used in investing activities	(294,932)	(597,377)
<b>Increase in Cash and Cash Equivalents</b>	188,786	1,634,739
<b>Cash and Cash Equivalents, Beginning of Year</b>	6,547,732	4,912,993
<b>Cash and Cash Equivalents, End of Year</b>	\$ 6,736,518	\$ 6,547,732
<b>Reconciliation of Operating Loss to</b>		
<b>Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (2,877,639)	\$ (369,973)
Depreciation and amortization	2,852,868	2,602,979
Loss on sale of capital assets	4,942	90,267
Provision for uncollectible accounts	5,919,497	6,755,302
Changes in operating assets and liabilities:		
Patient accounts receivable	(7,285,875)	(5,785,626)
Supplies and other current assets	(1,088,914)	297,299
Estimated third-party settlements	4,606,542	747,723
Accounts payable and accrued expenses	757,578	951,528
Net cash provided by operating activities	\$ 2,888,999	\$ 5,289,499
<b>Supplemental Cash Flows Information</b>		
Capital lease obligations incurred for capital assets	\$ -	\$ 27,413

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations and Reporting Entity***

Decatur County Memorial Hospital (Hospital) is an acute care hospital located in Greensburg, Indiana. The Hospital is a component unit of Decatur County (County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital pursuant to the provisions of Indiana Code 16-22-2-2. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Decatur County area. It also operates a home health agency in the same geographic area.

The Hospital operates a long-term care facility (LTC) through a lease arrangement. This facility provides inpatient and therapy services in its geographic area and supports the Hospital's mission to provide quality care and services to the facility's residents. The facility is managed by a third party under a management agreement. The revenues from operations are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

In accordance with GASB Statement No. 61, the financial statements include the financial statements of the Decatur County Memorial Hospital Foundation (Foundation). The Foundation's purpose is to provide philanthropic support through fundraising and other activities for the acquisition of equipment, facility development and support of programs at the Hospital, and has therefore been reported as a blended component unit.

***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted component of net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

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***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014, cash equivalents consisted primarily of money market accounts with brokers.

***Risk Management***

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

***Investments and Investment Income***

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income and the net change for the year in the fair value of investments carried at fair value.

***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

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**Supplies**

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

**Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	5 - 25 years
Buildings and improvements	5 - 40 years
Equipment	5 - 25 years
Major moveable equipment	3 - 25 years
Vehicles	4 years

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized was \$47,511 during 2013, the final year of the Hospital's building expansion.

**Compensated Absences**

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. The estimated compensated absences liability is expected to be paid within one year of the balance sheet date, and is therefore included in current liabilities.



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***Net Position***

Net position of the Hospital is classified in three components. Net investment in capital assets, consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted component of net position is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$2,738,430 for 2014 compared to \$2,534,698 for 2013.

***Income Taxes***

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from federal income taxes under Section 501(c)(3) and 509(a)(2) of the U.S. Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files federal tax returns in the U.S. federal jurisdiction.

***Foundation***

The Foundation is a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs. The board of the Foundation is self-perpetuating.

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***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAH) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital began recognizing incentive payment revenues earned for qualified EHR technology expenditures during 2012, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. The Hospital recorded revenue of approximately \$197,000 and \$409,000 from Medicaid and Medicare in 2014 and 2013, respectively, which is included in net patient service revenue in the statements of revenues, expenses and change in net position.

***Reclassifications***

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. The reclassifications had no effect on the changes in net position.

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**Note 2: Net Patient Service Revenue**

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known. A summary of payment arrangements include:

*Medicare.*

The Hospital is designated by Medicare as a critical access hospital (CAH). Inpatient acute care and swing bed services, and most outpatient services, are reimbursed based on a cost reimbursement methodology. Interim per diem rates for inpatient services and percent of charges for outpatient services are reimbursed throughout the year, with final settlement determined after submission of the annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

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

*Medicaid.*

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to the service provided and the patient diagnosis.

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

Approximately 49% and 46% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2014 and 2013. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term. The Hospital reviews billing, licensure and other issues to ensure compliance with Federal, State and other regulations. During 2014, the Hospital performed a review, and as a result, self-disclosed a matter to the Health and Human Services Office of the Inspector General. As of December 31, 2014, management accrued an amount that they believe is adequate to cover amounts potentially owed to the Medicare program as a result of this review.

