Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of
the Consolidated City of Indianapolis - Marion County)

Auditor's Report and Financial Statements

For the Year Ended December 31, 2014

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

For the Year Ended December 31, 2014

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(A Component Unit of the Consolidated City of Indianapolis - Marion County)
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Other Supplementary Information

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Independent Auditor's Report

Board of Trustees
Health and Hospital Corporation of Marion County, Indiana
Indianapolis, Indiana

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, the business type activities and each major fund of the Health and Hospital Corporation of Marion County, Indiana (a component unit of the Consolidated City of Indianapolis- Marion County) (Corporation), as of and for the year ended December 31, 2014, and the related notes to the basic financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of IU Health Inc. d/b/a Eskenazi Medical Group, a component unit included in the financial statements of the business-type activities, were not audited in accordance with *Government Auditing Standards.*

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 organization'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 corporation'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Health and Hospital Corporation of Marion County as of December 31, 2014 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2014, the reporting unit of the Corporation changed for inclusion of an additional component unit. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and General fund budgetary information 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation’s basic financial statements. The accompanying schedule of expenditures of federal awards required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
June 26, 2015

Management's Discussion and Analysis (Unaudited)

As management of the Health and Hospital Corporation of Marion County, Indiana, (Corporation), we offer readers of this Corporation's Comprehensive Annual Financial Report this narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our transmittal letter at the front of this report along with the financial statements, including the footnotes that follow the basic financial statements.

Financial Highlights

- The assets of the Corporation exceeded its liabilities at the close of the most recent fiscal year by $772.3 million (net position). Unrestricted net position at the end of 2014 is a negative $38.0 million.
- The Corporation's total net position increased by $136.9 million, from current year activities.
- As of the close of 2014, the Corporation's governmental funds reported combined ending fund balances of $281.5 million, an increase of $67.0 million in comparison with the prior year.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was $245.0 million or 124.7% of total General Fund expenditures.
- The Corporation's total debt, excluding capital leases, decreased by $11.5 million or 5.4% during the current fiscal year. This reflects scheduled principal payments on outstanding bonds. The capital lease obligation decreased by $28.7 million or 3.2% in 2014.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Health and Hospital Corporation's basic financial statements. The Corporation's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Corporation's assets, deferred outflows, liabilities, and deferred inflows with the difference between these financial statement elements being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The statement of activities presents information showing how the Corporation's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Corporation that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Health and Hospital Corporation include those focused on public health: health improvement, communicable disease prevention, water quality and hazardous materials management, vector disease control, housing and neighborhood health, consumer and employee risk reduction, and administration and finance activities, including debt management. The business-type activities reflect the operations of Eskenazi Health, including a general acute care hospital, an outpatient care center, ten community health centers and the Transport Emergency Medical Services system for Marion County, Indiana (Indianapolis EMS); and the Corporation's Long-Term Care operations (Long-Term Care), consisting of a system of long-term care facilities throughout the State of Indiana.

The government-wide financial statements include only the Health and Hospital Corporation of Marion County, Indiana (known as the primary government), which includes Lions Insurance Company, a blended component unit established in 2006. Since the Corporation's Board is appointed, not elected, the Corporation is considered a component unit of the Consolidated City of Indianapolis - Marion County (Uni-Gov), and the financial statements of the Corporation are included in the Comprehensive Annual Financial Report of Uni-Gov. Management also considers all other units of government within Marion County to be separate from this Corporation, and they are not considered as component units within this report.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Corporation maintains three governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Debt Service Fund, and Capital Projects Fund, all of which are considered to be major funds.

The Corporation adopts an annual appropriated budget for its General, Debt Service, and a portion of its Capital Projects Fund. Budgetary comparison statements have been provided for these three funds to demonstrate compliance with this budget.

Proprietary Funds - The Corporation's proprietary fund consists of two enterprise funds. Enterprise funds report the same functions presented as business-type activities in the government-wide financial statements. The Corporation uses the enterprise fund to account for its Eskenazi Health Division (including Indianapolis EMS) and its Long-Term Care Division.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information in the form of a budgetary comparison schedule for the General Fund. Also, budgetary schedules are provided for the Debt Service Fund and the Capital Projects Fund as other supplementary information.

Financial Analysis of the Corporation as a Whole

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Corporation, assets and deferred outflows exceeded liabilities and deferred inflows by $772.3 million at December 31, 2014.

The Corporation's net position includes its investment in capital assets (e.g., land, buildings, machinery, and equipment,) plus restricted funds, less any related debt used to acquire those assets that is still outstanding. The Corporation uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Corporation's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net position is a negative $38.0 million.

The Corporation's net position increased by $136.9 million, compared to $33.3 million in 2013.

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current and other assets	$ 353,097,516	$ 359,476,641	$ 461,072,381	$ 337,587,308	$ 814,169,897	$ 697,063,949
Capital assets, net of accumulated depreciation	25,078,393	27,150,725	1,196,906,151	1,247,866,641	1,221,984,544	1,275,017,366
Total Assets	378,175,909	386,627,366	1,657,978,532	1,585,453,949	2,036,154,441	1,972,081,315
Deferred Outflows of Resources						
Deferred loss on refundings	844,499	982,746	-	-	844,499	982,746
Liabilities						
Long-term liabilities	685,913,232	698,905,178	442,714,615	464,868,090	1,128,627,847	1,163,773,268
Other liabilities	29,315,275	76,206,215	106,755,920	116,126,875	136,071,195	192,333,090
Total Liabilities	715,228,507	775,111,393	549,470,535	580,994,965	1,264,699,042	1,356,106,358
Net Position						
Net investment in capital assets	9,860,293	12,505,823	799,873,777	825,154,250	809,734,070	837,660,073
Restricted	568,065	639,828	-	1,234,753	568,065	1,874,581
Unrestricted	(346,636,457)	(400,646,932)	308,634,220	178,069,981	(38,002,237)	(222,576,951)
Total Net Position	$ (336,208,099)	$ (387,501,281)	$ 1,108,507,997	$ 1,004,458,984	$ 772,299,898	$ 616,957,703

Changes in Net Position

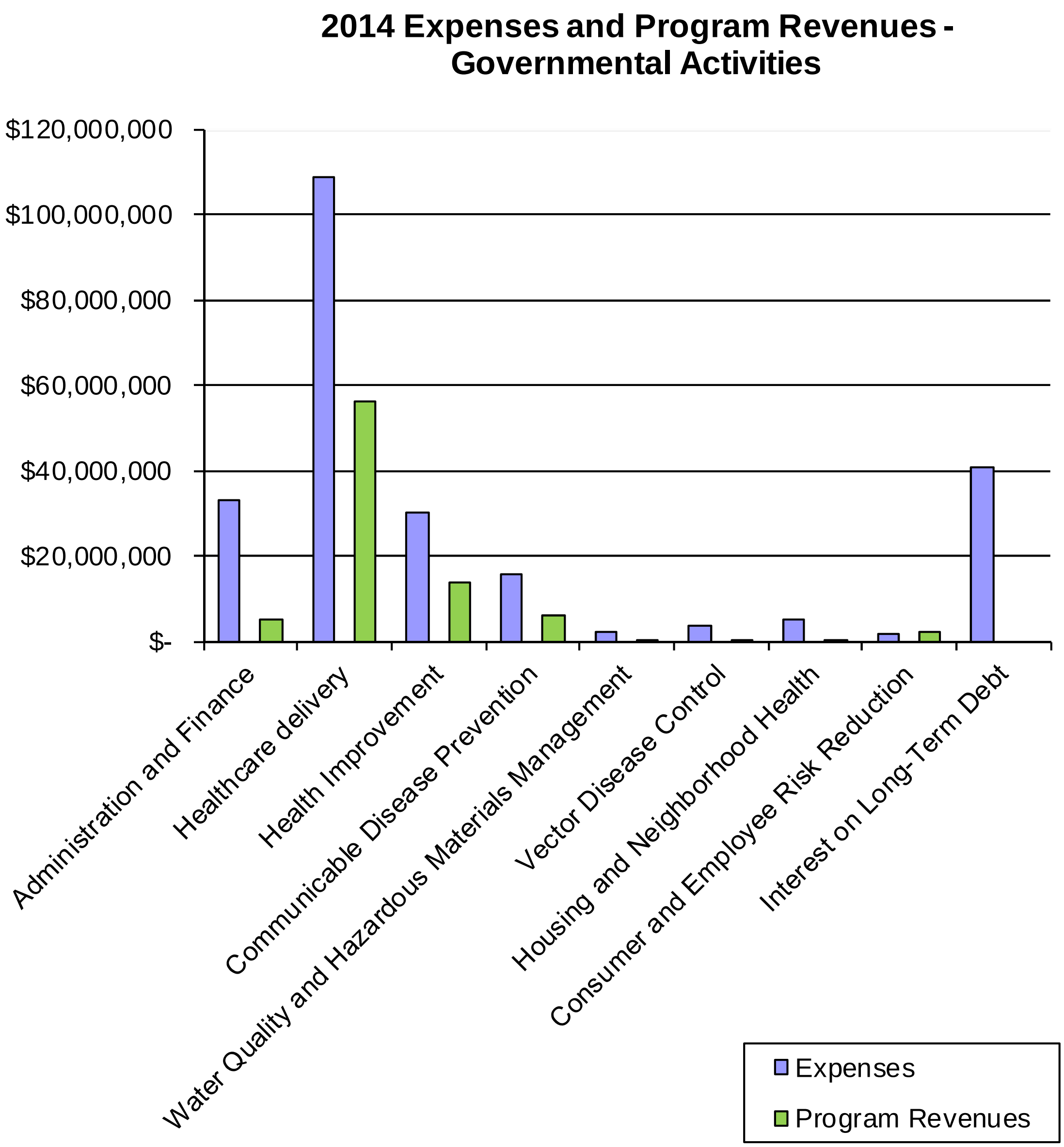
The Corporation's total revenue was $1.6 billion during the current fiscal year. Taxes represent 7.6% of the Corporation's revenue. Medicaid special revenue represents 5.1% of revenue, while 80.5% of revenue came from fees charged for services. The remaining 6.8% came from grants and contributions, interest earnings, Build America Bond subsidies, and miscellaneous revenues.

The total cost of all programs and services was $1.4 billion. This resulted in an increase in net position for the year of $136.9 million.

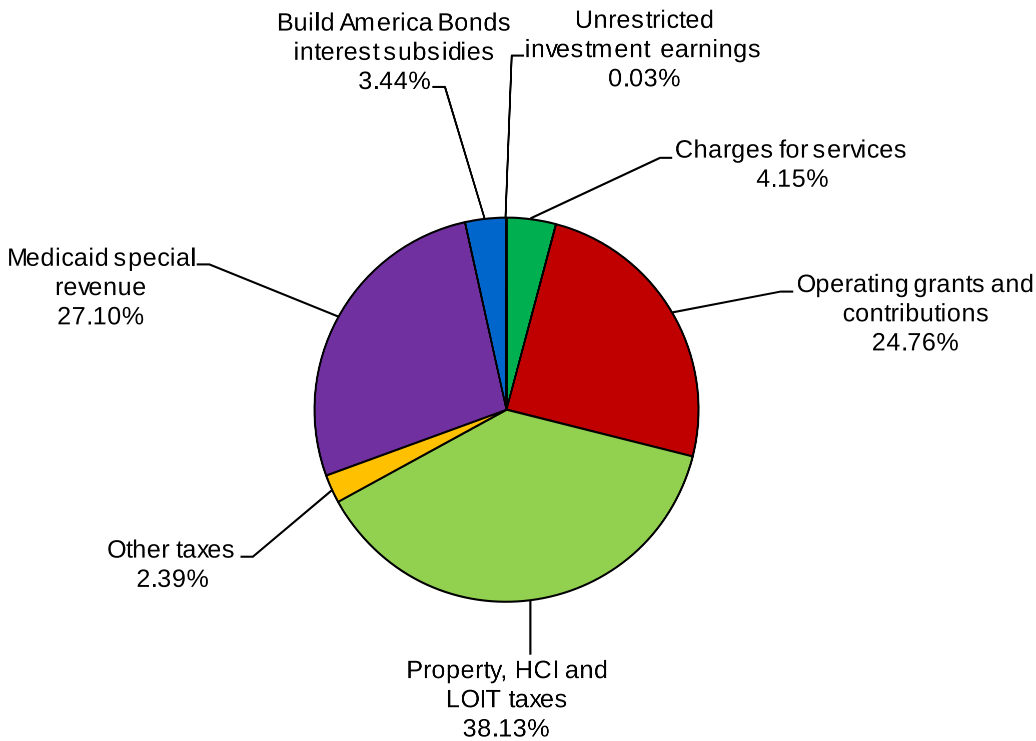
Governmental activities - Governmental activities increased the Corporation's net position by $51.3 million compared to the total $136.9 million increase in net position of the Corporation. Medicaid special revenue increased for the 2014 year. The Corporation did not receive capital grants or contributions in 2014. Transfers were $0.3 million (net), a decrease of $700.4 million from prior year. The transfer decrease reflects the completion of the new Eskenazi Health campus and moving Capital Projects Fund CIP into the Eskenazi Health Enterprise Fund in 2013.

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	$ 12,140,127	$ 10,111,118	$ 1,248,568,957	$ 1,090,524,590	$ 1,260,709,084	$ 1,100,635,708
Operating grants and contributions	72,402,538	54,428,929	24,941,727	20,534,454	97,344,265	74,963,383
Capital grants and contributions	-	6,000,000	-	2,224,001	-	8,224,001
General revenues:						
Property, HCI and local option income taxes	111,475,288	106,708,214	-	-	111,475,288	106,708,214
Other taxes	6,988,298	6,805,198	-	-	6,988,298	6,805,198
Medicaid special revenue	79,227,647	63,708,066	-	-	79,227,647	63,708,066
Build America Bonds interest subsidies	10,061,207	9,985,273	-	-	10,061,207	9,985,273
Unrestricted investment earnings (losses)	87,680	579,543	153,589	(1,853,376)	241,269	(1,273,833)
Total revenues	292,382,785	258,326,341	1,273,664,273	1,111,429,669	1,566,047,058	1,369,756,010
Expenses						
Administration and finance	33,151,933	27,170,818	-	-	33,151,933	27,170,818
Healthcare delivery	108,603,627	100,675,452	-	-	108,603,627	100,675,452
Health improvement	30,227,402	28,527,781	-	-	30,227,402	28,527,781
Communicable disease prevention	15,537,862	15,219,997	-	-	15,537,862	15,219,997
Water quality and hazardous material management	2,213,065	2,075,886	-	-	2,213,065	2,075,886
Vector disease control	3,545,044	3,515,242	-	-	3,545,044	3,515,242
Housing and neighborhood health	5,180,149	5,224,148	-	-	5,180,149	5,224,148
Consumer and employee risk reduction	1,808,188	1,692,837	-	-	1,808,188	1,692,837
Interest on long-term debt	40,571,658	41,924,538	-	-	40,571,658	41,924,538
Eskenazi Health	-	-	588,245,868	538,714,684	588,245,868	538,714,684
Long-term care	-	-	600,063,314	571,763,568	600,063,314	571,763,568
Total expenses	240,838,928	226,026,699	1,188,309,182	1,110,478,252	1,429,148,110	1,336,504,951
Increase in Net Position Before Transfers	51,543,857	32,299,642	85,355,091	951,417	136,898,948	33,251,059
Transfers	(250,675)	(700,662,007)	250,675	700,662,007	-	-
Increase (Decrease) in Net Position	51,293,182	(668,362,365)	85,605,766	701,613,424	136,898,948	33,251,059
Net Position, Beginning of Year, as Previously Reported	(387,501,281)	280,861,084	1,004,458,984	302,845,560	616,957,703	583,706,644
Adjustment for New Blended Component Unit	-	-	18,443,247	-	18,443,247	-
Net Position, Beginning of Year, Restated	(387,501,281)	280,861,084	1,022,902,231	302,845,560	635,400,950	583,706,644
Net Position, End of Year	$ (336,208,099)	$ (387,501,281)	$ 1,108,507,997	$ 1,004,458,984	$ 772,299,898	$ 616,957,703

The following charts provide comparisons of the Corporation's governmental program revenues and expenses by function, as well as revenues by source. As shown, healthcare delivery is the largest function in expense. General revenues such as property tax are not shown by program; but are included in the revenues by source chart to show their significance. Taxes are used to support program activities for the entire Corporation.