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The Hospital received approximately \$4.0 million and \$1.1 million during 2014 and 2013, respectively, due to the enactment of a state specific provider assessment program to increase Medicaid payments to hospitals. This revenue is recorded within net patient service revenue in the statements of revenues, expenses and changes in net position for 2014 and 2013. The Hospital paid approximately \$1.4 million and \$719,000 into this Medicaid program for 2014 and 2013, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position. During 2014, this program was re-instated retroactively to July 1, 2013 and this program is scheduled to sunset on June 30, 2017. There is no assurance this program will continue to be implemented in the future

The Hospital's Medicaid Inpatient Utilization Rate (MIUR) exceeds state-wide thresholds, as defined by state regulation. A benefit of having the Hospital's MIUR over state-wide thresholds includes paying 75% of the provider assessment fee, where nonqualified hospitals must pay 100% of the provider assessment fee. The state measures the MIUR no less than every two years and no more than every four years. At each measurement period, the state-defined MIUR changes, which may affect the Hospital's ability to continue to pay the 75% rate. Additionally, depending on the time in which the state elects to re-measure the MIUR threshold, the change could occur retroactive, requiring the Hospital to recognize 100% of the provider assessment fee. Any changes in the amount of tax due will be recorded in the period once the state has made its determination.

The Hospital also qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately \$900,000 and \$3.1 million within patient service revenue related to this supplemental payment program for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, \$1.3 million and \$822,000 is accrued as receivable in other current assets. These amounts represent management's best estimate of DSH funds due to the Hospital which are typically paid in arrears.

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

**Note 3: Deposits, Investments and Investment Income**

***Deposits***

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

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Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation (FDIC) or by the Indiana Public Deposit Insurance Fund (IPDIF). This includes any deposit accounts issued or offered by a qualifying financial institution. Accordingly, all deposits in excess of FDIC levels are covered by the IPDIF and are considered collateralized.

**Investments**

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest in certain deposit accounts, mutual funds, repurchase agreements and pooled investment funds as authorized by Indiana Code 16-22-3-20.

At December 31, 2014 and 2013, the Hospital had the following investments and maturities:

Type	Fair Value	2014			
		Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 1,467,689	\$ 1,467,689	\$ -	\$ -	\$ -
Equity mutual funds	6,188,553	6,188,553	-	-	-
Fixed income mutual funds	3,718,736	3,718,736	-	-	-
	<u>\$ 11,374,978</u>	<u>\$ 11,374,978</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Type	Fair Value	2013			
		Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 1,098,940	\$ 1,098,940	\$ -	\$ -	\$ -
Equity mutual funds	2,615,714	2,615,714	-	-	-
Fixed income mutual funds	4,715,845	4,715,845	-	-	-
U.S. Governmental securities	2,153,530	2,153,530	-	-	-
	<u>\$ 10,584,029</u>	<u>\$ 10,584,029</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**Credit Risk** - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital does not have a formal investment policy for credit risk. At December 31, 2014 and 2013, the Hospital's investments were not rated by Standard & Poor's or Moody's Investors Service.

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**Custodial Credit Risk** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's investment policy does not address how securities underlying repurchase agreements are to be held.

**Concentration of Credit Risk** - The Hospital places no limit on the amount that may be invested in any one issuer. The Hospital's policy is to limit holdings in equities to 75% and to limit fixed income holdings to 65%.

**Summary of Carrying Values**

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

	<b>2014</b>	<b>2013</b>
Carrying value:		
Deposits	\$ 10,885,280	\$ 10,799,957
Investments	11,374,978	10,584,029
	\$ 22,260,258	\$ 21,383,986
 Included in the following balance sheets captions:		
Cash and cash equivalents	\$ 6,736,518	\$ 6,547,732
Short-term investments	9,995,680	9,603,579
Noncurrent cash and investments		
Internally designated for capital improvements	2,849,434	2,846,500
Held by trustee for debt service	1,686,187	1,642,649
Restricted by contributors and grantors	992,439	743,526
	\$ 22,260,258	\$ 21,383,986

**Investment Income**

Investment income for the years ended December 31 consisted of:

	<b>2014</b>	<b>2013</b>
Interest and dividend income	\$ 521,029	\$ 363,296
Net decrease in fair value of investments	(90,613)	(48,807)
	\$ 430,416	\$ 314,489

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**Note 4: Patient Accounts Receivable**

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

	<b>2014</b>	<b>2013</b>
Medicare	\$ 2,108,897	\$ 1,497,376
Medicaid	603,730	209,147
Other third-party payers	3,299,214	2,904,348
Patients	6,360,050	5,884,491
	12,371,891	10,495,362
Less allowance for uncollectible accounts	4,365,091	3,854,940
	<b>\$ 8,006,800</b>	<b>\$ 6,640,422</b>

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31 was:

	<b>2014</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	
Land	\$ 1,127,637	\$ -	\$ -	\$ -	\$ 1,127,637
Land improvements	402,942	23,721	-	13,961	440,624
Buildings and leasehold improvements	37,629,484	31,157	(70,000)	24,985	37,615,626
Equipment	3,164,349	83,443	(156,083)	72,107	3,163,816
Major moveable equipment	16,875,361	373,852	(246,288)	1,368,970	18,371,895
Vehicles	84,518	-	-	-	84,518
Construction in progress	508,110	1,167,248	-	(1,480,023)	195,335
	59,792,401	1,679,421	(472,371)	-	60,999,451
Less accumulated depreciation:					
Land improvements	317,272	22,636	-	-	339,908
Buildings and leasehold improvements	10,521,562	1,122,331	-	-	11,643,893
Equipment	1,633,692	226,023	(153,622)	-	1,706,093
Major moveable equipment	12,919,606	1,465,765	(242,407)	-	14,142,964
Vehicles	36,707	16,113	-	-	52,820
	25,428,839	2,852,868	(396,029)	-	27,885,678
Capital assets, net	<b>\$ 34,363,562</b>	<b>\$ (1,173,447)</b>	<b>\$ (76,342)</b>	<b>\$ -</b>	<b>\$ 33,113,773</b>

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	2013				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 1,127,637	\$ -	\$ -	\$ -	\$ 1,127,637
Land improvements	384,387	6,400	-	12,155	402,942
Buildings and leasehold improvements	27,196,472	64,221	(124,099)	10,492,890	37,629,484
Equipment	2,458,072	153,034	(42,248)	595,491	3,164,349
Major moveable equipment	16,646,197	417,519	(482,276)	293,921	16,875,361
Vehicles	51,234	47,284	(14,000)	-	84,518
Construction in progress	3,825,120	8,077,447	-	(11,394,457)	508,110
	<u>51,689,119</u>	<u>8,765,905</u>	<u>(662,623)</u>	<u>-</u>	<u>59,792,401</u>
Less accumulated depreciation:					
Land improvements	296,263	21,009	-	-	317,272
Buildings and leasehold improvements	9,577,351	979,710	(35,499)	-	10,521,562
Equipment	1,499,685	174,984	(40,977)	-	1,633,692
Major moveable equipment	11,984,413	1,417,073	(481,880)	-	12,919,606
Vehicles	40,504	10,203	(14,000)	-	36,707
	<u>23,398,216</u>	<u>2,602,979</u>	<u>(572,356)</u>	<u>-</u>	<u>25,428,839</u>
Capital assets, net	<u>\$ 28,290,903</u>	<u>\$ 6,162,926</u>	<u>\$ (90,267)</u>	<u>\$ -</u>	<u>\$ 34,363,562</u>

**Note 6: Medical Malpractice Claims**

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

**Note 7: Employee Health Claims**

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents. Commercial stop-loss insurance coverage is purchased for claims in excess of \$150,000 with a maximum aggregate annual reimbursement of \$1,000,000. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.



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Activity in the Hospital's accrued employee health claims liability during 2014 and 2013 is summarized as follows:

	<b>2014</b>	<b>2013</b>
Balance, beginning of year	\$ 400,000	\$ 400,000
Current year claims incurred and changes in estimates for claims incurred in prior years	3,489,090	3,209,673
Claims and expenses paid	(3,359,090)	(3,209,673)
Balance, end of year	\$ 530,000	\$ 400,000