2014 Revenues by Source - Governmental Activities

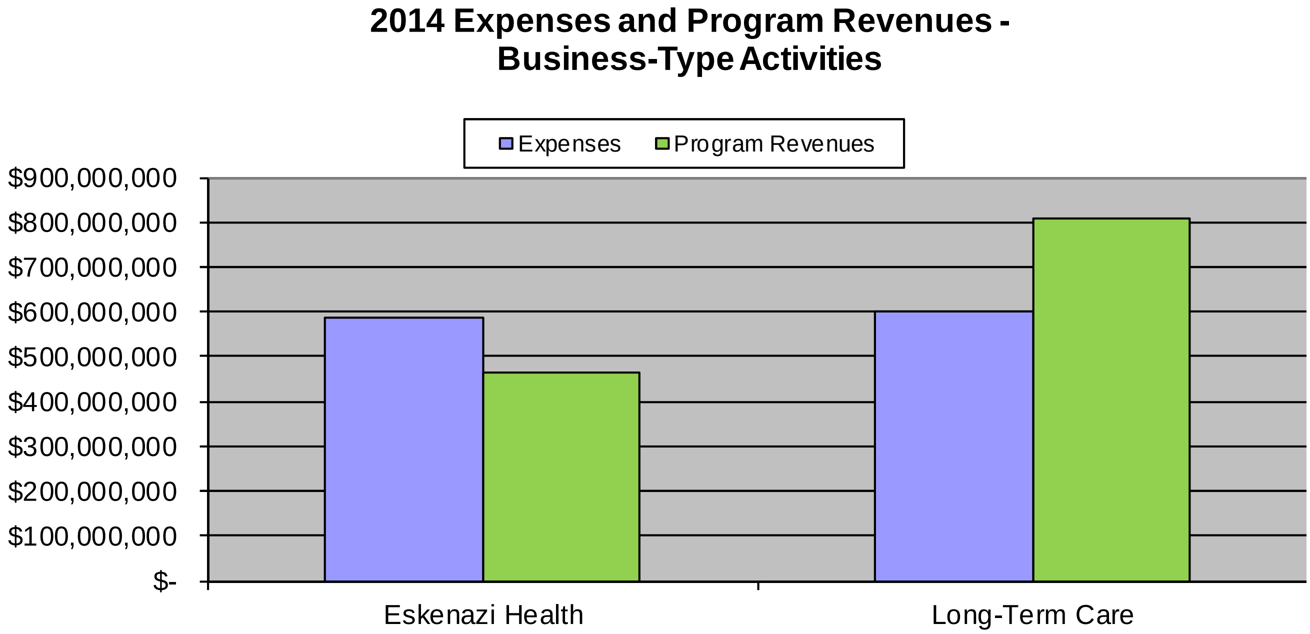


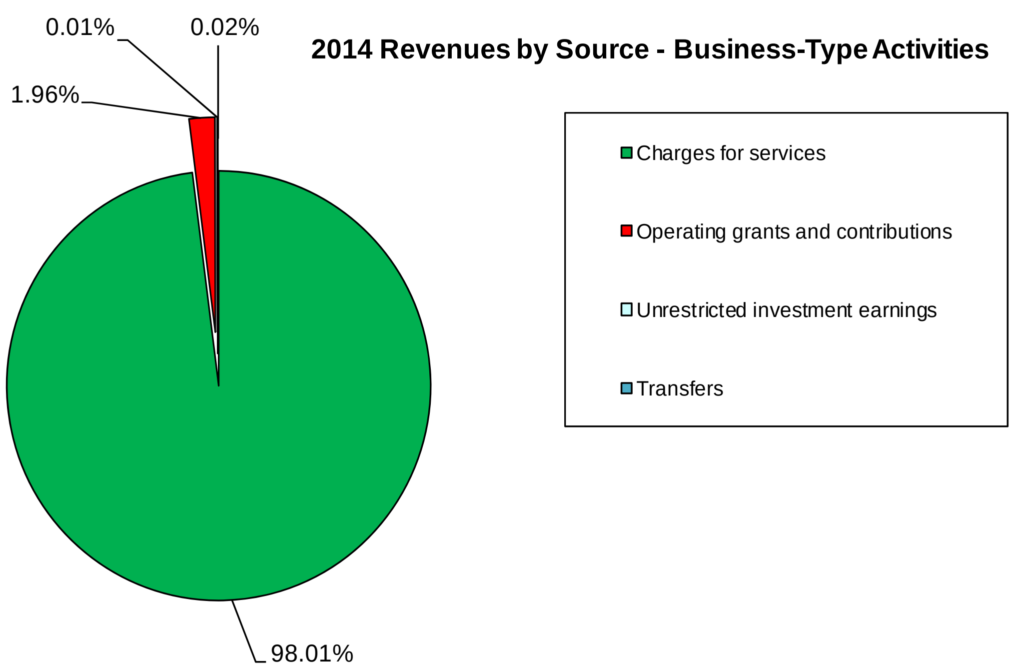
Business-type activities - Business-type activities increased the Corporation's net position by $85.6 million compared to an increase of $701.6 million in 2013.

Eskenazi Health's net position increased by $46.7 million in the current year. Net position invested in capital assets decreased by $27.9 million; increases in capital assets totaled $23.1 million, which was offset by depreciation of $51.0 million. Operating revenues increased by $114.3 million due to an increase in net patient services revenue of $119.0 million and a decrease of other revenue of $4.6 million. Eskenazi Health support decreased by $18.1 million in 2014. Operating expenses increased $49.5 million due to cost inflation, staffing changes, increased cost of employee health insurance coverage, increased medical and professional fees and the increased depreciation expense noted above. Eskenazi Health incurred an operating loss of $147.1 million, which was offset by approximately $135.4 million in transfers from the General Fund and approximately $24.9 million in grants from various agencies.

Long-Term Care net position was $220.8 million, which was an increase of $57.4 million over 2013. Operating revenues increased $43.7 million due to increased Medicaid reimbursements and an increase in Medicaid special revenue. Operating expenses increased $31.3 million. This was primarily due to the addition of two facilities in 2014 and an overall increase in resident days, as well as an increase in depreciation expense related to capital additions. Long-Term Care has $6.4 million in net investment in capital assets. All 61 facilities are recorded as capital leases under noncurrent assets.

The following charts provide a comparison of revenues and expenses, and revenues by source for the Corporation's business activities.





Financial Analysis of the Corporation's Funds

As noted earlier, the Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds **-** The focus of the Corporation's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Corporation's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Corporation's governmental funds reported combined ending fund balances of $281.5 million, an increase of $67.0 million in comparison with the prior year. Approximately 12.8% of this total amount, $36.1 million constitutes restricted and assigned fund balance, which is related to capital outlays for the new hospital and money set aside for debt service. Approximately 87.1% of the total amount, or $245.0 million, is unassigned fund balance. The remaining .1% of fund balance is nonspendable.

The General Fund is the chief operating fund of the Corporation. At the end of the current fiscal year, the unassigned fund balance of the General Fund was $245.0 million, while the total fund balance increased $66.1 million to a balance of $246.5 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 124.7% of total General Fund expenditures, while total fund balance represents 125.4% of that same amount.

The total fund balance of the Corporation's General Fund increased by $66.1 million during the current fiscal year, in comparison to a $49.9 million decrease in 2013.

Medical education fees increased between 2014 and 2013. Starting in 2014, medical education fees are reported under contributions, whereas in prior years, the fees were included in intergovernmental. Medicaid special revenue increased by $67.2 million in 2014. Total expenditures increased as there were increased administrative and intergovernmental expenditures. Transfers out reflect a decrease in support to Eskenazi Health of $18.3 million and a decrease of $42.3 million in transfers to the Capital Projects Fund for the new hospital.

Debt Service Fund **-** The Debt Service Fund has a fund balance of $17.4 million compared to a fund balance of $16.8 million in the prior year. The net increase in fund balance during the current year was $0.6 million.

Capital Projects Fund **-** The Capital Projects Fund has a total fund balance of $17.6 million. The net increase in fund balance during the current year was $0.2 million.

Proprietary Funds **-** The Corporation's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of Eskenazi Health at the end of the year amounted to $94.2 million. Total net position for Eskenazi Health increased by $46.7 million. Other factors concerning the finances of Eskenazi Health have already been addressed in the discussion of the Corporation's business-type activities.

Unrestricted net position of Long-Term Care at the end of the year was $214.4 million. The increase in total net position was $57.4 million. Other information on Long-Term Care operations can be found in the discussion of the Corporation's business-type activities.

General Fund Budgetary Highlights

The original budget of $297.9 million remained unchanged during 2014, both in total and by major object of expenditure. The budget included $106.8 million in expenditures and approximately $81.1 million in transfers. Actual expenditures and transfers out were $284.0 million. Of the total underspending, $1.4 million related to personal services, $1.5 million to supplies, $9.5 million to contractual services, and $1.4 million to capital outlays. Underspending for all reflects potential year-end initiatives that did not occur. General revenues and other resources were estimated at $297.5 million, and actual was $249.8 million. Taxes collected were $6.5 million over budget due to property and LOIT increase collections being higher than expected. Medicaid special revenue was $120.7 million under budget as DSH final settlements were not received until February 2015, and intergovernmental transfers for physician faculty and nursing facilities were larger than anticipated. Miscellaneous revenue was $26.4 million over budget due to increased medical education revenue from IU Health Foundation.

Capital Asset and Debt Administration

Capital Assets **-** The Corporation's capital assets for its governmental and business-type activities as of December 31, 2014, amounts to $1.2 billion (net of accumulated depreciation), compared to $1.3 billion at the end of 2013. This investment in capital assets includes land, buildings, improvements, machinery and equipment, vehicles, and construction in progress.

Major capital asset events during 2014:

- Essential completion of the new Eskenazi Health project

Additional information on the Corporation's capital assets can be found below and in Note 7 to the financial statements.

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	$ 4,095,347	$ 4,114,896	$ 9,722,914	$ 9,709,778	$ 13,818,261	$ 13,824,674
Land improvements	-	-	74,450,286	77,222,519	74,450,286	77,222,519
Buildings and improvements	14,810,607	15,966,362	962,822,117	1,013,413,556	977,632,724	1,029,379,918
Equipment	5,932,792	6,679,659	119,265,829	118,058,674	125,198,621	124,738,333
Vehicles	239,647	349,360	724,241	975,141	963,888	1,324,501
Construction in progress	-	40,448	29,920,764	28,486,973	29,920,764	28,527,421
Total assets	$ 25,078,393	$ 27,150,725	$ 1,196,906,151	$ 1,247,866,641	$ 1,221,984,544	$ 1,275,017,366

Long-Term Debt **-** At the end of 2014, the Corporation had total general obligation debt outstanding of $201.4 million. Moody's Investors Service rates the Corporation's general obligation debt "Aa1".

State statutes limit the amount of general obligation debt a governmental entity may issue to 0.67% of its total assessed valuation. The current debt limitation for the Corporation is $227.6 million. Outstanding general obligation debt (excluding premiums) at December 31, 2014 represents 86.8% of this limit.

Additional information on the Corporation’s long-term debt can be found in Note 9 of this report.

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
1988 renovation bonds	$ 9,545,000	$ 11,075,000	$ -	$ -	$ 9,545,000	$ 11,075,000
2005 general obligation bonds	19,260,000	19,955,000	-	-	19,260,000	19,955,000
2010 general obligation bonds	168,785,000	177,835,000	-	-	168,785,000	177,835,000
Unamortized bond premiums	3,806,685	3,990,330	-	-	3,806,685	3,990,330
Capital leases	476,096,070	479,131,290	397,032,374	422,712,391	873,128,444	901,843,681
Total long-term debt	$ 677,492,755	$ 691,986,620	$ 397,032,374	$ 422,712,391	$ 1,074,525,129	$ 1,114,699,011

Economic Factors and Next Year's Budgets and Rates

The 2015 original budget for all annually budgeted funds is $412.8 million. No revisions have been made through June 2015. The 2015 General Fund budget is $342.0 million. The 14.8% increase from the 2014 final General Fund budget of $297.9 million, reflects an increase in operating transfers to the hospital enterprise fund. The budget for the Corporation will continue to be challenged by increasing expenditures and declining revenue in the form of property tax caps.

Requests for Information

This financial report is designed to provide a general overview of the Health and Hospital Corporation’s finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Treasurer, 3838 N. Rural, Indianapolis, Indiana, 46205.

Basic Financial Statements

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Statement of Net Position
December 31, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 225,711,447	$ 188,141,045	$ 413,852,492
Investments	-	5,297,165	5,297,165
Receivables, net:			
Patient services	-	102,477,118	102,477,118
Medicaid special revenue	78,658,158	58,307,458	136,965,616
Grants	4,834,449	5,585,856	10,420,305
Interest	1,073	1,543	2,616
Other	6,458,793	10,519,553	16,978,346
Internal balances	(16,679,531)	16,679,531	-
Inventories	-	5,278,178	5,278,178
Prepaid costs and other assets	342,083	10,350,539	10,692,622
Restricted cash and cash equivalents	8,532,802	-	8,532,802
Restricted investments	8,015,236	4,728,629	12,743,865
Lease acquisition costs (net of accumulated amortization)	-	25,008,719	25,008,719
Joint venture investments	37,223,006	23,434,052	60,657,058
Other long-term assets	-	5,262,995	5,262,995
Capital assets (net of accumulated depreciation):			
Land	4,095,347	9,722,914	13,818,261
Land improvements	-	74,450,286	74,450,286
Buildings and improvements	14,810,607	962,822,117	977,632,724
Equipment	5,932,792	119,265,829	125,198,621
Vehicles	239,647	724,241	963,888
Construction in progress	-	29,920,764	29,920,764
Total assets	378,175,909	1,657,978,532	2,036,154,441
Deferred Outflow of Resources			
Deferred loss on refundings	844,499	-	844,499
Liabilities			
Accounts payable	22,989,540	61,140,554	84,130,094
Restricted accounts payable	3,903,254	-	3,903,254
Accrued liabilities	1,685,833	28,611,328	30,297,161
Unearned revenue	736,648	2,234,918	2,971,566
Estimated Medicare/Medicaid settlements	-	10,416,048	10,416,048
Medical claims incurred but not reported	-	4,353,072	4,353,072
Long-term liabilities:			
Due within one year	22,537,540	60,202,292	82,739,832
Due in more than one year	663,375,692	382,512,323	1,045,888,015
Total liabilities	715,228,507	549,470,535	1,264,699,042
Net Position			
Net investment in capital assets	9,860,293	799,873,777	809,734,070
Restricted for:			
Health services	568,065	-	568,065
Unrestricted	(346,636,457)	308,634,220	(38,002,237)
Total net position	$ (336,208,099)	$ 1,108,507,997	$ 772,299,898

Health and Hospital Corporation of Marion County, Indiana
(A Component Unit of the Consolidated City of Indianapolis - Marion County)
Statement of Activities
For the Year Ended December 31, 2014

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Administration and finance	$ 33,151,933	$ 5,018,624	$ -	$ -	$ (28,133,309)	$ -	$ (28,133,309)
Healthcare delivery	108,603,627	-	56,349,285	-	(52,254,342)	-	(52,254,342)
Health improvement	30,227,402	3,198,092	10,526,212	-	(16,503,098)	-	(16,503,098)
Communicable disease prevention	15,537,862	471,838	5,405,891	-	(9,660,133)	-	(9,660,133)
Water quality and hazardous materials management	2,213,065	359,774	88,768	-	(1,764,523)	-	(1,764,523)
Vector disease control	3,545,044	449,132	-	-	(3,095,912)	-	(3,095,912)
Housing and neighborhood health	5,180,149	361,492	32,382	-	(4,786,275)	-	(4,786,275)
Consumer and employee risk reduction	1,808,188	2,281,175	-	-	472,987	-	472,987
Interest on long-term debt	40,571,658	-	-	-	(40,571,658)	-	(40,571,658)
Total governmental activities	240,838,928	12,140,127	72,402,538	-	(156,296,263)	-	(156,296,263)
Business-Type Activities							
Eskenazi Health	588,245,868	441,150,604	24,941,727	-	-	(122,153,537)	(122,153,537)
LT Care	600,063,314	807,418,353	-	-	-	207,355,039	207,355,039
Total business-type activities	1,188,309,182	1,248,568,957	24,941,727	-	-	85,201,502	85,201,502
Total	$ 1,429,148,110	$ 1,260,709,084	$ 97,344,265	$ -	(156,296,263)	85,201,502	(71,094,761)
General revenues:							
Property and local option income taxes					73,475,288	-	73,475,288
HCI taxes from State of Indiana					38,000,000	-	38,000,000
Excise taxes					5,762,079	-	5,762,079
Financial institution taxes					1,226,219	-	1,226,219
Medicaid special revenue (unrestricted)					79,227,647	-	79,227,647
Build America Bonds interest subsidies					10,061,207	-	10,061,207
Unrestricted investment earnings (losses)					87,680	153,589	241,269
Transfers					(250,675)	250,675	-
Total general revenues and transfers					207,589,445	404,264	207,993,709
Change in net position					51,293,182	85,605,766	136,898,948
Net position - beginning of year, as previously reported					(387,501,281)	1,004,458,984	616,957,703
Adjustment for new blended component unit					-	18,443,247	18,443,247
Net position - beginning of year, restated					(387,501,281)	1,022,902,231	635,400,950
Net position - end of year					$ (336,208,099)	$ 1,108,507,997	$ 772,299,898

See Notes to Basic Financial Statements

Health and Hospital Corporation of Marion County, Indiana
(A Component Unit of the Consolidated City of Indianapolis - Marion County)
Balance Sheet - Governmental Funds
December 31, 2014

	General	Debt Service	Capital Projects	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 202,257,525	$ 2,477,288	$ 20,976,634	$ 225,711,447
Restricted cash and cash equivalents	-	8,532,802	-	8,532,802
Restricted investments	-	7,615,236	400,000	8,015,236
Receivables (net of allowance for uncollectibles):				
Grants	4,881,864	-	-	4,881,864
Medicaid special revenue	78,658,158	-	-	78,658,158
Other	1,304,420	5,027,891	127,555	6,459,866
Due from other funds	42,914,834	-	-	42,914,834
Prepaid costs and other assets	342,083	-	-	342,083
Total assets	$ 330,358,884	$ 23,653,217	$ 21,504,189	$ 375,516,290
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts payable	$ 22,518,633	$ -	$ 3,903,254	$ 26,421,887
Matured bond principal and interest	-	1,185,907	-	1,185,907
Salaries and related benefits	1,685,823	-	-	1,685,823
Unearned revenue	736,648	-	-	736,648
Due to other funds	54,613,241	5,027,891	648	59,641,780
Accrued self-insurance claims	424,263	-	-	424,263
Total liabilities	79,978,608	6,213,798	3,903,902	90,096,308
Deferred Inflows of Resources				
Unavailable revenues	3,927,901	-	-	3,927,901
Fund Balances				
Nonspendable	342,083	-	-	342,083
Restricted for debt service	-	16,148,038	-	16,148,038
Assigned	1,073,267	1,291,381	17,600,287	19,964,935
Unassigned	245,037,025	-	-	245,037,025
Total fund balances	246,452,375	17,439,419	17,600,287	281,492,081
Total liabilities, deferred inflows of resources and fund balances	$ 330,358,884	$ 23,653,217	$ 21,504,189	

Amounts reported for governmental activities in the statement of net position are different because:

Net capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the fund statements	25,078,393
Joint venture investments are not financial resources and, therefore, are not reported in the fund statements	37,223,006
Deferred inflows of resources not meeting availability criteria in fund statements are not in the statement of net position	3,927,901
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the fund statements (excludes matured bond principal and interest)	(683,929,480)
Net position of governmental activities	$ (336,208,099)