**Note 8: Long-Term Obligations**

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

	<b>2014</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt:					
Revenue bonds payable:					
First mortgage refunding bonds, series 2011	\$ 2,410,000	\$ -	\$ (605,000)	\$ 1,805,000	\$ 625,000
Capital improvement bond, series 2012	7,778,270	-	(445,306)	7,332,964	457,193
Plus: bond premium	108,050	-	(43,175)	64,875	-
Capital lease obligations	106,207	-	(36,797)	69,410	30,076
Total long-term debt	\$ 10,402,527	\$ -	\$ (1,130,278)	\$ 9,272,249	\$ 1,112,269

	<b>2013</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt:					
Revenue bonds payable:					
First mortgage refunding bonds, series 2011	\$ 3,027,500	\$ -	\$ (617,500)	\$ 2,410,000	\$ 605,000
Capital improvement bond, series 2012	1,118,745	6,881,255	(221,730)	7,778,270	445,087
Plus: bond premium	153,471	-	(45,421)	108,050	-
Capital lease obligations	111,538	27,413	(32,744)	106,207	36,230
Total long-term debt	\$ 4,411,254	\$ 6,908,668	\$ (917,395)	\$ 10,402,527	\$ 1,086,317

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***First Mortgage Refunding Bonds, Series 2011***

The First Mortgage Refunding Bonds, Series 2011 (Series 2011 Bonds) consist of bonds payable in the original amount of \$5,595,000 dated December 1, 2011, issued by the Decatur County Hospital Association (Association). These bonds were made up of two components referred to as: a) 2011 lease revenue refunding bonds and b) 2011 revenue refunding bonds. The Hospital entered into an agreement with the Association where the Hospital would be responsible for 50% of principal and interest on the 2011 lease revenue refunding bonds totaling \$4,515,000. The County is responsible for the remaining 50% of principal and interest payments on these bonds. The bonds are payable in semiannual installments through January 2019 and bear interest at 2.0% to 4.0%. The total liability recorded by the Hospital at December 31, 2014 and 2013 related to these bonds was \$1,495,000 and \$1,800,000, respectively.

The Hospital also entered into an agreement with the Association where the Hospital would be responsible for 100% of the principal and interest of the 2011 revenue refunding bonds totaling \$1,080,000. These bonds are payable in semiannual installments through June 2015 and bear interest at 2.0% to 4.0%. The liability recorded by the Hospital at December 31, 2014 and 2013 related to these bonds was \$310,000 and \$610,000, respectively.

The Hospital is required to make monthly deposits to the debt service fund held by the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the balance sheets. The Series 2011 Bonds are not subject to optional redemption prior to maturity. The Series 2011 Bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement.

***Capital Improvements Bond, Series 2012***

The Capital Improvements Bond, Series 2012 (Series 2012 Bond) consist of bonds payable in the original amount up to \$8,000,000 dated August 1, 2012, issued by the Hospital. The bonds were issued to fund certain expansions of the Hospital. During the construction phase in 2013 and 2012, bond advances were made to fund the costs of the construction project. The bond is payable in monthly installments of \$54,059 through June 2028 and bears interest at 2.65%. The total liability recorded by the Hospital at December 31, 2014 and 2013 related to these bonds was \$7,332,964 and \$7,778,270, respectively.

The Hospital is required to make monthly deposits to the debt service fund held by the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the balance sheets. The Hospital is also required to comply with certain restrictive covenants including maintaining a historical debt-service coverage ratio of at least 1.5 to 1, maintenance of minimum working capital of \$8,000,000 and maintenance of a current ratio of at least 2.0 to 1.

At December 31, 2014, the Hospital did not meet certain covenants for which the bondholder has waived such violation through December 31, 2015.

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The debt service requirements as of December 31, 2014, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2015	\$ 1,323,441	\$ 1,082,193	\$ 241,248
2016	1,002,766	791,616	211,150
2017	1,004,691	817,391	187,300
2018	1,007,859	840,513	167,346
2019	829,753	686,492	143,261
2020 - 2024	3,243,516	2,759,735	483,781
2025 - 2028	2,432,418	2,160,024	272,394
	<u>\$ 10,844,444</u>	<u>\$ 9,137,964</u>	<u>\$ 1,706,480</u>

**Capital Lease Obligations**

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 5.7% to 6.1% together with the present value of the future minimum lease payments as of December 31, 2014:

2015	\$ 33,138
2016	23,964
2017	14,865
2018	2,711
Total minimum lease payments	<u>74,678</u>
Less amount representing interest	<u>5,268</u>
Present value of future minimum lease payments	<u>\$ 69,410</u>