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended December 31, 2014

	General	Debt Service	Capital Projects	Total Governmental Funds
Revenues				
Taxes	$ 112,984,886	$ 5,273,050	$ 205,650	$ 118,463,586
Licenses and permits	4,342,461	-	-	4,342,461
Intergovernmental	16,329,153	-	-	16,329,153
Charges for services	1,181,715	-	-	1,181,715
Medicaid special revenue	104,327,292	-	-	104,327,292
Investment income	3,361,510	29,339	21,833	3,412,682
Build America Bonds interest subsidies	-	10,061,207	-	10,061,207
Contributions	57,710,285	-	-	57,710,285
Miscellaneous	3,779,357	-	-	3,779,357
Total revenues	304,016,659	15,363,596	227,483	319,607,738
Expenditures				
Current:				
Administrative	29,586,419	-	6,576	29,592,995
Population health	25,115,888	-	-	25,115,888
Environmental health	12,502,800	-	-	12,502,800
Health center program	1,071,017	-	-	1,071,017
Data processing	3,500,373	-	-	3,500,373
Grant programs	15,596,818	-	-	15,596,818
Capital outlays	526,282	-	15,108,538	15,634,820
Debt service:				
Principal	-	15,118,729	-	15,118,729
Interest and fiscal charges	-	40,617,054	-	40,617,054
Intergovernmental	108,603,627	-	-	108,603,627
Total expenditures	196,503,224	55,735,783	15,115,114	267,354,121
Excess (Deficiency) of Revenues Over (Under) Expenditures	107,513,435	(40,372,187)	(14,887,631)	52,253,617
Other Financing Sources (Uses)				
Transfers in	150,000,000	40,983,586	15,000,000	205,983,586
Transfers out	(191,363,776)	-	-	(191,363,776)
Other debt issued	-	-	93,509	93,509
Total other financing sources and uses	(41,363,776)	40,983,586	15,093,509	14,713,319
Net change in fund balances	66,149,659	611,399	205,878	66,966,936
Fund balances - beginning of year	180,302,716	16,828,020	17,394,409	214,525,145
Fund balances - end of year	$ 246,452,375	$ 17,439,419	$ 17,600,287	$ 281,492,081

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Governmental Activities For the Year Ended December 31, 2014

Amounts reported for governmental activities in the statement of activities are different because:	
Net changes in fund balances - total governmental funds	$ 66,966,936
Depreciation expense is not reported in the fund statements, but is reported as a decrease in net position in the statement of activities	(2,538,620)
Capital outlays are reported as expenditures in the fund statements, but are reported as additions to capital assets in the statement of net position	15,354,931
Changes in joint venture investment are reported in the statement of net position but are not reported in the fund statements	(279,889)
Transfers of capital assets from governmental activities to the business type activities are not shown in the fund statements	(14,870,485)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statements	(26,920,567)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of bond insurance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences (as applicable) in the treatment of long-term debt and related items	15,070,617
Compensated absences that do not require the use of current financial resources are not reported as expenditures in the fund statements	(34,976)
Asserted and unasserted self-insurance claims that do not require the use of current financial resources are not reported as expenditures in the fund statements	10,075
Straight-line operating lease accruals are obligations that will not be paid with current financial resources and are not reported in the fund statements	(1,464,840)
Change in net position of governmental activities	$ 51,293,182

Health and Hospital Corporation of Marion County, Indiana
(A Component Unit of the Consolidated City of Indianapolis - Marion County)
Statement of Net Position - Proprietary Funds
December 31, 2014

	Eskenazi Health	LT Care	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 110,367,434	$ 77,773,611	$ 188,141,045
Investments	5,297,165	-	5,297,165
Receivables (net of allowance for uncollectibles):			
Patient services	49,822,578	52,654,540	102,477,118
Medicaid special revenue	-	58,307,458	58,307,458
Grants	5,585,856	-	5,585,856
Interest	1,543	-	1,543
Other	9,535,733	983,820	10,519,553
Inventories	5,278,178	-	5,278,178
Due from other funds	720,000	54,565,826	55,285,826
Prepaid costs and other assets	7,415,317	2,935,222	10,350,539
Total current assets	194,023,804	247,220,477	441,244,281
Noncurrent assets:			
Lease acquisition cost (net of accumulated amortization)	-	25,008,719	25,008,719
Joint venture investments	23,434,052	-	23,434,052
Investments restricted for deferred compensation	4,728,629	-	4,728,629
Other long-term assets	-	5,262,995	5,262,995
Capital assets (net of accumulated depreciation):			
Land	9,722,914	-	9,722,914
Land improvements	70,862,430	3,587,856	74,450,286
Building and improvements	598,343,148	364,478,969	962,822,117
Equipment	85,018,033	34,247,796	119,265,829
Vehicles	723,477	764	724,241
Construction in progress	28,815,315	1,105,449	29,920,764
Total capital assets (net accumulated depreciation)	793,485,317	403,420,834	1,196,906,151
Total noncurrent assets	821,647,998	433,692,548	1,255,340,546
Total assets	1,015,671,802	680,913,025	1,696,584,827
Liabilities			
Current liabilities:			
Accounts payable	32,377,687	28,762,867	61,140,554
Accrued liabilities	13,579,701	15,031,627	28,611,328
Due to other funds	37,886,295	720,000	38,606,295
Capital lease obligation - current	-	35,229,191	35,229,191
Estimated Medicare/Medicaid settlements	3,168,494	7,247,554	10,416,048
Unearned revenue	2,234,918	-	2,234,918
Medical claims incurred but not reported	4,353,072	-	4,353,072
Accrued compensated absences - current	17,203,247	-	17,203,247
Asserted and unasserted self-insurance claims - current	4,106,808	2,810,841	6,917,649
Total current liabilities	114,910,222	89,802,080	204,712,302
Noncurrent liabilities:			
Asserted and unasserted self-insurance claims	3,128,480	8,492,461	11,620,941
Accrued compensated absences	4,359,570	-	4,359,570
Net pension liability	852,205	-	852,205
Deferred compensation	4,728,629	-	4,728,629
Capital lease payable	-	361,803,183	361,803,183
Total noncurrent liabilities	13,068,884	370,295,644	383,364,528
Total liabilities	127,979,106	460,097,724	588,076,830
Net Position			
Net investment in capital assets	793,485,317	6,388,460	799,873,777
Unrestricted	94,207,379	214,426,841	308,634,220
Total net position	$ 887,692,696	$ 220,815,301	$ 1,108,507,997

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds

For the Year Ended December 31, 2014

	Eskenazi Health	LT Care	Total
Operating revenues:			
Net patient service revenue	$ 420,175,356	$ 587,952,918	$ 1,008,128,274
Medicaid special revenue	-	217,764,223	217,764,223
Other revenue	20,975,248	1,701,212	22,676,460
Total operating revenues	441,150,604	807,418,353	1,248,568,957
Operating expenses:			
Salaries	236,970,842	-	236,970,842
Employee benefits	76,558,888	-	76,558,888
Contract labor	1,272,266	300,199,545	301,471,811
Medical and professional fees	53,242,475	31,630,302	84,872,777
Purchased services	31,269,358	43,059,651	74,329,009
Supplies	43,815,987	45,643,077	89,459,064
Pharmaceuticals	40,517,291	27,189,212	67,706,503
Repairs and maintenance	8,465,391	4,094,911	12,560,302
Utilities	14,108,371	13,747,639	27,856,010
Equipment rental	5,656,926	5,056,759	10,713,685
Depreciation and amortization	51,044,872	63,911,492	114,956,364
Hospital assessment fee	16,275,890	-	16,275,890
Other	9,047,311	30,786,067	39,833,378
Total operating expenses	588,245,868	565,318,655	1,153,564,523
Operating income (loss)	(147,095,264)	242,099,698	95,004,434
Nonoperating revenue (expenses):			
Noncapital gifts and grants	24,941,727	-	24,941,727
Gain on termination of lease	-	290,437	290,437
Investment income (loss)	153,589	-	153,589
Interest expense	-	(35,035,096)	(35,035,096)
Total nonoperating revenue (expense)	25,095,316	(34,744,659)	(9,649,343)
Increase in net position before capital contributions and transfers	(121,999,948)	207,355,039	85,355,091
Capital contributions	14,870,485	-	14,870,485
Transfers - General Fund	135,380,190	(150,000,000)	(14,619,810)
Changes in net position	28,250,727	57,355,039	85,605,766
Total net position - beginning of year	840,998,722	163,460,262	1,004,458,984
Adjustment for new blended component unit	18,443,247	-	18,443,247
Total net position - beginning of year, restated	859,441,969	163,460,262	1,022,902,231
Total net position - end of the year	$ 887,692,696	$ 220,815,301	$ 1,108,507,997

Health and Hospital Corporation of Marion County, Indiana
(A Component Unit of the Consolidated City of Indianapolis - Marion County)
Statement of Cash Flows - Proprietary Funds
For the Year Ended December 31, 2014

	Eskenazi Health	LT Care	Total
Cash Flows From Operating Activities			
Receipts from patient services	$ 409,333,896	$ 595,326,522	$ 1,004,660,418
Receipts from other operations	27,398,337	1,701,212	29,099,549
Medicaid special revenue	-	154,269,672	154,269,672
Payments to suppliers	(246,499,324)	(123,706,657)	(370,205,981)
Payments to employees and contract labor	(286,175,680)	(373,987,289)	(660,162,969)
Net cash provided by (used in) operating activities	(95,942,771)	253,603,460	157,660,689
Cash Flows From Noncapital Financing Activities			
Cash receipts from noncapital gifts and grants	25,330,968	-	25,330,968
Transfers to the General Fund	-	(150,000,000)	(150,000,000)
Transfers from the General Fund	135,380,190	-	135,380,190
Net cash provided by (used in) noncapital financing activities	160,711,158	(150,000,000)	10,711,158
Cash Flows From Capital and Related Financing Activities			
Purchases of capital assets	(8,253,627)	(31,267,899)	(39,521,526)
Deposits paid	-	(1,000,000)	(1,000,000)
Deposits returned	-	750,000	750,000
Lease acquisition cost payments	-	(216,000)	(216,000)
Payment of capital lease obligations	-	(30,994,871)	(30,994,871)
Interest expense payments	-	(35,035,096)	(35,035,096)
Net cash used in capital and related financing activities	(8,253,627)	(97,763,866)	(106,017,493)
Cash Flows From Investing Activities			
Proceeds from sale and maturities of investments	3,738,231	-	3,738,231
Purchases of investments	(3,770,008)	-	(3,770,008)
Interest and dividends received	163,956	-	163,956
Contributions to joint venture	(5,970,890)	-	(5,970,890)
Net cash used in investing activities	(5,838,711)	-	(5,838,711)
Net Increase in Cash and Cash Equivalents	50,676,049	5,839,594	56,515,643
Cash and Cash Equivalents, January 1 (as restated)	59,691,385	71,934,017	131,625,402
Cash and Cash Equivalents, December 31	$ 110,367,434	$ 77,773,611	$ 188,141,045
Reconciliation of Operating Income (Loss) to Net Cash			
Provided by (Used in) Operating Activities:			
Operating income (loss)	$ (147,095,264)	$ 242,099,698	$ 95,004,434
Adjustment to reconcile operating income (loss) to net cash			
provided by (used in) operating activities:			
Depreciation and amortization	51,044,872	63,911,492	114,956,364
Increase in carrying value of joint venture	(1,133,277)	-	(1,133,277)
Changes in operating assets and liabilities:			
Patient service receivables	(16,222,333)	(2,788,873)	(19,011,206)
Other receivables	7,556,366	(63,494,551)	(55,938,185)
Inventories	(370,474)	-	(370,474)
Prepaid costs and other assets	(862,233)	(775,626)	(1,637,859)
Accounts payable	(18,132,685)	5,676,836	(12,455,849)
Accrued liabilities and compensation absences	25,623,813	(1,858,288)	23,765,525
Estimated Medicare/Medicaid settlements	4,380,708	10,162,477	14,543,185
Asserted and unasserted self-insurance claims	(1,575,587)	670,295	(905,292)
Medical claims incurred but not reported	843,323	-	843,323
Total adjustments	51,152,493	11,503,762	62,656,255
Net cash provided by (used in) operating activities	$ (95,942,771)	$ 253,603,460	$ 157,660,689
Noncash investing, capital and financing activities:			
Lease acquisition costs included in accounts payable	$ -	$ 468,000	$ 468,000
Purchase of assets held under capital lease, including lease revisions	-	6,231,993	6,231,993
Gain on lease termination	-	290,437	290,437
Transfer of capital assets from the General Fund	14,870,485	-	14,870,485
Unrealized loss on investment, net	10,367	-	10,367

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

Financial Reporting Entity

The Health and Hospital Corporation of Marion County, Indiana (Corporation) was created under Chapter 287 of the Acts of 1951 enacted by the General Assembly of the State of Indiana. The Corporation is a municipal corporation and a political subdivision of the State of Indiana under Indiana Code §16-22-8-6, §6-1.1-1-12 and §36-1-2-23.

The Corporation's duties include the administration of the Divisions of Public Health and Public Hospitals. The Division of Public Health does business as the Marion County Public Health Department (MCPHD), and the Division of Public Hospitals does business as Eskenazi Health. Overall, the Corporation operates three service divisions: MCPHD, Eskenazi Health and a Long-Term Care (Long-Term Care) operation.

The MCPHD operates two service bureaus, which provide preventive and diagnostic health programs, health education, immunization and epidemiological programs, environmental health regulation, and code enforcement. The MCPHD division is accounted for using governmental funds.

Eskenazi Health is comprised of the Sidney and Lois Eskenazi Hospital, a 315 bed general acute care hospital; the Eskenazi Health Outpatient Care Center, an outpatient specialty care facility co-located with the Hospital; the Eskenazi Health Center, a Federally Qualified Health Center (FQHC) that operates ten primary care centers throughout Marion County; Midtown Community Mental Health, a Community Mental Health Center (CMHC) that provides behavioral health services throughout Marion County; and Indianapolis EMS (IEMS), the county-wide emergency ambulance service. Eskenazi Health is the only public hospital in Marion County. The Hospital is fully accredited by the Joint Commission for Accreditation of Hospitals of the American Hospital Association.

In accordance with an interlocal agreement with the City of Indianapolis, Department of Public Safety, the Corporation agreed to own, manage and operate the Transport Emergency Medical Services system for Marion County, Indiana (Indianapolis EMS). The activities of Indianapolis EMS are therefore included in the Eskenazi Health division. For purposes of financial reporting, the Eskenazi Health division is accounted for as a separate enterprise fund.

The Corporation operates 61 long-term care facilities through capital leases. The facilities are operated as part of the Long-Term Care operations. Long-Term Care supports the Corporation's mission and goal to provide quality care and services to elderly and disabled people. For purposes of financial reporting, the Long-Term Care division is accounted for as a separate enterprise fund.

The Corporation is considered a component unit of the Consolidated City of Indianapolis - Marion County (Uni-Gov). Accordingly, the financial statements of the Corporation are required to be included in the comprehensive annual financial report of Uni-Gov.

The Corporation is governed by a seven-member Board of Trustees, appointed by the Mayor of Indianapolis (3), Commissioners of Marion County (2) and City-County Council (2). Of those members appointed by the City-County Council, one serves a two-year term, and one serves a four-year term. All other appointments serve a term of four years. The Board of Trustees is bi-partisan by statute. The Corporation is responsible for all of its fiscal matters including budget (subject to the final authority of the City-County Council and the State of Indiana Department of Local Government Finance (DLGF)), operating deficits and debt. The Corporation's executive and legislative powers include the power to levy taxes and incur debt. The Corporation's ordinances have the effect of local law governing health matters.

Component Units

The Corporation has established a nonprofit entity, Lions Insurance Company (Lions), which is legally separate from the Corporation and whose purpose is to provide insurance covering the professional (malpractice) and general liability exposures of the nursing homes operated by the Corporation. Lions is considered a blended component unit and is therefore reported as if it is a part of the Long-Term Care Enterprise Fund because its primary purpose is to provide services solely to the Long-Term Care Enterprise Fund.

IU Health, Inc. d/b/a Eskenazi Medical Group (EMG) is a nonprofit entity, which is legally separate from the Corporation and whose purpose is to provide a patient-based, clinical setting needed for the education of medical students. EMG employs and contracts with physicians who are then contracted for service at Eskenazi Health facilities. Revisions to the articles of incorporation and bylaws of EMG were made, effectively giving the Corporation unilateral authority to appoint and remove a majority of EMG's board members. This and a combination of other facts and circumstances resulted in the conclusion that EMG is a component unit of the Corporation. Because EMG's primary purpose is to provide services solely to Eskenazi Health, EMG must be blended into the Corporation's financial statements as if it were a part of the Eskenazi Health Enterprise Fund. Beginning of year net position in both the government-wide and fund financial statements has been restated to reflect the blending of EMG, as has the beginning of year cash and cash equivalents in the statement of cash flows.

Complete financial statements for Lions and EMG may be obtained from Health and Hospital Corporation at 3838 N. Rural Street, Indianapolis, Indiana 46205.

Financial Statement Presentation, Measurement Focus and Basis of Accounting

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Corporation. All significant interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Following the government-wide financial statements are separate financial statements for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Corporation considers all of its governmental funds to be major funds. The total fund balances for all governmental funds are reconciled to total net position for governmental activities as shown on the statement of net position. The net change in fund balances for all governmental funds is reconciled to the total change in net position as shown on the statement of activities in the government-wide statements. The Corporation's two enterprise funds (business-type activities), Eskenazi Health and Long-Term Care, are also considered to be major funds for reporting purposes.

The fund financial statements of the Corporation are organized on the basis of funds, each of which is considered a separate accounting entity with self-balancing accounts that comprise its assets, liabilities, fund balances/net position, revenues, and expenditures or expenses. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by fund type in the basic financial statements. The following fund types are used by the Corporation:

Governmental Fund Types

Governmental funds are those through which most governmental functions are financed. The Corporation reports the following governmental funds, all of which are major:

The General Fund is the Corporation's primary operating fund. It accounts for all financial resources of the Corporation, including grants, except those required to be accounted for in another fund.

The Debt Service Fund is used to account for and report the accumulation of financial resources that are restricted, committed or assigned to expenditures for principal, interest and related costs on outstanding general obligation bond and other long-term debt of the Corporation's governmental activities. Debt service requirements are generally funded from other operating revenues and ad valorem taxes.

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Such resources are derived principally from general obligation bonds, capital lease obligations and ad valorem taxes.

Proprietary Fund Type

Proprietary funds are used to account for activities that are similar to those found in the private sector.

As mentioned previously, the Corporation has two enterprise funds: (1) the Eskenazi Health Enterprise Fund, which accounts for the activities of Eskenazi Health (including Indianapolis EMS) and (2) the Long-Term Care Enterprise Fund, which accounts for the activities of the 61 leased long-term care facilities that receive no funding from ad valorem taxes. An enterprise fund is used to account for operations that are financed and operated in a similar manner to a private business - where the intent of the governing body is that the costs (including depreciation) of operations are financed primarily through user charges. Certain administrative expenses of Eskenazi Health and Long-Term Care are accounted for by the General Fund. Because the capital outlay for Eskenazi Health is funded through ad valorem taxes, long-term debt interest expense relating to Eskenazi Health is accounted for by the Debt Service Fund and is not allocated to the Eskenazi Health Enterprise Fund. Only debt intended to be repaid by operations of Eskenazi Health are included in the Eskenazi Health Enterprise Fund. At December 31, 2014, no such debt existed. At December 31, 2014, the Long-Term Care Enterprise Fund had capital leases, which are to be repaid from revenues from operations, and are therefore shown as long-term debt in the Long-Term Care Enterprise Fund.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year the levy and tax rates are certified. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers property taxes to be available if they are collected and distributed within 60 days of the end of the current fiscal period. For all other revenue items, the Corporation considers revenue to be available if collected within 90 days of the end of the current fiscal period. Significant revenues susceptible to accrual include property and other taxes, grants and interest. Expenditures generally are recorded when a liability is incurred, as underaccrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Reporting for Nonexchange Transactions*, (GASB 33), groups nonexchange transactions into four classes, based upon their principal characteristics: derived tax revenues, imposed nonexchange revenues, government-mandated nonexchange transactions, and voluntary nonexchange transactions.

In the governmental fund statements, the Corporation recognizes assets from derived tax revenue transactions in the period when the underlying exchange transaction on which the tax is imposed occurs or when the assets are received, whichever occurs first. Revenues are recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred in the fund financial statement. Resources received in advance are reported as unearned revenues until the period of the exchange in both the government-wide and fund financial statements.

The Corporation recognizes assets from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. Revenues are recognized in the period when the resources are required to be used or the first period that use is permitted. The Corporation recognizes revenues from property taxes, net of estimated refunds and uncollectible amounts, in the period in which the tax levy and rates are certified. Imposed nonexchange revenues also include permits.

Voluntary nonexchange transactions, such as grants and assistance received from other governmental units and Build America Bonds interest subsidies, are generally recognized as revenues in the period when all eligibility requirements, as defined by GASB 33, have been met. Any resources received before eligibility requirements are met are reported as unearned revenues.

Government-mandated nonexchange transactions are accounted for in the same manner as voluntary nonexchange transactions.

Charges for services in the governmental funds, which are exchange transactions and are therefore not subject to the provisions of GASB 33, are recognized as revenues when received in cash because they are generally not measurable until actually received.

Under the accrual basis of accounting for proprietary fund types, revenues are recognized in the period earned and expenses are recognized in the period incurred. Patient services accounts receivable and revenue are recorded at standard billing rates, net of contractual adjustments, when patient services are performed. Eskenazi Health and Long-Term Care provide services under the Medicare and Medicaid programs for which they may be reimbursed at amounts different from the standard billing rates. Amounts reimbursed or estimated to be reimbursed by these programs are generally determined in accordance with a prospective price-per-case payment system or under the provisions of cost-reimbursement formulas. In addition, Eskenazi Health and Long-Term Care provide services in accordance with various contractual agreements entered into with state and local governmental agencies and other third-party health insurance companies.

The differences between standard billing rates and the amount reimbursed or estimated to be reimbursed by Medicare, Medicaid and other contractual payers are included in the financial statements as contractual adjustments. Patient accounts receivable for services provided under contractual arrangements are also adjusted to reflect these differences.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All transactions deemed by management to be ongoing, major, or central to the provision of healthcare services for Eskenazi Health and Long-Term Care are considered to be operating activities and are reported as operating revenue and operating expenses. Intergovernmental revenues, investment income, interest expense, and peripheral or incidental transactions are reported as nonoperating revenue and expenses. Other changes in net position that are excluded from operating income (loss) principally consist of contributions of capital assets funded by governmental activities, grantors and donors.

When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash, Cash Equivalents and Investments

The Corporation’s cash and cash equivalents (including those that are restricted) are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of purchase.

Investments for the Corporation are reported at fair value. The Corporation also invests in an external investment pool held by the State of Indiana. Consistent with the provisions of a 2a-7 like pool as defined by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, the portfolio securities are valued at amortized cost, which approximates fair value. The amortized cost valuation methods involve initially valuing a security at its cost on the date of purchase and thereafter accreting to maturity and discount or amortizing to maturity any premium. The Corporation records its investment in the external pool at its share value. The Indiana Treasurer of State has been designated by State statute as the administrator of the pool and has general oversight over the daily operation of the pool.

Receivables and Payables

In the fund financial statements, all outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

All receivables are shown, net of an allowance, if any, for uncollectible balances.

Inventories

Purchases of materials and supplies in the governmental fund types are charged to expenditures as incurred. Amounts of inventories in such governmental funds are immaterial. For the enterprise fund type, pharmaceutical, central supply and sterile supply inventories of the Eskenazi Health Enterprise Fund are determined by physical count of items on hand and are priced at weighted-average cost or at fair value, whichever is less. Inventory in the Long-Term Care Fund is immaterial.

Prepaid Costs and Other Assets

Prepaid costs and other assets for the governmental funds include prepaid insurance, and other miscellaneous assets. Prepaid costs and other assets of the proprietary fund consist of prepaid insurance, prepaid service contracts, and other miscellaneous assets.

Capital Assets

Capital assets, which include buildings, improvements, equipment, and vehicles are reported in the applicable governmental or business-type activities column in the government-wide financial statements and within the proprietary fund financial statements. Capital assets are defined by the Corporation as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years.

Purchased or constructed assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the estimated useful life of the asset are not capitalized.

Depreciation, including depreciation recognized on assets acquired through government grants and other aid, is computed on the straight-line method over the estimated useful lives of the various classes of assets. Assets held under capital leases and leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of the asset.

Estimated useful lives used to compute depreciation are as follows:

	Years
Building and improvements	10 - 50
Equipment	5 - 20
Vehicles	4

Capitalization of Interest

Net interest costs on funds borrowed to finance the construction of capital assets are capitalized and depreciated over the life of the related asset for business-type activities and proprietary fund types. Interest is not capitalized for governmental fund types. During 2014, there was no interest capitalized.

Other Long-Term Assets

Other long-term assets consist of deposits made related to the leasing of nursing homes. The deposits will be returned in full if the leased buildings are returned in an acceptable condition by the holder of the deposit at the end of the respective lease terms.

Deferred Outflows and Inflows of Resources

The Corporation defers recognition of losses incurred on bond refundings and reports such losses as deferred outflows of resources in the government-wide statement of net position. Deferred losses on refundings are amortized using the effective interest method over the lesser of the remaining life of the original bonds or the life of the new bonds.

Deferred inflows of resources are reported in the fund financial statements for receivables that are not considered available at year-end or for which eligibility requirements have not been met.

Unearned Revenue

Unearned revenue is reported in the government-wide financial and enterprise fund statements. The availability period does not apply; however, amounts may not be earned due to eligibility requirements or other reasons.

Accrued Compensated Absences

Corporation employees are paid for vacation and other absences by prescribed formulas based primarily on length of service and staff classification. In accordance with the vesting method provided under GASB Statement No. 16, *Accounting for Compensated Absences*, accumulated vacation and other absences are accrued based on assumptions concerning the probability that certain employees will become eligible to receive these benefits in the future. A liability for the cost of accumulated earned but unused vacation and other absences is recognized in the government-wide statements and in the statement of net position of the proprietary funds. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities statement of net position. Bond premiums are recorded as an addition to the associated debt obligation and are amortized over the term of the respective bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Payments to an escrow agent to defease debt are reported as other financing uses, while issuance costs, whether or not withheld from the actual debt proceeds received, and repayments of principal and interest are reported as debt service expenditures.

Lease Acquisition Costs

The Corporation allocates the purchase price of properties acquired under capital leases to net tangible and identified intangible assets based on their respective fair values. The allocation to tangible assets (primarily equipment) is based upon management's determination of the value of the property. The remaining purchase price is allocated to lease acquisition costs. These costs are amortized over the life of the related lease.

Interfund Transactions

In the fund financial statements, the Corporation has the following types of transactions among funds:

Transfers

Legally authorized transfers are reported when incurred as transfers in by the recipient fund and as transfers out by the disbursing fund.

Contribution of Capital Assets

The General and Capital Project Funds make contributions of capital assets to the Eskenazi Health Enterprise Fund from time to time. The enterprise fund reports these transactions as capital contributions; however, the General or Capital Project Funds do not report the event because there has been no flow of current financial resources for the governmental fund statements other than the expenditures incurred during the year on capital outlay. In the government-wide statement of activities, both sides of the capital asset transfer are reported as transfers.

Interfund Services Provided/Used

Charges or collections for services rendered by one fund for another are recognized as revenues (interfund services provided) of the recipient fund and expenditures or expenses (interfund services used) of the disbursing fund. These transactions are recorded as interfund services because they would be treated as revenues and expenditures or expenses if they involved organizations external to the Corporation.

Within the statement of activities, direct expenses are not eliminated from the various functional categories. However, indirect expenses are eliminated.

Certain internal payments are treated as a reduction of expense, such as reimbursements. Elimination of interfund activity has been made for governmental activities in the government-wide financial statements.

Net Position/Fund Balances

The government-wide and proprietary fund financial statements utilize a net position presentation. The components of net position are categorized as follows:

- *Net investment in capital assets* - This category groups all capital assets into one component of net position. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category. Governmental activities debt related to business-type activities is not recorded in this category; rather, this debt is included in unrestricted net position.
- *Restricted* - This category represents resources that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This category represents resources of the Corporation not restricted for any project or other purpose.

In the governmental fund financial statements, fund balance classifications reflect a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The Corporation’s fund balances include the following:

- **Nonspendable fund balances** include amounts that cannot be spent because they are either (a) not in spendable form (such as inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact.
- **Restricted fund balances** are reported when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed fund balances** represent resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the Corporation’s Board of Trustees, whereby such constraints can only be modified through formal action (by ordinance) of the Board of Trustees.
- **Assigned fund balances** include resources for which it is the intent of the Corporation, through action of the President or Treasurer/CFO, that they be used for specific purposes. The Board of Trustees has by ordinance authorized such individuals to assign fund balances. Such constraints can be modified or rescinded without formal action of the Board of Trustees as long as they do not result in an additional budgetary appropriation.
- **Unassigned fund balances** represent the residual portion of the General Fund that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund.

The Corporation’s policy is to apply expenditures to restricted resources first, then committed, then assigned, and finally to unassigned, as applicable.

Indigent Care Services

Under Indiana Code (§16-22-8-39), the services provided by Eskenazi Health are for the benefit of the residents of Marion County, Indiana and for every person falling sick or being injured or maimed within its limits. Certain services to patients are classified as indigent care based on established policies of Eskenazi Health. Because Eskenazi Health does not expect amounts determined to qualify as indigent care to result in cash collections, they are not reported as net patient service revenue.

Eskenazi Health maintains records to identify and monitor the level of indigent care it provides. These records include the amount of charges forgone for services and supplies furnished under its indigent care policy. The costs of charity care provided under the corporation's indigent care policy was approximately $141 million during 2014. The cost of indigent care is estimated by applying a ratio of cost to gross charges to the gross uncompensated charges.

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as amounts are no longer subject to such audits and reviews.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and the 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.

Future Accounting Pronouncement

In 2015, the Corporation will implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The Commission will be required to recognize as a liability its proportionate share of the unfunded pension obligation of the Public Employees Retirement Fund of Indiana. The effects of implementing this statement is expected to have a material effect on the Corporation's net position.

Note 2: Deposits and Investments

As of December 31, 2014, the Corporation, including its blended component units, had the following cash deposits and investments:

Cash deposits	$ 356,523,540
Negotiable certificates of deposit	1,370,181
Repurchase agreements	16,256,784
State external investment pool	50,004,970
U.S. Government-sponsored enterprises	7,819,340
Equity mutual funds	4,837,046
Equity securities	2,202,440
Corporate bonds	1,054,755
Money market mutual funds	357,268
Total deposits and investments	$ 440,426,324

Deposits and investment securities included in the statement of net position are classified as follows:

	2014
Carrying value	
Deposits	$ 356,523,540
Investments	83,902,784
	$ 440,426,324
Cash and cash equivalents	
Unrestricted	$ 413,852,492
Restricted	8,532,802
	422,385,294
Investments	
Unrestricted	5,297,165
Restricted	12,743,865
	$ 440,426,324

Deposits

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

The Corporation's cash deposits are insured up to $250,000 at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits in excess of the $250,000 FDIC limits are partially or fully collateralized by the depository institution and insured by the Indiana Public Deposits Insurance Fund (Fund) via the pledged collateral from the institutions securing deposits of public funds. The Fund is a multiple financial institution collateral pool as provided under Indiana Code, Section 5-13-12-1.

Types of Investments Authorized

Indiana statutes authorize the Corporation to invest in United States obligations and issues of federal agencies, Indiana municipal securities, secured repurchase agreements fully collateralized by U.S. Treasury or U.S. agency obligations, certificates of deposit and open-end money market mutual funds. Indiana statutes do not apply to the blended component units of the Corporation, which may invest in securities other than the aforementioned types of investments.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Corporation is limited to investing in securities with a stated maturity of not more than two years after the date of purchase or entry into a repurchase agreement, as defined by Indiana Code, Section 5-13-9-5.6. The Corporation's investment policy for interest rate risk requires investments to be invested in a prudent manner to achieve maximum yield return available from approved government obligations with due regard to the specific purpose for which the funds are intended and needed.

Below is a table of segmented time distribution for the Corporation's debt investments at December 31, 2014:

		Investment Activities (in years)			
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
Repurchase agreements	$ 16,256,784	$ 16,256,784	$ -	$ -	$ -
State external investment pool	50,004,970	50,004,970	-	-	-
U.S. Government-sponsored enterprises	7,819,340	7,620,071	60,193	72,642	66,434
Corporate bonds	1,054,755	483,458	571,297	-	-
Money market mutual funds	357,268	357,268	-	-	-
	$ 75,493,117	$ 74,722,551	$ 631,490	$ 72,642	$ 66,434

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Corporation's investment policy for credit risk requires compliance with the provisions of Indiana statutes. Further, Indiana Code Section 5-13-9-2.5 requires that if the Corporation invests in money market mutual funds that the underlying securities be rated AAA by Standard and Poor's or Aaa by Moody's Investor's Service.

At December 31, 2014, the Corporation's investments were rated by Standard & Poor's or Moody's as follows:

	Fair Value	AAA/Aaa	Aa	A	Not Rated
Repurchase agreements	$ 16,256,784	$ 16,256,784	$ -	$ -	$ -
State external investment pool	50,004,970	-	-	-	50,004,970
U.S. Government-sponsored enterprises	7,819,340	7,819,340	-	-	-
Corporate bonds	1,054,755	-	-	-	1,054,755
Money market mutual funds	357,268	357,268	-	-	-
	$ 75,493,117	$ 24,433,392	$ -	$ -	$ 51,059,725

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Corporation will not be able to recover the value of its investments or collateral that are in the possession of an outside party. At December 31, 2014, all of the Corporation's investments in U.S. Government-sponsored enterprises, repurchase agreements and corporate bonds were exposed to custodial credit risk. These investments were uninsured and the collateral was held by the pledging financial institution's trust department or agent but not in the Corporation's name. The Corporation's investments in money market mutual funds and the state external investment pool were not subject to custodial credit risk at December 31, 2014, as their existence is not evidenced by securities that exist in physical book entry form. The Corporation's investment policy does not address how investment securities and securities underlying repurchase agreements are to be held.

Concentration of Credit Risk

The Corporation places no limit on the amount that may be invested in any one issuer. At December 31, 2014, 5% or more of the Corporation's investments are in repurchase agreements with JPMorgan Chase, National Bank of Indianapolis and Federal Home Loan Mortgage Corporation securities. These investments represent 7.8%, 13.8% and 10.4%, respectively, of the Corporation's total investments.

Foreign Currency Risk

This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Corporation's investment policy prohibits investments in foreign investments.

Investment Income (Loss)

Investment income (loss) for the year ended December 31, 2014 consisted of:

	Governmental Fund-Types	Proprietary Fund-Types
Interest income	$ 579,814	$ 163,956
Unrealized loss on investments, net	(492,134)	(10,367)
Total investment income	$ 87,680	$ 153,589

Note 3: Property Taxes

Property taxes levied for all governmental entities located within Marion County are collected by the Marion County Treasurer. On or before August 1 each year, the Marion County Auditor must submit to each underlying taxing unit a statement of (i) the estimated assessed value of the taxing unit as of March 1 of that year, and (ii) an estimate of the taxes to be distributed to the taxing unit during the last six months of the current budget year. The estimated value is based on property tax lists delivered to the Marion County Auditor by the Marion County Assessor on or before July 1.

The estimated value is used when the Corporation's Board meets to establish its budget for the next fiscal year (January 1 through December 31), and to set tax rates and levies. The budget, tax rates and levy must be adopted no later than November 1. The budget, tax levy and tax rate are subject to review and revision by the Indiana Department of Local Government Finance (the "DLGF") which, under certain circumstances, may revise, reduce or increase the budget, tax rate, or levy of the Corporation. The DLGF may increase the tax rate and levy if the tax rate and levy proposed by the Corporation is not sufficient to make its debt service or lease rental payments. The DLGF must complete its actions on or before February 15 of the year following the property tax assessment.

Taxes are distributed by the Marion County Auditor to the Corporation by June 30 and December 31 of each year. The Corporation can request advances of its share of collected taxes from the Marion County Treasurer once the levy and tax rates are certified by the DLGF.

As noted above, the assessment (or lien) date for Indiana property taxes is March 1 of each year; however, the Corporation does not recognize a receivable on the assessment date since the amount of property taxes to be collected cannot be measured until the levy and tax rates are certified in the subsequent year.