Assets under capital leases at December 31, 2014 and 2013, totaled:

	<u>2014</u>	<u>2013</u>
Machinery and equipment	\$ 181,421	\$ 181,421
Accumulated depreciation	<u>(116,272)</u>	<u>(79,987)</u>
	<u>\$ 65,149</u>	<u>\$ 101,434</u>

**Decatur County Memorial Hospital**  
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**Note 9: Pension Plan**

The Hospital contributes to a defined-contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan administrator is the Executive Director of Human Resources for the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. The Hospital is required to match 100% of the employee contribution up to 1% of employee's compensation. In addition, the Hospital may make a discretionary contribution as determined by the Hospital Board, which was 3% for 2014 and 2013. Hospital expense related to the employer contributions to the plan was \$695,390 for 2014 compared to \$661,798 for 2013.

**Note 10: Commitments and Contingencies**

***Litigation***

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Note 11: Contributions Receivable**

Contributions receivable consisted of the following at December 31:

	<b>Restricted</b>	
	<b>2014</b>	<b>2013</b>
Due within one year	\$ 145,211	\$ 215,164
Due in one to five years	215,417	415,811
	\$ 360,628	\$ 630,975

**Decatur County Memorial Hospital**  
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**Note 12: Noncapital Appropriations - Decatur County**

Decatur County, of which the Hospital is a component unit, subsidized the Hospital for providing the County with ambulance service. The Hospital recognizes these payments as nonoperating revenue. The Hospital recognized subsidy revenue of \$108,000 for each of 2014 and 2013.

**Note 13: Patient Protection and Affordable Care Act**

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation required the establishment of health insurance exchanges, which provides individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products.

Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs will be substantially decreased. Each state's participation in an expanded Medicaid program is optional. In 2015, the state of Indiana expanded its Medicaid program with the implementation of the Healthy Indiana Plan (HIP) 2.0. Under HIP 2.0, the first \$2,500 of beneficiary medical expenses are reimbursed from special savings accounts funded partly by the state and partly by the beneficiary. The impact of Medicaid expansion under the HIP 2.0 program on the Hospital's revenues is currently unknown.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

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**Note 14: Blended Component Unit**

The Hospital's financial statements include the blended component unit accounts of the Foundation. The following is a financial summary of the Foundation as of and for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Current assets	\$ 764,593	\$ 851,761
Noncurrent assets	<u>1,152,814</u>	<u>1,091,305</u>
Total assets	<u>\$ 1,917,407</u>	<u>\$ 1,943,066</u>
Current and total liabilities	\$ 92,898	\$ 119,359
Net position	<u>1,824,509</u>	<u>1,823,707</u>
Total liabilities and net position	<u>\$ 1,917,407</u>	<u>\$ 1,943,066</u>
Revenues	\$ 172,115	\$ 961,129
Expenses	<u>171,313</u>	<u>138,632</u>
Increase in net position	802	822,497
Transfer to affiliate	-	(152,945)
Net position, beginning of year	<u>1,823,707</u>	<u>1,154,155</u>
Net position, end of year	<u>\$ 1,824,509</u>	<u>\$ 1,823,707</u>

**Note 15: Long-Term Care Operating Lease and Management Agreements**

The Hospital entered into an agreement effective September 1, 2014 to lease the facility and equipment for the operation of a nursing home. Along with the lease agreement, the Hospital also entered into a management agreement with the facility's previous manager (Manager) to continue to operate the facility. The agreements expire August 30, 2016 and include optional two year extensions. The management agreement includes optional termination clauses by either party if material changes in circumstances, as defined in the agreement, occur. The lease includes termination clauses where the lease shall automatically end at the termination of the management agreement between the Hospital and Manager.

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The lease agreement calls for monthly base rent payments of \$51,708, increased by 2% annually through August 30, 2016. Future minimum rent payments due under this lease agreement at December 31, 2014 are \$620,496 for 2015 and \$413,664 for 2016. The agreement also calls for a royalty fee to be paid to the Manager at \$4,000 per month. Rent and royalty expense totaled \$222,833 for 2014. The management agreement includes management fees consisting of base management fees, subordinated management fees and incentive management fees. These amounts are based on the net patient service revenue of the facility. Subordinate and incentive management fees are to be paid only if sufficient working capital exists. Combined base and subordinate management fees totaled \$71,288 in 2014. No amounts were earned under the incentive management fee during 2014.

The Hospital has entered into a loan agreement with the Manager to allow the Manager to advance funds up to \$700,000 to cover working capital expenses. Advances are to be repaid with cash flow from the operations of the facility and accrue interest at the Applicable Federal Rate plus 3%. Amounts due to the Manager under this agreement and for collection of patient revenue for services prior to the Hospital's acquisition of the nursing home approximated \$665,000 and are included in accrued expenses.

## **Supplementary Information**



**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Combining Balance Sheet Information**  
**December 31, 2014**

	2014				
	Hospital	LTC	Hospital Foundation	Eliminations	Total
<b>Assets and Deferred Outflows of Resources</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 6,265,859	\$ 107,940	\$ 362,719	\$ -	\$ 6,736,518
Short-term investments	9,739,017	-	256,663	-	9,995,680
Patient accounts receivable, net of allowance of Hospital - \$4,305,091, LTC - \$60,000	7,467,004	539,796	-	-	8,006,800
Contributions receivable	-	-	145,211	-	145,211
Supplies	484,748	-	-	-	484,748
Prepaid expenses and other assets	2,429,730	508,131	-	-	2,937,861
Due from related party	34,831	-	-	(34,831)	-
Total current assets	<u>26,421,189</u>	<u>1,155,867</u>	<u>764,593</u>	<u>(34,831)</u>	<u>28,306,818</u>
<b>Noncurrent Cash and Investments</b>					
Internally designated for capital improvements	2,849,434	-	-	-	2,849,434
Held by trustee for debt service	1,686,187	-	-	-	1,686,187
Restricted by contributors and grantors	55,042	-	937,397	-	992,439
	<u>4,590,663</u>	<u>-</u>	<u>937,397</u>	<u>-</u>	<u>5,528,060</u>
<b>Capital Assets, net</b>	<u>33,113,773</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,113,773</u>
<b>Other Assets - contributions receivable</b>	<u>-</u>	<u>-</u>	<u>215,417</u>	<u>-</u>	<u>215,417</u>
Total assets	64,125,625	1,155,867	1,917,407	(34,831)	67,164,068
<b>Deferred Outflows of Resources - debt defeasance costs</b>	<u>139,842</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>139,842</u>
Total assets and deferred outflows of resources	<u>\$ 64,265,467</u>	<u>\$ 1,155,867</u>	<u>\$ 1,917,407</u>	<u>\$ (34,831)</u>	<u>\$ 67,303,910</u>
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 1,112,269	\$ -	\$ -	\$ -	\$ 1,112,269
Accounts payable	1,467,253	186,918	58,067	-	1,712,238
Accrued expenses	2,532,623	934,536	-	-	3,467,159
Estimated third-party settlements	5,578,683	-	-	-	5,578,683
Due to related party	-	-	34,831	(34,831)	-
Total current liabilities	<u>10,690,828</u>	<u>1,121,454</u>	<u>92,898</u>	<u>(34,831)</u>	<u>11,870,349</u>
<b>Long-Term Debt</b>	<u>8,159,980</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,159,980</u>
Total liabilities	<u>18,850,808</u>	<u>1,121,454</u>	<u>92,898</u>	<u>(34,831)</u>	<u>20,030,329</u>
<b>Net Position</b>					
Net investment in capital assets	23,841,524	-	-	-	23,841,524
Restricted:					
For debt service	1,686,187	-	-	-	1,686,187
Expendable for capital acquisitions	-	-	1,302,821	-	1,302,821
Expendable for specific operating activities	55,042	-	778	-	55,820
Unrestricted	19,831,906	34,413	520,910	-	20,387,229
Total net position	<u>45,414,659</u>	<u>34,413</u>	<u>1,824,509</u>	<u>-</u>	<u>47,273,581</u>
Total liabilities and net position	<u>\$ 64,265,467</u>	<u>\$ 1,155,867</u>	<u>\$ 1,917,407</u>	<u>\$ (34,831)</u>	<u>\$ 67,303,910</u>

**Decatur County Memorial Hospital**  
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**Combining Balance Sheet Information**  
**December 31, 2013**