Typically, property tax bills are mailed in April and October of each year and are due and payable by the property owners in May (spring) and November (fall), respectively. Property tax billings are considered delinquent if they are not paid by the respective due date, at which time the applicable property is subject to lien, and penalties and interest are assessed. Appeals may be filed within 45 days following the date the bills are mailed.

Changes in assessed values of real property occur periodically as a result of general reassessments required by the State legislature, as well as when changes occur in the property value due to new construction or demolition of improvements.

The Corporation allocates property tax revenues, as considered necessary, to fund public health programs and provide care for the indigent.

Note 4: Patient Services Receivables

Net patient services receivables consist of the following as of December 31, 2014:

	Eskenazi Health	LT Care	Total
Gross patient services receivables	$ 253,195,428	$ 59,356,500	$ 312,551,928
Allowance for estimated contractual adjustment	(125,573,685)	-	(125,573,685)
Allowance for uncollectible accounts	(77,799,165)	(6,701,960)	(84,501,125)
Net patient services receivables	$ 49,822,578	$ 52,654,540	$ 102,477,118

Note 5: Interfund Balances and Transfers

Individual due to/from other funds as of December 31, 2014 are as follows:

Interfund Receivables	Interfund Payables	Amount
General Fund	Debt Service Fund	$ 5,027,891
General Fund	Eskenazi Health Fund	37,886,295
General Fund	Capital Projects Fund	648
Eskenazi Health Fund	LT Care Fund	720,000
Eskenazi Health Fund	General Fund	47,415
LT Care Fund	General Fund	54,565,826

These interfund balances are due to the time lag between the dates that reimbursable expenditures occur and payments between funds are made, as well as pass-through grant activity. The interfund balances are expected to be repaid during the fiscal year ending December 31, 2015.

Interfund transfers for the year ended December 31, 2014 on the fund statements consisted of the following:

	Transfer In:				
	General Fund	Debt Service Fund	Cap Projects Fund	Enterprise Fund - Eskenazi Health	Total
Transfer out:					
General Fund	$ -	$ 40,983,586	$ 15,000,000	$ 135,380,190	$ 191,363,776
LT Care Fund	150,000,000	-	-	-	150,000,000
Total	$ 150,000,000	$ 40,983,586	$ 15,000,000	$ 135,380,190	$ 341,363,776

Interfund transfers were generally used for the following: 1) to move revenues from the funds that are required by ordinance or budget to collect them to the funds that will ultimately expend them or 2) to cover deficits of other funds. For the government-wide statements, capital contributions received by the Eskenazi Health Enterprise Fund from other funds (totaling $14,8470,485 in 2014) are reported as transfers; however, for the fund statements, such transfers are shown as capital contributions since they represent the actual transfer of capital assets.

Note 6: Deferred Inflows of Resources and Unearned Revenue

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are unavailable to liquidate liabilities of the current period or for which eligibility requirements have not been met. Governmental funds also record unearned revenue in connection with resources that have been received but not yet earned. At December 31, 2014, the various components of deferred inflows of resources and unearned revenue reported in the governmental funds were as follows:

	Deferred Inflows	Unearned
Grant advances prior to meeting all eligibility requirements	$ -	$ 568,065
Rental revenue received in advance	-	168,583
Grant reimbursements not received within 90 days	210,366	-
Other revenues not received within 90 days	3,717,535	-
Total General Fund	$ 3,927,901	$ 736,648

In addition, the Eskenazi Health Enterprise Fund had $2,234,918 of unearned revenue recorded at December 31, 2014 of which $587,666 related to the Healthy Indiana Plan and $1,647,252 related to both fee for service grants and advances received on federal grants that had not met eligibility requirements.

Note 7: Capital Assets

Following is a summary of the changes in capital assets - governmental activities for the year ended December 31, 2014:

	January 1, 2014	Transfers/ Additions	Transfers/ Disposals	December 31, 2014
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 4,114,896	$ -	$ (19,549)	$ 4,095,347
Construction in progress	40,448	15,108,538	(15,148,986)	-
Total capital assets not being depreciated	4,155,344	15,108,538	(15,168,535)	4,095,347
Capital assets being depreciated:				
Buildings and improvements	29,853,203	118,700	(160,485)	29,811,418
Equipment	23,147,575	390,037	(21,985)	23,515,627
Vehicles	5,202,463	17,545	-	5,220,008
Total capital assets being depreciated	58,203,241	526,282	(182,470)	58,547,053
Less accumulated depreciation for:				
Buildings and improvements	13,886,841	1,274,454	(160,484)	15,000,811
Equipment	16,467,916	1,136,908	(21,989)	17,582,835
Vehicles	4,853,103	127,258	-	4,980,361
Total accumulated depreciation	35,207,860	2,538,620	(182,473)	37,564,007
Total capital assets being depreciated, net	22,995,381	(2,012,338)	3	20,983,046
Governmental activities capital assets, net	$ 27,150,725	$ 13,096,200	$ (15,168,532)	$ 25,078,393

The following is a summary of changes in capital assets - business-type activities for the year ended December 31, 2014:

	January 1, 2014	Transfers/ Additions	Transfers/ Disposals	December 31, 2014
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 9,709,778	$ 13,136	$ -	$ 9,722,914
Construction in progress	28,486,973	9,753,160	(8,319,369)	29,920,764
Total capital assets not being depreciated	38,196,751	9,766,296	(8,319,369)	39,643,678
Capital assets being depreciated:				
Land improvements	84,906,660	2,813,059	-	87,719,719
Buildings and improvements	1,488,201,445	27,952,859	(1,267,724)	1,514,886,580
Equipment	339,472,390	28,088,011	-	367,560,401
Vehicles	8,032,753	323,141	-	8,355,894
Total capital assets being depreciated	1,920,613,248	59,177,070	(1,267,724)	1,978,522,594
Less accumulated depreciation for:				
Land improvements	7,684,141	5,585,292	-	13,269,433
Buildings and improvements	474,787,889	77,917,596	(641,022)	552,064,463
Equipment	221,345,938	26,948,634	-	248,294,572
Vehicles	7,057,612	574,041	-	7,631,653
Total accumulated depreciation	710,875,580	111,025,563	(641,022)	821,260,121
Total capital assets being depreciated, net	1,209,737,668	(51,848,493)	(626,702)	1,157,262,473
Business-type activities capital assets, net	$ 1,247,934,419	$ (42,082,197)	$ (8,946,071)	$ 1,196,906,151

The following is a summary of changes in capital assets - Eskenazi Health Enterprise Fund for the year ended December 31, 2014:

	January 1, 2014	Transfers/ Additions	Transfers/ Disposals	December 31, 2014
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 9,709,778	$ 13,136	$ -	$ 9,722,914
Construction in progress	26,955,333	1,859,982	-	28,815,315
Total capital assets not being depreciated	36,665,111	1,873,118	-	38,538,229
Capital assets being depreciated:				
Land improvements	80,349,752	1,826,275	-	82,176,027
Buildings and improvements	862,040,669	7,016,345	-	869,057,014
Equipment	263,666,625	12,085,233	-	275,751,858
Vehicles	7,869,990	323,141	-	8,193,131
Total capital assets being depreciated	1,213,927,036	21,250,994	-	1,235,178,030
Less accumulated depreciation for:				
Land improvements	6,210,591	5,103,006	-	11,313,597
Buildings and improvements	240,389,539	30,324,327	-	270,713,866
Equipment	175,689,717	15,044,108	-	190,733,825
Vehicles	6,896,223	573,431	-	7,469,654
Total accumulated depreciation	429,186,070	51,044,872	-	480,230,942
Total capital assets being depreciated, net	784,740,966	(29,793,878)	-	754,947,088
Business-type activities capital assets, net	$ 821,406,077	$ (27,920,760)	$ -	$ 793,485,317

The following is a summary of changes in capital assets - Long-Term Care Enterprise Fund for the year ended December 31, 2014:

	January 1, 2014	Transfers/ Additions	Transfers/ Disposals	December 31, 2014
Business-Type Activities:				
Capital assets not being depreciated:				
Construction in progress	$ 1,531,640	$ 7,893,178	$ (8,319,369)	$ 1,105,449
Total capital assets not being depreciated	1,531,640	7,893,178	(8,319,369)	1,105,449
Capital assets being depreciated:				
Land improvements	4,556,908	986,784	-	5,543,692
Buildings and improvements	626,160,776	20,936,514	(1,267,724)	645,829,566
Equipment	75,805,765	16,002,778	-	91,808,543
Vehicles	162,763	-	-	162,763
Total capital assets being depreciated	706,686,212	37,926,076	(1,267,724)	743,344,564
Less accumulated depreciation for:				
Land improvements	1,473,550	482,286	-	1,955,836
Buildings and improvements	234,398,350	47,593,269	(641,022)	281,350,597
Equipment	45,656,221	11,904,526	-	57,560,747
Vehicles	161,389	610	-	161,999
Total accumulated depreciation	281,689,510	59,980,691	(641,022)	341,029,179
Total capital assets being depreciated, net	424,996,702	(22,054,615)	(626,702)	402,315,385
Business-type activities capital assets, net	$ 426,528,342	$ (14,161,437)	$ (8,946,071)	$ 403,420,834

Within the statement of activities, depreciation expense is charged to functions of the Corporation as follows:

Governmental Activities:	
Administration and finance	$ 1,771,234
Health improvements	387,471
Communicable disease prevention	243,219
Water quality and hazardous material management	25,468
Vector disease control	87,170
Housing and neighborhood health	21,930
Consumer and employee risk reduction	2,128
Total depreciation expense, governmental activities	$ 2,538,620
Business-Type Activities:	
Eskenazi Health	$ 51,044,872
LT Care	59,980,691
Total depreciation expense, business-type activities	$ 111,025,563

Included in the Long-Term Care Fund depreciation expense in the proprietary fund statements is $3,930,801 of amortization expense related to lease acquisition costs.

Note 8: Estimated Medicare and Medicaid Settlements and Net Patient Service Revenue

Estimated Medicare and Medicaid settlements reflect differences between interim reimbursement and reimbursement as determined by cost reports filed or to be filed with federal and state governments after the end of each year. In addition, such settlement amounts reflect, if applicable, any differences determined to be owed to or from Eskenazi Health after an audit of such reports. Changes to any previous years' estimated settlements are reflected in the period such changes are identified. At December 31, 2014, the Medicare and Medicaid cost reports for Eskenazi Health have been audited by the fiscal intermediaries through December 31, 2010.

Eskenazi Health and Long-Term Care have agreements with third-party payers that provide payments to these divisions at amounts different from their established rates. Estimated contractual adjustments under third-party reimbursement programs represent the differences between billings at established rates and amounts reimbursed by third-party payers. Estimated contractual adjustments also include any differences between estimated third-party reimbursement settlements for prior year services under third-party payer agreements and subsequent final settlements. A summary of the payment arrangements with major third-party payers follows.

Medicare

Under the Medicare program, Eskenazi Health receives reimbursement under a prospective payment system (PPS) for both inpatient and outpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group. When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional "outlier" payments. Outpatient services provided to Medicare patients are reimbursed to Eskenazi Health based on service groups called ambulatory payment classifications.

Under the Medicare program, Long-Term Care primarily receives reimbursement for services provided at its skilled nursing facilities (SNF) under PPS on a per diem basis based on each resident's health at admission (RUG Rate). Medicare reimburses Long-Term Care for 100 days of SNF care subject to certain eligibility requirements.

Medicaid

Eskenazi Health is paid for inpatient acute care services rendered to Medicaid beneficiaries under the lower of charges or prospectively determined rates-per-discharge and on a per diem basis for psychiatric and burn unit services, classified based on clinical, diagnostic and other factors. Reimbursement for Medicaid outpatient services is based on prospective rates per visit. Eskenazi Health also participates in a Medicaid risk-based managed care program in which Eskenazi Health receives interim reimbursement rates with a settlement adjustment at year-end.

Long-Term Care is reimbursed for services rendered to Medicaid beneficiaries on a per diem basis.

Medicaid Special Revenue

The Corporation qualifies for certain special Medicaid payments through various sections of the State of Indiana Medicaid Plan and the Indiana Code. Medicaid special revenue includes revenue from various sources including the State of Indiana Disproportionate Share Hospital Payment Program (DSH - established to reimburse hospitals that serve a disproportionate share of indigent patients) the Upper Payment Limit (UPL - established to pay qualifying health care providers the difference between what Medicare would have paid and what Medicaid actually paid) and other contractual revenues. The money received from the Medicaid special revenues can be utilized by the Corporation without restriction.

During 2012, the State of Indiana established a Hospital Assessment Fee (HAF), which was effective from July 1, 2011 through June 30, 2013. During 2014, HAF received federal approval to be reinstated retroactively to July 1, 2013. The HAF increased reimbursement for the state Medicaid fee for service program and the Medicaid managed care programs by approximately $104 million in 2014; such revenue is reported as net patient service revenue in the Eskenazi Health Enterprise Fund. Eskenazi Health was assessed a fee under the HAF program of approximately $16.3 million for 2014 and is reported as an operating expense in the Eskenazi Health Enterprise Fund. Fees assessed by the State of Indiana fund the UPL and DSH programs for Indiana hospitals (these programs were historically funded through an intergovernmental transfer program). There is no assurance the HAF program will continue in future periods. The HAF program is planned to sunset at June 30, 2017.

Medicaid special revenue associated with indigent services provided at Eskenazi Health is comprised of DSH payments, which are all recorded in the Corporation's General Fund. Such payments are limited to a Hospital Specific Limit, which is defined by the State of Indiana Office of Medicaid Planning and Policy and are codified in the Indiana State Medicaid Plan and IC 12-15-15. Methodologies supporting such payments are complex and the timing and levels of payment may vary materially from year to year, often times resulting in material recoupment of the net receipts previously made to the Corporation. The Corporation often times does not have access to reasonable information to estimate levels of DSH payments and therefore cannot reasonably estimate levels of revenue by state fiscal (or their own fiscal) year. Management records the DSH portion of the Medicaid special revenue on a cash basis, unless actual amounts are known subsequent to year end, prior to issuance of the financial statements.

Medicaid special revenue pertaining to Long-Term Care and the physician access to care program is distributed through an intergovernmental transfer (IGT) arrangement. The basis for payment is derived from services rendered to patients through activities of the Long-Term Care Funds and Eskenazi Health (for the physician access to care program). The Indiana Office of Medicaid Policy and Planning determines the level of UPL funds available for distribution and initiates a transaction with the Corporation to facilitate the IGT. The Corporation is responsible for funding the IGT for the services rendered on behalf of the Long-Term Care Funds and Eskenazi Health and such transactions are reported in the General Fund statement of revenues, expenditures and changes in fund balances while Long-Term Care reports revenue associated with its UPL at gross in the statement of revenue, expenses and changes in fund net position.

Medicaid special revenue associated with Long-Term Care is based upon UPL payments, which is more predictable than the payments related to Eskenazi Health. Accordingly, management recognizes such payments on an accrual basis at the Long-Term Care Fund level.

The Corporation also participates in the Indiana Medicaid Governmental Ambulance Transportation Payment program that reimburses eligible ambulance transportation providers a federal reimbursement percentage of allowable costs. Revenue earned under this program is reported in the General Fund statement of revenues, expenditures and changes in fund balances.

The General Fund recognized $104,327,292 in Medicaid special revenue and a receivable of $78,658,158 at December 31, 2014. The intergovernmental transfers made by the Corporation in 2014 under these programs totaled $108,603,627. The Long-Term Care Fund recognized revenue of $217,764,223 and a receivable of $58,307,458 at December 31, 2014.

Other Payers

Eskenazi Health and Long-Term Care have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to Eskenazi Health and Long-Term Care under these agreements include prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Following is a summary of total patient service revenue, contractual adjustments, and charity and indigent care for the year ended December 31, 2014:

	Eskenazi Health	LT Care	Total	Percentage
Patient service revenue:				
Inpatient	$ 550,269,409	$ -	$ 550,269,409	27%
Outpatient	816,686,883	-	816,686,883	41%
Long-term care	-	633,686,673	633,686,673	32%
Gross patient service less:	1,366,956,292	633,686,673	2,000,642,965	100%
Contractual adjustments	579,659,085	26,839,584	606,498,669	30%
Charity and indigent care	302,467,694	-	302,467,694	15%
Provision for uncollectible accounts	64,654,157	18,894,171	83,548,328	4%
Net patient service revenue	$ 420,175,356	$ 587,952,918	$ 1,008,128,274	51%

Revenue from the Medicare and Medicaid programs accounted for approximately 30% and 51%, respectively, of net patient service revenue for the year ended 2014. These percentages exclude Medicaid special revenue received and recognized in the General Fund. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Eskenazi Health Corporate Compliance and Leadership review billing, site, licensure and other issues to ensure compliance with Federal, State and other regulations. During 2014, Eskenazi Health performed an internal 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 and Medicaid programs as a result of this review.

Note 9: Long-Term Liabilities

Renovation Bonds of 1988

During 1988, the Corporation issued $28,000,000 of Renovation Bonds, the proceeds of which were used to renovate the clinical, patient care and administrative areas of the Corporation's former hospital complex (the predecessor facilities to Eskenazi Health) and acquire, construct, renovate and equip the Corporation's public health and administrative facilities. The Renovation Bonds of 1988 are general obligation bonds payable from an unlimited ad valorem property tax levied on all taxable property in the Corporation, which is coterminous with Marion County, Indiana. The Renovation Bonds of 1988 that remain outstanding at December 31, 2014 bear interest at 7.40%, with principal and interest payments due June 30 and December 30 through 2019.

General Obligation Bonds of 2005

During 2005, the Corporation issued $28,960,000 of General Obligation Refunding Bonds, Series 2005 (the 2005 GO Bonds), the proceeds of which were used to refund the outstanding principal of the Corporation's General Obligation Bonds, Series 2000 A. The 2005 GO Bonds are payable from an unlimited ad valorem property tax levied on all taxable property in the Corporation, which is coterminous with Marion County, Indiana. The 2005 GO Bonds that remain outstanding at December 31, 2014 bear interest at 4.35% to 5.25%, with principal and interest payments due January 1 and July 1 through January 1, 2025. The 2005 GO Bonds are subject to redemption from mandatory sinking fund payments during 2016 to 2024 and the 2005 GO Bonds maturing on or after July 1, 2016 are subject to optional redemption prior to maturity beginning July 1, 2015 at par plus accrued interest to the redemption date.

General Obligation Bonds of 2010

During 2010, the Corporation issued $195,000,000 of General Obligation Bonds, Series 2010 A-1 and 2010 A-2 (the 2010 A-1 and 2010 A-2 GO Bonds, or collectively, the 2010 A GO Bonds), the proceeds of which were used to finance a portion of the Eskenazi Health hospital complex, including the hospital and outpatient clinic facilities. The 2010 A GO Bonds are payable from ad valorem property taxes to be levied on all taxable property within Marion County, to the extent other revenues of the Corporation are not sufficient to cover the annual debt service. The 2010 A GO Bonds that remain outstanding at December 31, 2014 bear interest at 3.00% to 6.004%, with principal and interest payments due January 15 and July 15 through January 15, 2040. The 2010 A GO Bonds are subject to redemption from mandatory sinking fund payments during 2023 to 2040 and the 2010 A GO Bonds maturing on or after January 15, 2021 are subject to optional redemption prior to maturity beginning January 15, 2020 at par plus accrued interest to the redemption date.

The 2010A GO Bonds were acquired in their entirety with proceeds from the issuance of The Indianapolis Local Public Improvement Bond Bank (the Bond Bank) Bonds, Series 2010 A-1 and 2010 A-2 (the 2010 A-1 and 2010 A-2 Bond Bank Bonds). The 2010 A-2 Bond Bank Bonds were issued as Build America Bonds (BABs) and, as such, are eligible to receive a credit (BAB Subsidy) equal to 35% of the interest payable on such bonds. The benefit of such credit will be passed on to the Corporation at each interest payment date, thus effectively reducing the Corporation's cost of financing. As a result of the automatic spending cuts imposed under the Budget Control Act of 2011, the Corporation's BAB Subsidies in 2014 were reduced by 7.2% (the BAB Sequester) from October 2013 through September 2014. Due to the extension of the BAB Sequester, BAB Subsidies for the remainder of 2015 were reduced by 7.3% and such reduction will remain in place through September 2015. It is too soon to predict if BAB Subsidies will be cut in 2016, or if the United States Congress will rescind or alter such cuts thereafter.

Capital Lease Obligations of Governmental Activities

Financing for a portion of Eskenazi Health hospital complex is also being provided through a lease financing arrangement with the Indianapolis-Marion County Building Authority (Authority). The Authority was created pursuant to Indiana Code 36-9-13, as amended for the purpose of financing, acquiring, improving, constructing, reconstructing, renovating, equipping, operating, maintaining and managing governmental buildings for public or governmental purposes for the benefit of eligible governmental entities within the boundaries of the County of Marion, Indiana.

Pursuant to a Loan Agreement, dated March 1, 2010, the Authority received a loan of bond proceeds in connection with the issuance of $465,580,000 in The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2010 B-1 and Series 2010 B-2 (the 2010 B-1 and 2010 B-2 Bond Bank Bonds), for the purposes of financing a portion of the costs of the Eskenazi Health complex. The 2010 B-2 Bonds were issued as BABs for which the Corporation also receives a BAB Subsidy.

Pursuant to a Loan Agreement dated April 1, 2013, the Authority received an additional loan of bond proceeds in connection with the issuance of $42,460,000 in The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2013 A (the 2013 A Bond Bank Bonds), for the purposes of financing additional costs of the Eskenazi Health complex.

Pursuant to its Master Lease Agreement and related Addendums with the Authority, the Corporation is leasing certain real estate underlying the Eskenazi Health complex and portions of the improvements related thereto. Under the Master Lease Agreement, the Corporation has the option to purchase the leased facilities at a price equal to the amount required to enable the Authority to pay or redeem all related outstanding debt obligations and costs of transferring the premises. Also, the Corporation is obligated to pay certain expenses and all costs to operate, insure and maintain the leased facilities. The rentals under this lease are payable from ad valorem property taxes to be levied on all taxable property within Marion County, to the extent other revenues of the Corporation are not sufficient to cover the rentals and, accordingly, the principal and interest on the 2010 B-1, 2010 B-2 and 2013 A Bond Bank Bonds.

The following is a summary of changes in long-term liabilities for the year ended December 31, 2014:

	January 1, 2014	Additions	Reductions	December 31, 2014	Due Within One Year
Governmental Activities:					
General obligation bonds payable:					
Renovation Bonds of 1988 ($28,000,000 original amount), 6.00% to 7.40%, due January 1, 2020	$ 11,075,000	$ -	$ (1,530,000)	$ 9,545,000	$ 1,640,000
Refunding Bonds of 2005 ($28,960,000 original amount), 3.50% to 5.25%, due January 1, 2025	19,955,000	-	(695,000)	19,260,000	2,190,000
General Obligation Bonds of 2010 - Series A-1, A-2 ($195,000,000 original amount), 3.00% to 6.004%, due January 15, 2040	177,835,000	-	(9,050,000)	168,785,000	1,235,000
Plus: bond premium	3,990,330	-	(183,645)	3,806,685	183,643
Total bonds payable	212,855,330	-	(11,458,645)	201,396,685	5,248,643
Capital lease obligations	479,131,290	93,509	(3,128,729)	476,096,070	11,929,708
Straight-line operating lease accrual	-	1,464,840	-	1,464,840	-
Asserted and unasserted self-insurance claims	683,994	6,562,957	(6,560,854)	686,097	424,263
Accrued compensated absences	6,287,724	4,008,872	(3,973,896)	6,322,700	4,934,926
Net pension liability	(53,160)	-	-	(53,160)	-
Governmental activities long-term liabilities	$ 698,905,178	$ 12,130,178	$ (25,122,124)	$ 685,913,232	$ 22,537,540
Business-Type Activities:					
Eskenazi Health:					
Asserted and unasserted self-insurance claims	$ 8,810,875	$ 36,629,545	$ (38,205,132)	$ 7,235,288	$ 4,106,808
Accrued compensated absences	21,859,619	17,725,645	(18,022,447)	21,562,817	17,203,247
Net pension liability	852,205	-	-	852,205	852,205
Deferred compensation	-	4,728,629	-	4,728,629	-
LT Care:		-			
Capital lease obligations	422,712,391	6,231,993	(31,912,010)	397,032,374	35,229,191
Asserted and unasserted self-insurance claims	10,633,000	2,750,566	(2,080,264)	11,303,302	2,810,841
Business-type activities long-term liabilities	$ 464,868,090	$ 68,066,378	$ (90,219,853)	$ 442,714,615	$ 60,202,292

The above bond and capital lease obligations relating to governmental activities are to be repaid from ad valorem taxes levied to the extent necessary by the Corporation against all taxable property within Marion County, Indiana. Long-term liabilities for the governmental activities are generally liquidated by the General Fund. The business-type capital leases will be repaid through Long-Term Care nursing home operating revenue.

The governmental activities debt service requirements, including interest, on bonds and related future BAB subsidies as of December 31, 2014 are as follows:

	Principal	Interest	BAB Subsidies
Bonds:			
2015	$ 5,065,000	$ 11,630,278	$ 3,213,243
2016	4,595,000	11,226,063	3,213,243
2017	4,850,000	10,971,968	3,213,243
2018	5,130,000	10,696,744	3,213,243
2019	5,440,000	10,391,174	3,213,243
2020 - 2024	26,970,000	47,659,786	15,801,700
2025 - 2029	34,725,000	38,715,192	13,194,577
2030 - 2034	44,645,000	26,763,386	8,900,270
2035 - 2039	54,060,000	11,998,093	3,631,324
2040	12,110,000	363,542	-
	$ 197,590,000	$ 180,416,226	$ 57,594,086

The above future BAB Subsidies reflect an adjustment for the BAB Sequester in effect at December 31, 2014.

The Corporation has a legal debt limit of 0.67% of the assessed values of Marion County Property as certified by the DLGF. A computation of the Corporation's legal debt margin as of December 31, 2014, is as follows:

Net assessed value - 2014	$ 33,971,640,933
	0.67%
Debt limit	227,609,994
Debt applicable to debt limit:	
Bonded debt (excluding unamortized premiums)	197,590,000
Legal debt margin	$ 30,019,994

As mentioned previously, in 2005, the Corporation refunded its 2000 A GO Bonds with the issuance of the 2005 GO Bonds. The 2000 A GO Bonds are considered to have been defeased and have been removed from the basic financial statements. At December 31, 2014, $17,430,000 of these defeased bonds remain outstanding.

Note 10: Leases

Operating

The Corporation leases certain facilities and equipment under operating leases. Most of the facility leases include renewal options and some provide for escalation of rent based on changes in operating costs.

The following is a summary of the future minimum payments of all significant noncancelable operating leases with initial or remaining terms of one year or more at December 31, 2014 for the governmental activities:

2015	$ 7,003,161
2016	6,907,181
2017	6,769,263
2018	6,636,952
2019	6,414,105
2020 - 2024	32,035,691
2025 - 2029	34,518,457
2030 - 2034	37,193,638
2035 - 2039	40,076,145
2040 - 2043	32,518,198
Total future minimum payments	$ 210,072,791

Lease expenditures of $9,216,921 were reported in the governmental activities for the year ended December 31, 2014.

The following is a summary of the future minimum payments of all significant noncancelable operating leases with initial or remaining terms of one year or more at December 31, 2014 for the business-type activities:

2015	$ 2,749,934
2016	1,827,503
2017	1,621,186
2018	1,537,273
2019	1,711,593
2020 - 2024	7,977,638
2025 - 2029	8,376,520
2030 - 2034	8,795,346
2035 - 2039	9,235,113
2040 - 2043	7,182,866
Total future minimum payments	$ 51,014,972

The Corporation reported $6,815,245 of lease expense in the business-type activities for the year ended December 31, 2014.

Capital

The Corporation's governmental activities include capital leases for a data center reported in the governmental activities and the Eskenazi Health hospital complex reported in the Eskenazi Health Enterprise Fund. At December 31, 2014, the gross amount of building improvements, equipment and related accumulated amortization recorded under these capital leases was as follows:

Building and land improvements	$ 278,890,622
Equipment	204,830,668
Less: accumulated amortization	(31,409,292)
	$ 452,311,998

Future minimum capital lease payments for the Corporation's governmental activities as of December 31, 2014 are:

Governmental activities	
2015	$ 42,896,056
2016	39,936,000
2017	39,939,000
2018	39,939,000
2019	39,939,000
2020 - 2024	199,362,000
2025 - 2029	192,867,000
2030 - 2034	182,680,000
2035 - 2039	170,169,000
Total minimum lease payments	947,727,056
Less amount representing interest (2.34% - 6.45%)	471,630,986
Present value of net minimum capital lease payment	476,096,070
Less current installments of obligations under capital leases	11,929,708
Obligations under capital lease, excluding current installments	$ 464,166,362

For business-type activities, including the Long-Term Care Enterprise Fund, the Corporation is obligated under capital leases covering 61 nursing homes. At December 31, 2014, the gross amount of buildings and related accumulated amortization recorded under capital leases was as follows:

Buildings	$ 545,376,462
Less: accumulated amortization	(249,155,633)
	$ 296,220,829

Amortization expense of assets held under capital leases is included in depreciation expense for the Corporation's governmental activities and business-type activities.

Future minimum capital lease payments for the Corporation's business-type activities as of December 31, 2014 are:

2015	$ 67,750,441
2016	68,900,801
2017	69,816,291
2018	71,148,093
2019	72,521,376
2020 - 2024	195,876,722
2025 - 2029	1,480,000
Total minimum lease payments	547,493,724
Less amount representing interest (at rates ranging from 4.58% to 11.74%)	150,461,350
Present value of net minimum capital lease payment	397,032,374
Less current installments of obligations under capital leases	35,229,191
Obligations under capital lease, excluding current installments	$ 361,803,183

Note 11: Risk Management

Insurance Coverage

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and patients; and natural disasters. The Corporation is self-insured for workers' compensation, general liability and medical malpractice claims to defined limits. With respect to general liability, the Corporation is protected by the Indiana Tort Claims Act, under IC 34-13-3-4, which limits the tort liability for all Indiana governmental entities, in aggregate, to $700,000 per person and $5,000,000 per occurrence. The Corporation also purchases commercial insurance policies for certain other risks of loss with deductibles that range from $10,000 to $500,000. Settled claims have not exceeded coverage for the past three years.

Eskenazi Health participates in the Indiana Medical Malpractice Act, which limits the maximum recovery for medical malpractice claims to $1,250,000 per occurrence, $250,000 of which would be paid by the Corporation, with the balance paid by the State of Indiana Patient Compensation Fund.

As mentioned previously in these notes, the Corporation established a nonprofit entity, Lions Insurance Company, which is legally separate from the Corporation and whose purpose is to provide insurance covering the professional (malpractice) and general liability exposures of the nursing homes operated by the Corporation. As with Eskenazi Health, Lions is protected by the Indiana Tort Claims Act, participates in the Indiana Medical Malpractice Act and has professional liability coverage from the Indiana Patient Compensation Fund. In addition, Lions has protection for general liability coverage in excess of $1,000,000 annually and in the aggregate.

The Corporation's workers' compensation program retains the first $500,000 liability on any one claim or incident and purchases an excess workers' compensation policy to extend limits from $500,000 without an aggregate amount applicable as it applies to any one claim or incident.

The Corporation has accrued for reported claims and claims incurred but not reported (IBNR) for workers' compensation, general liability and medical malpractice. Loss estimates have included the nature of each claim or incident and relevant trend factors as determined by legal counsel and an independent consulting actuary.

The following is a summary of the changes in asserted and unasserted workers' compensation, general liability, and medical malpractice claims for the past two years, as recorded within the business-type activities and proprietary fund financial statements:

Balance at January 1, 2013	$ 17,166,728
Change in incurred claims (including IBNRs), net	2,293,678
Claim payments	(3,194,691)
Balance at January 1, 2014	16,265,715
Change in incurred claims (including IBNRs), net	3,070,923
Claim payments	(3,468,356)
Balance at December 31, 2014	$ 15,868,282

Medical Claims Incurred But Not Reported

Eskenazi Health has entered into an agreement with MDwise, Inc. (MDwise), a related party, to provide risk-based health care services, including, but not limited to inpatient, outpatient and physician services, to qualified Medicaid participants.

Effective January 1, 2008, this program was expanded to include the provisions of the Healthy Indiana Plan (HIP). Eskenazi Health receives payments for the care of these Medicaid beneficiaries under a capitated payment methodology from MDwise and disburses payments through a third-party administrator based upon processed claims.

Medical claims incurred but not reported represents an estimate of the ultimate net cost to Eskenazi Health for amounts that are unpaid at December 31, 2014. The liability is based on claim factors determined by an actuary using projections and the historical loss experience of Eskenazi Health and gives effect to estimates of trends in claim severity and frequency. Although management believes that the estimates of the liability for claims incurred but not reported is reasonable in the circumstances, it is possible that the actual incurred claims will not conform to the assumptions inherent in the estimation of future claims due to the inherent variability with respect to the significant assumptions utilized. Accordingly, the ultimate settlement of claims may vary significantly from the liability for unpaid claims included in the Eskenazi Health Enterprise Fund. Historically, the majority of these claims are paid within one year following year-end, so the entire balance is being reflected in current liabilities in the statement of net position.

The following is a summary of changes in the medical claims incurred but not reported for the past two years, as recorded within the business-type activities and proprietary fund financial statements:

Balance at January 1, 2013	$ 3,251,769
Change in incurred claims (including IBNRs), net	31,662,125
Claim payments	(31,404,145)
Balance at January 1, 2014	3,509,749
Change in incurred claims (including IBNRs), net	35,478,890
Claim payments	(34,635,567)
Balance at December 31, 2014	$ 4,353,072

Health Insurance Coverage

The Corporation began in 2001 to provide self-insurance to its employees for healthcare and prescription usage. Asserted and unasserted self-insurance claims in the governmental and business-type activities of the government-wide statements represents an estimate of the ultimate net cost to the Corporation for amounts that are unpaid at December 31, 2014. The liability is based on claim factors determined by an actuary using projections and the historical loss experience of the Corporation and gives effect to estimates of trends in claim severity and frequency. Although the Corporation's management believes that the estimates of the liability for claims incurred but not reported is reasonable in the circumstances, it is possible that the actual incurred claims will not conform to the assumptions inherent in the estimation of future claims due to an absence of a significant amount of historical experience on which to base projections and the inherent variability with respect to the significant assumption utilized. Accordingly, the ultimate settlement of claims may vary significantly from the liability for asserted and unasserted self-insurance claims.

The following is a summary of the changes in the Corporation’s health insurance liability for the past two years, as recorded in the governmental activities of the statement of net position:

Balance at January 1, 2013	$ 740,164
Change in incurred claims (including IBNRs), net	6,432,437
Claim payments	(6,488,607)
Balance at January 1, 2014	683,994
Change in incurred claims (including IBNRs), net	6,562,957
Claim payments	(6,560,854)
Balance at December 31, 2014	$ 686,097

The amount recorded as a liability in the General Fund at December 31, 2014 is $424,263 and represents the claims, which are matured and due as of year-end.

The following is a summary of the changes in the Corporation's health insurance liability for the past two years, as recorded in the business-type activities of the statement of net position:

Balance at January 1, 2013	$ 3,270,166
Change in incurred claims (including IBNRs), net	25,663,838
Claim payments	(25,755,844)
Balance at January 1, 2014	3,178,160
Change in incurred claims (including IBNRs), net	36,309,188
Claim payments	(36,817,040)
Balance at December 31, 2014	$ 2,670,308

Note 12: Retirement Plan

Plan Description

The Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), established in accordance with IC 5-10.3 to act as a common investment and administrative agent for units of state and local governments in Indiana. PERF is administered by the Indiana Public Retirement System (INPRS) and is governed by the INPRS Board of Trustees (INPRS Board). PERF provides retirement, disability and survivor benefits to full-time employees of the State of Indiana not covered by another plan, those political subdivisions that elect to participate in the retirement plan and certain INPRS employees. Substantially all of the Corporation's full-time employees are covered by PERF. INPRS issues a publicly available financial report that includes financial statements and required supplementary information for PERF. This report may be obtained by writing to Indiana Public Retirement System, 1 North Capitol, Suite 001, Indianapolis, Indiana 46204, or by calling 888-526-1687.