	2013			
	Hospital	Hospital Foundation	Eliminations	Total
<b>Assets and Deferred Outflows of Resources</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 6,172,812	\$ 374,920	\$ -	\$ 6,547,732
Short-term investments	9,341,902	261,677	-	9,603,579
Patient accounts receivable, net of allowance of \$3,854,940	6,640,422	-	-	6,640,422
Contributions receivable	-	215,164	-	215,164
Supplies	400,310	-	-	400,310
Prepaid expenses and other assets	1,931,985	-	-	1,931,985
Due from related party	78,067	-	(78,067)	-
Total current assets	<u>24,565,498</u>	<u>851,761</u>	<u>(78,067)</u>	<u>25,339,192</u>
<b>Noncurrent Cash and Investments</b>				
Internally designated for capital improvements	2,846,500	-	-	2,846,500
Held by trustee for debt service	1,642,649	-	-	1,642,649
Restricted by contributors and grantors	68,032	675,494	-	743,526
	<u>4,557,181</u>	<u>675,494</u>	<u>-</u>	<u>5,232,675</u>
<b>Capital Assets, net</b>	<u>34,363,562</u>	<u>-</u>	<u>-</u>	<u>34,363,562</u>
<b>Other Assets - contributions receivable</b>	<u>-</u>	<u>415,811</u>	<u>-</u>	<u>415,811</u>
Total assets	63,486,241	1,943,066	(78,067)	65,351,240
<b>Deferred Outflows of Resources - debt defeasance costs</b>	<u>205,112</u>	<u>-</u>	<u>-</u>	<u>205,112</u>
Total assets and deferred outflows of resources	<u>\$ 63,691,353</u>	<u>\$ 1,943,066</u>	<u>\$ (78,067)</u>	<u>\$ 65,556,352</u>
<b>Liabilities and Net Position</b>				
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 1,086,317	\$ -	\$ -	\$ 1,086,317
Accounts payable	1,215,196	41,292	-	1,256,488
Accrued expenses	3,173,649	-	-	3,173,649
Estimated third-party settlements	972,141	-	-	972,141
Due to related party	-	78,067	(78,067)	-
Total current liabilities	<u>6,447,303</u>	<u>119,359</u>	<u>(78,067)</u>	<u>6,488,595</u>
<b>Long-Term Debt</b>	<u>9,316,210</u>	<u>-</u>	<u>-</u>	<u>9,316,210</u>
Total liabilities	<u>15,763,513</u>	<u>119,359</u>	<u>(78,067)</u>	<u>15,804,805</u>
<b>Net Position</b>				
Net investment in capital assets	23,961,035	-	-	23,961,035
Restricted:				
For debt service	1,642,649	-	-	1,642,649
Expendable for capital acquisitions	-	1,303,019	-	1,303,019
Expendable for specific operating activities	68,032	778	-	68,810
Unrestricted	22,256,124	519,910	-	22,776,034
Total net position	<u>47,927,840</u>	<u>1,823,707</u>	<u>-</u>	<u>49,751,547</u>
Total liabilities and net position	<u>\$ 63,691,353</u>	<u>\$ 1,943,066</u>	<u>\$ (78,067)</u>	<u>\$ 65,556,352</u>

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Combining Statement of Revenues, Expenses and**  
**Changes in Net Position Information**  
**Year Ended December 31, 2014**