There are two tiers to the PERF plan. The first is the Public Employee's Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' ASA Only Plan (PERF ASA Only Plan). However, the PERF ASA Only Plan, which became effective March 1, 2013, only applies to newly hired full-time employees of the State of Indiana who may elect to participate in either the PERF Hybrid Plan or the PERF ASA Only Plan.

There are two aspects to the PERF Hybrid Plan defined-benefit structure. The first portion is the monthly defined-benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the Annuity Savings Account (ASA) that supplements the defined-benefit at retirement.

Prior to July 1, 2013, PERF operated as an agent multiple-employer defined-benefit pension plan. Effective July 1, 2013, PERF became a cost-sharing, multi-employer defined-benefit pension plan. This means the pension obligations to the employees of all participating employers have been pooled and pension plan assets can be used to pay the benefits of the employees of any participating employer. This change did not affect the contribution rate for the Corporation.

Funding Policy

The funding policies of INPRS provide for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The employer defined-benefit contribution rate is based on an actuarial valuation and is adopted, and may be amended, by the INPRS Board. For 2014, the Corporation contributed 10.8% of employee compensation to the plan. The ASA consists of the employee contribution, which is set by statute at 3% of compensation, as defined by Indiana statutes, plus the interest/earnings or losses credited to the employee's account. The employer may choose to make the contributions on behalf of its participating employees, which the Corporation has elected to do. In addition, under certain circumstances, employees may elect to make additional voluntary contributions of up to 10% of their compensation into their ASA. An employee's contribution and interest credits belong to the employee and do not belong to the state or the Corporation.

Retirement Benefits

The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the employee's ASA. Retirement benefits vest after ten years of creditable service. The vesting period is eight years for certain elected officials. At retirement, an employee may choose to receive a lump-sum payment of the amount credited to the employee's ASA, receive the amount as an annuity or leave the contributions invested with INPRS.

Vested employees leaving a covered position, who wait 30 days after termination, may withdraw their ASA and will not forfeit creditable service or a full retirement benefit. However, if an employee is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the ASA. A nonvested employee who terminates employment prior to retirement may withdraw his/ her ASA after 30 days, but by doing so, forfeits his/her creditable service. An employee who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

An employee who has reached: (1) age 65 and has at least 10 years of creditable service; (2) age 60 and has at least 15 years of creditable service; or (3) at least age 55 and whose age plus number of years of creditable service is at least 85 is eligible for normal retirement and, as such, is entitled to 100% of the pension benefit component. This annual pension benefit is equal to 1.10% times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the 20 calendar quarters of creditable service in which the employee's annual compensation was the highest. All 20 calendar quarters do not have to be continuous, but they must be in groups of four consecutive calendar quarters. The same calendar quarter may not be included in two different groups. Employee contributions paid by the employer on behalf of the employee and severance pay up to $2,000 are included as part of the employee's salary.

An employee who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. An employee retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the employee's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89%. This amount is reduced five percentage points per year (e.g., age 58 is 84%) to age 50 being 44%.

The monthly pension benefits for employees in pay status may be increased periodically as cost of living adjustments ("COLA"). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly.

Disability and Survivor Benefits

The PERF Hybrid Plan also provides disability and survivor benefits. An employee who has at least five years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the employee has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is $180 per month, or the actuarial equivalent.

Upon the death in service of an employee with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the employee had been married for two or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the employee had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of an employee who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

The authority to establish or amend benefit provisions of PERF rests with the Indiana General Assembly.

Contributions Required and Contributions Made

The Corporation's required contributions to PERF for the years ended December 31, 2014, 2013 and 2012 were $25,409,272 (10.8% of employee compensation), $22,946,391 (10.0% of employee compensation) and $19,071,471 (8.5% of employee compensation), respectively. The Corporation's actual contributions made were equal to the actuarially required contributions for these calendar years.

Despite the move by PERF to a cost-sharing, multi-employer plan structure effective July 1, 2013, the Corporation elected to continue to report an estimate of its net pension obligation to PERF of $799,045 (as determined by a June 30, 2013 actuarial valuation) as of December 31, 2014, in anticipation of recognizing its full proportionate share of the collective net pension liability to PERF in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, for the year ending December 31, 2015.

Note 13: Deferred Compensation Plans

Employees of the Corporation are eligible to participate in a deferred compensation plan (Plan) adopted under the provisions of Internal Revenue Code (IRC) Section 457. The deferred compensation plan is available to substantially all employees of the Corporation. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. The plan assets are held in trust for the exclusive benefits of participants and their beneficiaries.

Additionally, EMG has a 457(b) deferred compensation agreement with certain members of management and highly compensated employees. Under the plan, employees may elect to defer a portion of their current compensation to provide for retirement and other benefits of the employee. EMG may credit to the plan each year an amount as defined by EMG's board of directors. The Corporation records a restricted asset on the statement of net position, which is offset by a matching liability. Employer contributions for 2014 were approximately $205,000.

Note 14: Hospital Management Agreement

An agreement between the Corporation and the Indiana University (University) was signed in February 2007. During 2014, the Corporation primarily paid for physician services under a relative value unit basis. The Corporation continued to rely on the University to supply several leadership positions for Eskenazi Health, but the operations of Eskenazi Health remains the direct responsibility of the Corporation. Eskenazi Health incurred fees for professional, management, and resident physician services of approximately $45.2 million during the year (recorded in medical and professional fees on the statement of revenues, expenses and changes in fund net position - proprietary funds).

Note 15: Long-Term Care Management Agreement

The Corporation has entered into a management agreement with American Senior Communities, LLC (ASC) to manage the 61 nursing homes, which are accounted for in the Long-Term Care Fund. The term of the management agreement extends until August 2022 with the Corporation having the right to extend the term for an additional period of ten years if written notice is given to ASC at least 60 days prior to the expiration of the initial term. During 2014, the Corporation incurred approximately $33,385,000 in management fees to ASC for Long-Term Care operations.

ASC has contracted with EagleCare, LLC (EagleCare) to provide the personnel required to operate each of the respective facilities. EagleCare and ASC are related parties in that the persons who own 100% of EagleCare also own 95% of ASC. ASC also provides management services to EagleCare in connection with its operations. These payments to EagleCare are included within contract labor expenses within the Statement of Revenue, Expenses and Changes in Fund Net Position – Proprietary Funds.

The Corporation currently leases 8 of the nursing homes from entities related to ASC through common ownership. During 2014, the Corporation paid approximately $19.1 million to this organization in associated lease costs from Long-Term Care operating revenue.

At December 31, 2014, the Long-Term Care Fund had a payable to EagleCare of approximately $13,936,000 primarily for accrued labor and related benefits. The Long-Term Care Fund also had a payable to ASC at December 31, 2014 of approximately $5,575,000 for outstanding management services rendered to be paid from operations.

Note 16: Nursing Home Leases

The Corporation has entered into various transactions with entities related to ASC and unrelated third parties involving the leasing of buildings and purchasing of equipment for the operation of nursing homes throughout the state of Indiana with terms through March 2026. These transactions require the Corporation to make monthly lease payments, ranging from $19,000 to $198,000 per home. Certain transactions require the lease payments to increase by the greater of the Consumer Price Index (CPI) or a set percentage as defined in each agreement, which is typically 2% to 3%. Additionally, many of the leases have optional extensions available to the Corporation in five-year increments.

The Corporation is required to make various capital improvements for many of these facilities, ranging from $32,000 to $230,000 annually per home. In the same way as the lease payments above, these amounts increase annually. The Corporation expects to fund the capital improvements from cash flows generated from the operations of each nursing home.

The Corporation is required to provide security deposits for 28 of the nursing homes. As a result, an irrevocable standby letter of credit in the amount of $7,374,337 exists to provide the required security.

An unrelated third party serves as the landlord for 37 of the Corporation’s nursing facilities. Lease payments to this third party in 2014 approximated $34 million.

Note 17: Related Parties

During the year, the Corporation had transactions with the City of Indianapolis (the City) and Marion County (the County) that were conducted in the normal course of business. The County collects and distributes taxes and other special assessment fees on behalf of the Corporation. For the year ended December 31, 2014, the Corporation received $118,463,586 in tax cash receipts and $634,896 in special assessment fees cash receipts from the County for the “Clean and Lien” program to clean up vacant lots and for unsafe building enforcement. At December 31, 2014, the Corporation had a receivable for - due from the State of Indiana. The Corporation paid the County $382,171 in 2014 for autopsy and death reports, vital records, coroner fees and other matters. In addition, the Corporation acted as a subrecipient or a pass-through agent for various state and federal grant programs with the City and County during 2014.

Note 18: Joint Ventures

The Corporation is a 50% member in MDwise. MDwise is a not-for-profit corporation that contracts with the State of Indiana through the Office of Medicaid Policy and Planning and the Office of Children's Health Insurance Program, to arrange for and administer a risk-based managed care program for certain Indiana Medicaid enrollees. The investment is recorded in the Eskenazi Health Enterprise Fund and accounted for under the equity method. The carrying value of this joint venture at December 31, 2014 was $21,642,575. Complete financial statements for MDwise can be obtained from the MDwise administrative offices at 1200 Madison Avenue, Suite 400, Indianapolis, Indiana 46225.

During 2014, the Corporation entered into an additional joint venture to create MDwise Marketplace, Inc. (Marketplace) which is a not-for-profit corporation that operates as a health maintenance organization and contracts with health care providers. The investment is recorded in the Eskenazi Health Enterprise Fund and accounted for under the equity method. The carrying value of this joint venture at December 31, 2014 was $1,791,477. Complete financial statements for Marketplace can be obtained from administrative offices at 1200 Madison Avenue, Suite 400, Indianapolis, Indiana 46225.

The Corporation is a 50% partner in the HHC/Duke Realty Development LLC (LLC). LLC is a limited liability corporation established by the Corporation and Duke Realty to jointly develop and construct an office building located on the Eskenazi Health Campus. The office building is owned by the LLC. The Corporation owns the land under the building and has leased the land to the LLC for 50 years. The Corporation is expected to be the sole primary lessee of the building for the next 30 years but does have the authority to sublet as it wishes. The lease entered into by the Corporation was effective November 1, 2013 and has an escalation rate of 7.75% every five years. Future minimum lease payments required to be paid under the lease are included within the governmental activities as reported earlier in these notes. During 2014, expense recognized under this lease by the Corporation totaled approximately $7,895,000. The Corporation, as a partner in the LLC, also receives a return on its equity investment equal to 8.25% over the life of the lease. The LLC will continue to own the building at the end of the 30 year lease. However, the Corporation may purchase the building at market value or continue to lease the building from the LLC at the end of the original lease period. The investment in the LLC is recorded in the governmental activities of the statement of net position and is accounted for under the equity method. The carrying value of this joint venture at December 31, 2014 was $37,223,006. Complete financials for the LLC can be obtained from the Duke Realty administrative offices at 510 E. 96th Street, Suite 250, Indianapolis, IN 46240.

Note 19: Concentrations of Credit Risk

Eskenazi Health and Long-Term Care grant credit without collateral to their patients, most of whom are generally insured under third-party agreements. The mix of net patient service receivables from patients and third-party payers at December 31, 2014 is as follows:

Commercial insurance	15%
Medicare	30%
Medicaid	27%
Self-pay	17%
Other	11%
	100%

Note 20: Contingencies

Litigation

In addition to pending medical malpractice claims, the Corporation has various other litigation pending against it. It is the opinion of management that loss, if any, from pending litigation will not have a material adverse effect on its financial position, results of operations or liquidity.

As of December 31, 2014, the Corporation is a defendant in a lawsuit in which plaintiffs allege inappropriate billing and collection practices related to hospital liens resulting in unjust enrichment to the Corporation, fraud, and breach of contract. The plaintiffs are seeking class certification on behalf of a class of similarly situated persons. The Corporation intends to vigorously defend this matter and believes it is too early to determine a likely outcome or a likely amount of damages.

Government Grants

The Corporation participates in a number of federal financial assistance programs. Costs claimed for reimbursement are subject to audit and acceptance by the granting agency. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although, the Corporation expects such amounts, if any, to be immaterial.

Note 21: Subsequent Events

In June 2015, the Bond Bank refunded its Series 2005 D Refunding Bonds, the proceeds of which were originally used to acquire the Corporation's 2005 GO Bonds. Pursuant to this refunding, the Corporation agreed to modify its call rights with respect to the 2005 GO Bonds in consideration of receiving a portion of the savings (Call Rights Waiver Payments) associated with the refunding. Consequently, the 2005 GO Bonds will not be subject to optional redemption prior to maturity unless so directed by the Bond Bank.

The Corporation is also currently engaged in negotiations with independent third-parties involving the lease of seventeen additional nursing homes. The completion of these transactions is expected in July 2015. When completed, annual base lease payments will increase by approximately $16.1 million for these additional homes and would expire in 2025.

Required Supplementary Information
(Other Than MD&A) (Unaudited)

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Required Supplementary Information - Pension
Schedule of Funding Progress Under GASB 27/50
December 31, 2014
(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
PERF*						
6/30/2014	$ 13,791,261	$ 16,732,223	$ 2,940,962	82 %	$ 5,080,092	58 %
6/30/2013	12,947,283	16,145,681	3,198,398	80	4,766,910	67
6/30/2012	12,088,225	15,784,240	3,696,015	77	4,904,052	75
6/30/2011	12,000,586	14,913,147	2,912,561	81	4,818,774	60
6/30/2010	12,357,199	14,506,052	2,145,853	85	4,896,013	44
6/30/2009	12,569,336	13,506,280	935,944	93	4,931,423	19

* The information contained in this schedule is for the cost sharing plan as a whole, of which the Corporation is one participating employer. In order to add context to the scale of the information presented relative to the Corporation, the Corporation's covered payroll as of 12/31/14 (the Corporation's fiscal year end) represents 4.6% of the total covered payroll for PERF as of June 30, 2014 (the plan's fiscal year end).

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Required Supplementary Information - Pension
Schedule of Employer Contributions Under GASB 27/50
December 31, 2014
(In thousands)

	PERF*	
Plan Year Ended June 30	Annual Required Contribution	Percentage Contributed
2014	$ 528,562	98 %
2013	477,342	96
2012	509,724	78
2011	483,842	71
2010	360,183	92
2009	316,059	102

* The information contained in this schedule is for the cost sharing plan as a whole, of which the Corporation is one participating employer. In order to add context to the scale of the information presented relative to the Corporation, the Corporation's annual required contribution for calendar year 2014 (the Corporation's fiscal year end) for PERF was $25,409, or 4.8% of the total annual required contribution of $528,562 for the plan year ended June 30, 2014.

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Required Supplementary Information - Budgetary Comparison
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance With Final Budget- Positive
	Original	Final	Amounts	(Negative)
Revenues				
Taxes	$ 106,499,472	$ 106,499,472	$ 112,984,887	$ 6,485,415
Licenses and permits	4,175,800	4,175,800	4,342,462	166,662
Intergovernmental	887,654	887,654	549,896	(337,758)
Charges for services	1,443,750	1,443,750	1,181,717	(262,033)
Medicaid special revenue	17,261,869	17,261,869	(103,401,092)	(120,662,961)
Interest	175,000	175,000	36,510	(138,490)
Grants	18,832,746	18,832,746	19,516,872	684,126
Miscellaneous	38,192,796	38,192,796	64,603,070	26,410,274
Total revenues	187,469,087	187,469,087	99,814,322	(87,654,765)
Expenditures				
Personal services	57,285,000	57,285,000	55,891,497	1,393,503
Supplies	6,162,000	6,162,000	4,640,902	1,521,098
Other charges and services	41,268,969	41,268,969	31,780,245	9,488,724
Capital outlays	2,098,000	2,098,000	694,771	1,403,229
Total expenditures	106,813,969	106,813,969	93,007,415	13,806,554
Other Financing Uses				
Transfers in	110,000,000	110,000,000	150,000,000	40,000,000
Transfers out	(191,130,031)	(191,130,031)	(190,983,586)	146,445
Total other financing uses	(81,130,031)	(81,130,031)	(40,983,586)	40,146,445
Net change in fund balances	(474,913)	(474,913)	(34,176,679)	(33,701,766)
Fund balances - beginning of year	34,223,197	34,223,197	173,298,799	139,075,602
Fund balances - end of year	$ 33,748,284	$ 33,748,284	$ 139,122,120	$ 105,373,836

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Notes to the Required Supplementary Information - Budgetary Comparison
December 31, 2014

Budgets and Budgetary Accounting

The Corporation is required by state statute to prepare a budget each calendar year. The budget is prepared for the General, Debt Service and Capital Projects, but is not required for certain activities of the Capital Projects Funds since they are controlled by bond indentures. The Corporation's annual budget is subjected to review by the Corporation's Board of Trustees and the City-County Council, and approved by the State of Indiana Department of Local Government Finance (DLGF). Any additional appropriations that increase the total expenditures require approval by the Corporation's Board of Trustees and the DLGF. Any decreases to total appropriated expenditures require the approval by the Corporation's Board of Trustees but not the DLGF. Budgetary control is exercised at the object of expenditure level. Management may amend department and cost center budgets without seeking Board approval, as long as the total appropriation by Division, and by object of expenditure, remains unchanged.

The General, Capital Projects, and Debt Service Funds budgets are adopted on a basis not consistent with GAAP for revenue as it is a mix of accrual and cash basis. Encumbrances are treated as expenditures for the year in which the commitment to purchase is incurred for budgetary purposes.

Encumbrance Accounting

For accounting purposes, purchase orders, contracts and other anticipated obligations to expend monies are recorded as encumbrances in governmental fund types in order to reserve that portion of the applicable appropriation. Encumbrances and their underlining appropriations do not lapse with the expiration of the budget period.

Reconciliation of Budgetary Basis Actual to GAAP Basis Actual

The schedule of revenues, expenditures, and changes in fund balances - budget and actual presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because the budgetary and GAAP presentations of actual data differ for the General Fund expenditures, a reconciliation of the two presentations is presented below for the General Fund.

Net change in fund balance - GAAP basis	$ 66,149,659
Add (Deduct):	
Change in encumbrances	(79,587)
Change in prepaid expenditures	58,589
Change in accounts receivable	(102,280,980)
Change in accounts payable	3,393,987
Change in self-insurance claims	28,259
Change in accrued expense	(1,446,606)
Net change in fund balance - Budgetary Basis	$ (34,176,679)

Other Supplementary Information

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

Federal Grantor	Pass-Through Grantor	Pass-Through Grantor Number	Program Title	Federal CFDA #	2014 Amount Passed-Through to Subrecipients	Combined 2014 Total Federal Expenditures
U.S. Department of Agriculture						
	Indiana State Department of Health	A70-4-070563	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	$ -	$ 26,703,362
	Indiana State Department of Health	A70-5-070640	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	-	1,046,606
	Indiana State Department of Health	A70-4-070614	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	-	181,442
	Indiana State Department of Health	A70-5-070640	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	-	75,253
	Indiana State Department of Health	A70-4-070563	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	-	118,072
	Indiana State Department of Health	A70-5-070640	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	-	24,722
			Total U.S. Department of Agriculture		**-**	**28,149,457**
U.S. Department of Housing and Urban Development						
	City of Indianapolis Marion County	IN0111C5H030900	Shelter Plus Care	14.238	-	165,865
	City of Indianapolis Marion County	PO# 13DMD-1300001137	Continuum of Care Program	14.267	-	9,291
	City of Indianapolis Marion County	PO# 13DMD-1300001656	Continuum of Care Program	14.267	-	33,277
	City of Indianapolis Marion County	PO# 13DMD-1300001138	Continuum of Care Program	14.267	-	88,692
	City of Indianapolis Marion County	PO# 13DMD-1300001662	Continuum of Care Program	14.267	-	143,498
	City of Indianapolis Marion County	PO# 13DMD-1300001140	Continuum of Care Program	14.267	-	31,232
	City of Indianapolis Marion County	PO# 13DMD-1300001655	Continuum of Care Program	14.267	-	48,887
	City of Indianapolis Marion County	PO# 13DMD-1300001683	Continuum of Care Program	14.267	-	62,209
	City of Indianapolis Marion County	PO# 13DMD-1300001293	Continuum of Care Program	14.267	-	181,856
	City of Indianapolis Marion County	PO# 13DMD-1300001667	Continuum of Care Program	14.267	-	16,478
					-	615,420
			Total U.S. Department of Housing and Urban Development		**-**	**781,285**
U.S. Department of Justice						
	Indiana Criminal Justice Institute	13VA2421 / D3-14-8584	Crime Victim Assistance	16.575	-	92,671
	Indiana University	D3-14-8543	Crime Victim Assistance	16.575	-	7,210
			Total U.S. Department of Justice		**-**	**99,881**
VA Supportive Services for Veteran Families Program						
	Intecare, Inc.	N/A	Supportive Services for Veteran Families	64.033	11,986	92,479
			Total VA Supportive Services for Veteran Families Program		**11,986**	**92,479**
U.S. Environmental Protection Agency						
	Indiana State Department of Health	A70-4-154004	State Indoor Radon Grants	66.032	-	1,500
			Total U.S. Environmental Protection Agency		**-**	**1,500**

Health and Hospital Corporation of Marion County, Indiana
(A Component Unit of the Consolidated City of Indianapolis - Marion County)
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2014

Federal Grantor	Pass-Through Grantor	Pass-Through Grantor Number	Program Title	Federal CFDA #	2014 Amount Passed-Through to Subrecipients	Combined 2014 Total Federal Expenditures
U.S. Department of Education						
	Division of Disability, Aging and Rehabilitative Services	P378A120012	College Access Challenge Grant Program	84.378	$ -	$ 500
			Total U.S. Department of Education		**-**	**500**
U.S. Department of Health and Human Services						
	Natl Assoc of County/City Health Officials	5MRCSG101005-03	Medical Reserve Corps Small Grant Program	93.008	-	5,785
	Indiana State Department of Health	A70-4-0532274	Public Health Emergency Preparedness	93.069	-	15,000
	Indiana State Department of Health	A70-3-0532060	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP)	93.074	-	152,075
	Indiana State Department of Health	A70-5-0532369	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP)	93.074	-	98,374
	District 5 Hospital Preparedness Planning Committee	N/A	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP)	93.074	-	20,000
					-	270,449
	Direct	N/A	Sodium Reduction in Communities	93.082	(3,819)	265,064
	Indiana State Department of Health	A70-3-0532023	Emergency System for Advance Registration of Volunteer Health Professionals	93.089	-	6,291
	Indiana Family Health Council	IFHC-5	Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	-	156,450
	Indiana Family Health Council	N/A	Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	-	60,969
					-	217,419
	Indiana State Department of Health	A70-3-106070	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	-	545
	Indiana State Department of Health	A70-4-106092	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	-	137,572
					-	138,117
	Indiana University	H34MC26203	Emergency Medical Services for Children	93.127	-	186,665
	University of Illinois at Chicago (UIC)	E0012757	AIDS Education and Training Center	93.145	-	2,047
	University of Illinois at Chicago (UIC)	E0013992	AIDS Education and Training Centers	93.145	-	197,314
	University of Illinois at Chicago (UIC)	H4AHA00062 / E45305488304	AIDS Education and Training Centers	93.145	7,721	121,755
					7,721	321,116
	Indiana Family and Social Services Administration – Division of Mental Health	A55-X-49-14-Y3-1580	Projects for Assistance in Transition from Homelessness (PATH)	93.150	-	49,828
	Eskenazi Health Foundation	N/A	Disabilities Prevention	93.184	-	6,000
	Indiana Family Health Council	IFHC-1-HIV	Family Planning Services	93.217	-	132,715
	Indiana Family Health Council	IFHC-Main	Family Planning Services	93.217	2,730	203,183
	Health Centers Cluster:					
	Direct	N/A	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	-	1,018,479
	Direct	N/A	Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	-	456,499
	Total Health Centers Cluster				-	1,474,978
	Indiana University	1R01HS020909-01	Research on Healthcare Costs, Quality and Outcomes	93.226	-	8,539

Health and Hospital Corporation of Marion County, Indiana
(A Component Unit of the Consolidated City of Indianapolis - Marion County)
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2014

Federal Grantor	Pass-Through Grantor	Pass-Through Grantor Number	Program Title	Federal CFDA #	2014 Amount Passed-Through to Subrecipients	Combined 2014 Total Federal Expenditures
	Indiana University	1U79T1025375	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	$ -	$ 12,897
	Indiana University	5U79TI020281-05	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	-	62,930
	Indiana Family and Social Services Administration – Division of Mental Health	1U79SM059735-01	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	190,330	407,359
	Indiana Family and Social Services Administration, Division of Mental Health Addiction	A55-4-49-14-WA-1580	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	-	951,184
	Indiana Family and Social Services Administration	A55-4-49-14-WA-1580-02	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	-	180,342
	Damien Center	1U79SP015100	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	-	31,614
					190,330	1,646,326
	Direct	N/A	Rural Access to Emergency Devices Grant and Public Access to Defibrillation Demonstration Grant	93.259	-	41,626
	Indiana State Department of Health	A70-4-073149	Immunization Cooperative Agreements	93.268	-	394,798
	Indiana State Department of Health	A70-5-73155	Immunization Cooperative Agreements	93.268	-	59,226
					-	454,024
	Direct	N/A	Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	129,976	245,482
	Indiana State Department of Health	A70-3-069622	Pregnancy Assistance Fund Program	93.500	-	7,000
	Indiana State Department of Health	A70-4-069710	Pregnancy Assistance Fund Program	93.500	-	22,077
					-	29,077
	Indiana Family Health Council	IFHC-2, IFHC-3 & IFHC-4	Temporary Assistance for Needy Families	93.558	-	630,907
	Indiana Family & Social Services Administration	F1-10-49-10-R5-1580	Refugee and Entrant Assistance State Administered Programs	93.566	-	526,651
	Indiana Family & Social Services Administration	F1-4-49-14-RS-1580	Refugee and Entrant Assistance State Administered Programs	93.566	-	23,755
					-	550,406
	Indiana State Department of Health	A70-2-106067	Refugee and Entrant Assistance Discretionary Grants	93.576	-	31,104
	Direct	N/A	Refugee and Entrant Assistance Discretionary Grants	93.576	-	38,907
					-	70,011
	Indiana University	1C1CMS331000-01-00	Health Care Innovation Awards (HCIA)	93.610	673,064	1,234,281
	Indiana University	1C1CMS331000-03-01	Health Care Innovation Awards (HCIA)	93.610	115,611	615,037
					788,675	1,849,318
	InteCare, Inc.	N/A	Social Services Block Grant	93.667	-	293,319
	Indiana Family Health Council	IFHC-2, IFHC-3 & IFHC-4	Social Services Block Grant	93.667	-	227,367
					-	520,686
	Direct	N/A	PPHF Cooperative Agreement to Support Navigators in Federally-facilitated and State Partnership Exchanges	93.750	-	239,116

Health and Hospital Corporation of Marion County, Indiana
(A Component Unit of the Consolidated City of Indianapolis - Marion County)
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2014

Federal Grantor	Pass-Through Grantor	Pass-Through Grantor Number	Program Title	Federal CFDA #	2014 Amount Passed-Through to Subrecipients	Combined 2014 Total Federal Expenditures
	Indiana University	PO# 1362143	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	$ -	$ 9,765
	Indiana University	R01AG034946-04	Aging Research	93.866	-	50,588
	Indiana University	R01AG034946	Aging Research	93.866	-	37,387
					-	87,975
	Indiana State Department of Health	A70-0-0531061	National Bioterrorism Hospital Preparedness Program	93.889	-	2,455
	District 5 Hospital Preparedness Committee	N/A	National Bioterrorism Hospital Preparedness Program	93.889	-	717
	Indiana State Department of Health	A70-1-0531545	National Bioterrorism Hospital Preparedness Program	93.889	-	10
					-	3,182
	Direct	N/A	HIV Emergency Relief Project Grants	93.914	2,352,055	3,912,327
	Indiana State Department of Health	A70-3-112249	HIV Care Formula Grants	93.917	-	84,132
	Indiana State Department of Health	A70-5-112344	HIV Care Formula Grants	93.917	-	28,778
					-	112,910
	Direct	N/A	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	260,824	685,645
	Direct	N/A	Healthy Start Initiative	93.926	48,118	872,448
	Direct	N/A	Special Projects of National Significance	93.928	13,245	19,914
	Indiana State Department of Health	A70-3-112276	HIV Prevention Activities Health Department Based	93.940		339
	Indiana State Department of Health	A70-3-106088	HIV Prevention Activities Health Department Based	93.940	-	298,087
	Indiana State Department of Health	5U62PS003682-02	HIV Prevention Activities Health Department Based	93.940	-	39,148
	Indiana State Department of Health	A70-4-112317	HIV Prevention Activities Health Department Based	93.940	-	78,114
					-	415,688
	Indiana Family and Social Services Administration	A55-5-49-15-21-1580	Block Grants for Community Mental Health Services	93.958	8,500	77,250
	InteCare, Inc.	N/A	Block Grants for Community Mental Health Services	93.958	-	1,106,457
					8,500	1,183,707
	Indiana Family and Social Services Administration	A55-3-49-13-FX-1580	Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	301,644
	InteCare, Inc.	N/A	Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	654,935
	Indiana State Department of Health	A70-4-069678	Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	32,526
					-	989,105

Health and Hospital Corporation of Marion County, Indiana
(A Component Unit of the Consolidated City of Indianapolis - Marion County)
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2014

Federal Grantor	Pass-Through Grantor	Pass-Through Grantor Number	Program Title	Federal CFDA #	2014 Amount Passed-Through to Subrecipients	Combined 2014 Total Federal Expenditures
	Indiana State Department of Health	A70-3-112285	Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977	$ -	$ (49)
	Indiana State Department of Health	A70-4-106100	Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977	28,000	148,514
	Indiana State Department of Health	A70-3-112274	Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977	-	(141)
	Indiana State Department of Health	A70-4-106097	Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977	-	9,803
					28,000	158,127
	Indiana Family Health Council	IFHC-2, IFHC-3 & IFHC-4	Maternal and Child Health Services Block Grant to the States	93.994	-	316,811
	Indiana University	1459616	Maternal and Child Health Services Block Grant to the States	93.994	-	55,425
	Indiana University	N/A	Maternal and Child Health Services Block Grant to the States	93.994	-	16,992
					-	389,228
			Total U.S. Department of Health and Human Services		**3,826,355**	**18,418,149**
U.S. Department of Homeland Security						
	City of Indianapolis	N/A	Homeland Security Grant Program	97.067	-	246,458
	City of Indianapolis	16DPS-1600009550	Metropolitan Medical Response System	97.071	-	32,800
			Total U.S. Department of Homeland Security		**-**	**279,258**
			Total Federal Expenditures		**$ 3,838,341**	**$ 47,822,509**

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2014

Notes to Schedule

1. This schedule includes the federal awards activity of Health and Hospital Corporation of Marion County, Indiana and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

Board of Trustees
Health and Hospital Corporation of Marion County, Indiana
Indianapolis, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, the business-type activities and each major fund of Health and Hospital Corporation of Marion County, Indiana (a component unit of the Consolidated City of Indianapolis-Marion County) (Corporation), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated June 26, 2015, which contained an "emphasis of matter" paragraph regarding a change in its reporting unit. The financial statements of IU Health Inc. d/b/a Eskenazi Medical Group, a component unit included in the financial statements of the business-type activities, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's Response to Findings

The Corporation's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We also noted certain matters that we reported to the Corporation's management in a separate letter dated June 26, 2015.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Indianapolis, Indiana
June 26, 2015

BKD LLP
CPAs & Advisors

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Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Trustees
Health and Hospital Corporation of Marion County, Indiana
Indianapolis, Indiana

Report on Compliance for Each Major Federal Program

We have audited the compliance of Health and Hospital Corporation of Marion County, Indiana (Corporation) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, Health and Hospital Corporation of Marion County, Indiana complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Indianapolis, Indiana
June 26, 2015

Health and Hospital Corporation of Marion County, Indiana
(A Component Unit of the Consolidated City of Indianapolis - Marion County)
Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

Summary of Auditor's Results

1. The opinions expressed in the independent auditor's report over financial reporting were:

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?	☐ Yes	☒ None reported
Material weakness(es)?	☒ Yes	☐ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)?	☐ Yes	☒ None reported
Material weakness(es)?	☐ Yes	☒ No

5. The opinions expressed in the independent auditor's report on compliance for major federal awards were:

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

Special Supplemental Nutrition Program for Women, Infants & Children (CFDA No. 10.557)	Unmodified
Healthcare Innovation Awards (CFDA No. 93.610)	Unmodified
Health Centers Cluster (CFDA Nos. 93.224 and 93.527)	Unmodified

6. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No

7. The Corporation's major programs were:

Cluster/Program	CFDA Number
Special Supplemental Nutrition Program for Women, Infants & Children	10.557
Healthcare Innovation Awards	93.610
Health Centers Cluster	93.224/93.527

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was $1,434,675.

9. The Corporation qualified as a low-risk auditee as that term is defined in OMB Circular A-133? ☐ Yes ☒ No

Findings Required to be Reported by *Government Auditing Standards*

Reference Number		Finding
2014-001	**Criteria or Specific Requirement:**	Management is responsible for establishing and maintaining effective internal controls over financial reporting.
	Condition:	The Corporation issues a Comprehensive Annual Financial Report (CAFR) on an annual basis. Certain internal controls over valuation over patient receivable balances did not timely detect a material adjustment to the valuation of year end balances due to the Eskenazi Health fund. (Material Weakness)
	Context:	Effective and accurate valuation of patient accounts receivable in a health care provider is a complex concept. The estimation of allowances for contractual allowances and allowances for uncollectible accounts requires disciplined modeling, especially during time of changes to a provider's significant payor class. The Corporation's model utilized to determine necessary allowances was inappropriately adjusted during the year resulting in a significant overstatement of the net patient receivable balance as of year-end. As a result, a material adjustment was necessary to more accurately reflect the estimated net amounts due to the Corporation.
	Cause:	Internal controls were not adequately applied as a result of changes within key positions and responsibilities.
	Effect:	Potential material misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner.
	Recommendation:	We recommend that the Corporation evaluate current accounting mechanisms in place for determining necessary allowances on patient receivable balances to ensure accurate and timely financial information is available to management and governance.
	Views of Responsible Officials and Planned Corrective Action:	We concur. Management was utilizing valuation methodology based on historical activity. Historical activity included the time period related suspension of the Hospital Assessment Fee (HAF) program. Upon the reinstatement of the HAF program, management did not change the valuation methodology in error. Since audit fieldwork, this approach has been changed. Management reviews any change in reimbursement practices or policies from all payors when preparing monthly valuation of allowances.

Reference Number		Finding
2014-002	**Criteria or Specific Requirement:**	Management is responsible for establishing and maintaining effective internal controls over financial reporting.
	Condition:	The Corporation issues a Comprehensive Annual Financial Report (CAFR) on an annual basis. Several material financial statement adjustments occurred during the audit process, that were not timely detected by management's internal control structure. These audit adjustments included a variety of financial reporting elements within the Eskenazi Health fund. (Material Weakness)
	Context:	Timely and accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties. Some of the concepts of the elements above can be complex and the individual reviewing monthly transactions should understand the underlying transactions in order to adequately review the transactions for accuracy within the financial reporting of the Corporation.
	Cause:	Timely and accurate reconciliations of financial statements were not effective during the financial statement audit period.
	Effect:	Potential material misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner.
	Recommendation:	We recommend that the Corporation evaluate current accounting mechanisms in place for timely closing and reconciling of accounts to determine how they can be enhanced to minimize the potential for material error and ensure accurate and timely financial information is available to management and governance.
	Views of Responsible Officials and Planned Corrective Action:	We concur. Management has established a review process to ensure the accuracy and timeliness of the financials. Review processes will include the review of financial statements, variance discussions and material reconciliations. The finance team is being restructured to enhance review processes and review financial results by service line.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs

No matters are reportable.

Health and Hospital Corporation of Marion County, Indiana

(A Component Unit of the Consolidated City of Indianapolis - Marion County)

Summary Schedule of Prior Audit Findings
Year Ended December 31, 2014

Reference Number	Summary of Finding	Status
	No matters are reportable.	