	2014			
	Hospital	LTC	Hospital Foundation	Total
<b>Operating Revenues</b>				
Net patient service revenue, net of provision for uncollectible accounts of Hospital - \$5,859,497, LTC - \$60,000	\$ 44,933,765	\$ 1,466,243	\$ -	\$ 46,400,008
Other	659,900	473,834	-	1,133,734
Total operating revenues	<u>45,593,665</u>	<u>1,940,077</u>	<u>-</u>	<u>47,533,742</u>
<b>Operating Expenses</b>				
Salaries, wages and contract labor	21,348,434	943,137	-	22,291,571
Employee benefits	6,152,084	99,114	-	6,251,198
Purchased services and professional fees	6,620,812	190,280	-	6,811,092
Medical supplies and drugs	5,085,716	82,976	-	5,168,692
Utilities	754,623	59,443	-	814,066
Repairs and maintenance	1,598,630	7,908	-	1,606,538
Lease and rentals	166,746	235,960	-	402,706
Insurance	460,354	36,136	-	496,490
Other supplies	649,228	82,899	-	732,127
Depreciation and amortization	2,852,868	-	-	2,852,868
Other	1,377,088	167,811	-	1,544,899
Provider hospital assessment fee	1,434,192	-	-	1,434,192
Loss on sale of capital assets	4,942	-	-	4,942
Total operating expenses	<u>48,505,717</u>	<u>1,905,664</u>	<u>-</u>	<u>50,411,381</u>
<b>Operating Income (Loss)</b>	<u>(2,912,052)</u>	<u>34,413</u>	<u>-</u>	<u>(2,877,639)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	421,420	-	8,996	430,416
Interest expense	(290,256)	-	-	(290,256)
Noncapital grants and contributions	26,256	-	163,119	189,375
Noncapital appropriations - Decatur County	108,000	-	-	108,000
Other	133,451	-	(171,313)	(37,862)
Total nonoperating revenues (expenses)	<u>398,871</u>	<u>-</u>	<u>802</u>	<u>399,673</u>
<b>Excess (Deficiency) of Revenues Over Expenses and Increase (Decrease) in Net Position</b>	<u>(2,513,181)</u>	<u>34,413</u>	<u>802</u>	<u>(2,477,966)</u>
<b>Net Position, Beginning of Year</b>	<u>47,927,840</u>	<u>-</u>	<u>1,823,707</u>	<u>49,751,547</u>
<b>Net Position, End of Year</b>	<u>\$ 45,414,659</u>	<u>\$ 34,413</u>	<u>\$ 1,824,509</u>	<u>\$ 47,273,581</u>

**Decatur County Memorial Hospital**  
**A Component Unit of Decatur County, Indiana**  
**Combining Statement of Revenues, Expenses and**  
**Changes in Net Position Information**  
**Year Ended December 31, 2013**

	<b>2013</b>		
	<b>Hospital</b>	<b>Hospital Foundation</b>	<b>Total</b>
<b>Operating Revenues</b>			
Net patient service revenue, net of provision for uncollectible accounts of \$6,755,302	\$ 47,183,026	\$ -	\$ 47,183,026
Other	975,074	-	975,074
Total operating revenues	<u>48,158,100</u>	<u>-</u>	<u>48,158,100</u>
<b>Operating Expenses</b>			
Salaries, wages and contract labor	23,723,550	-	23,723,550
Employee benefits	6,051,935	-	6,051,935
Purchased services and professional fees	5,789,283	-	5,789,283
Medical supplies and drugs	4,673,546	-	4,673,546
Utilities	727,338	-	727,338
Repairs and maintenance	1,485,362	-	1,485,362
Lease and rentals	147,004	-	147,004
Insurance	398,031	-	398,031
Other supplies	659,448	-	659,448
Depreciation and amortization	2,602,979	-	2,602,979
Other	1,460,161	-	1,460,161
Provider hospital assessment fee	719,169	-	719,169
Loss on sale of capital assets	90,267	-	90,267
Total operating expenses	<u>48,528,073</u>	<u>-</u>	<u>48,528,073</u>
<b>Operating Loss</b>	<u>(369,973)</u>	<u>-</u>	<u>(369,973)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	286,679	27,810	314,489
Interest expense	(207,595)	-	(207,595)
Noncapital grants and contributions	174,006	169,105	343,111
Noncapital appropriations - Decatur County	108,000	-	108,000
Other	11,872	(138,632)	(126,760)
Total nonoperating revenues (expenses)	<u>372,962</u>	<u>58,283</u>	<u>431,245</u>
<b>Excess of Revenues Over Expenses Before Capital Grants and Contributions</b>	2,989	58,283	61,272
<b>Capital Grants and Contributions</b>	<u>-</u>	<u>764,214</u>	<u>764,214</u>
<b>Increase in Net Position</b>	2,989	822,497	825,486
<b>Transfer From (To) Affiliate</b>	152,945	(152,945)	-
<b>Net Position, Beginning of Year</b>	<u>47,771,906</u>	<u>1,154,155</u>	<u>48,926,061</u>
<b>Net Position, End of Year</b>	<u>\$ 47,927,840</u>	<u>\$ 1,823,707</u>	<u>\$ 49,751,547</u>