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STATE OF INDIANA

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December 1, 2016

Board of Trustees
Perry County Memorial Hospital
8885 State Road 237
Tell City, IN 47586

We have reviewed the audit report prepared by Dean Dorton Allen Ford, PLLC, Independent Public Accountants, for the period January 1, 2015 to December 31, 2015. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Report of Independent Auditors, the financial statements included in the report present fairly the financial condition of Perry County Memorial Hospital, as of December 31, 2015 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. Findings 2015-001 and 2015-002 are classified as significant deficiencies in internal control over financial reporting and are referenced in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*

The audit report is filed with this letter in our office as a matter of public record.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

PERRY COUNTY MEMORIAL HOSPITAL

Combined Financial Statements and Single Audit Reports Under Uniform Grant Guidance

Years Ended December 31, 2015 and 2014
with Report of Independent Auditors

CONTENTS

DEANDORTON
DEAN DORTON ALLEN FORD, PLLC

Report of Independent Auditors

To the Board of Trustees
Perry County Memorial Hospital
Tell City, Indiana

Report on the Financial Statements

We have audited the accompanying combined financial statements of Perry County Memorial Hospital (the Hospital, see Note 1), a component unit of Perry County, Indiana, which comprise the combined statements of net position as of December 31, 2015 and 2014, and the related combined statements of operations and changes in net position and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Perry County Memorial Hospital as of December 31, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Combining Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information on pages 25 - 30 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities and is not a required part of the combined 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 combined financial statements. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The *Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined 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 September 20, 2016 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Hospital's internal control over financial reporting and compliance.

Dean Dorton Allen Ford, PLLC

September 20, 2016
Louisville, Kentucky

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PERRY COUNTY MEMORIAL HOSPITAL

Combined Statements of Net Position

December 31, 2015 and 2014

Assets		2015		2014
Current assets:				
Cash and cash equivalents	$	2,140,330	$	3,639,162
Investments		5,941,157		9,356,022
Assets limited as to use for current liabilities		567,000		283,000
Patient accounts receivable, net of estimated uncollectibles of approximately $4,087,000 and $3,338,000, respectively		6,767,427		5,213,934
Other accounts receivable		678,879		1,277,516
Inventories		1,026,740		846,218
Prepaid expenses and other current assets		624,503		588,414
Estimated third-party payor settlements		288,988		-
Total current assets		18,035,024		21,204,266
Assets limited as to use:				
Internally designated for capital acquisition		-		3,391,298
Permanently restricted funds		155,000		155,000
Construction and reserve funds held by trustee		1,820,000		1,822,317
Total assets limited as to use		1,975,000		5,368,615
Less amount required to meet current debt liabilities		(567,000)		(283,000)
		1,408,000		5,085,615
Capital assets, net		54,058,509		48,530,560
Assets available for sale		2,107,590		-
Other assets		16,235		82,871
Total assets		75,625,358		74,903,312

Liabilities and Net Position	2015	2014
Current liabilities:		
Accounts payable	**1,799,702**	597,823
Construction payables	**50,000**	4,505,974
Accrued payroll	**1,518,351**	1,324,532
Other accrued expenses	**1,084,069**	516,378
Estimated third-party payor settlements	**-**	1,581,583
Current portion of long-term debt	**717,075**	393,817
Total current liabilities	**5,169,197**	8,920,107
Long-term debt, net of current portion	**39,150,000**	32,910,357
Total liabilities	**44,319,197**	41,830,464
Net position:		
Net investment in capital assets	**16,249,024**	10,762,806
Restricted		
Nonexpendable	**155,000**	155,000
Expendable	**1,820,000**	1,819,541
Unrestricted	**13,082,137**	20,335,501
Total net position	**$ 31,306,161**	$ 33,072,848

See accompanying notes.

PERRY COUNTY MEMORIAL HOSPITAL

Combined Statements of Operations and Changes in Net Position

Years ended December 31, 2015 and 2014

	2015	2014
Operating revenues:		
Net patient service revenue, net of provision for bad debts of $3,886,247 in 2015 and $4,378,900 in 2014	$ 36,949,960	$ 34,439,460
Other revenue	608,694	542,701
Total operating revenues	37,558,654	34,982,161
Operating expenses:		
Salaries and other wage costs	19,590,194	17,857,874
Supplies and other expenses	3,599,102	3,343,482
General and administrative expenses	2,086,668	1,713,476
Professional fees	1,994,944	2,118,241
Contracted services	6,976,258	5,945,546
Depreciation and amortization	2,057,165	1,039,048
Provider tax expense	654,400	1,670,215
Other expense	1,458,864	1,306,348
Total operating expenses	38,417,595	34,994,230
Operating loss	(858,941)	(12,069)
Nonoperating revenues (expenses):		
Investment (loss) income	(22,263)	301,623
Interest expense	(778,613)	(11,552)
Net unrealized losses on investments	(106,870)	(62,407)
Total nonoperating (losses) revenues	(907,746)	227,664
(Decrease) increase in net position	(1,766,687)	215,595
Net position, beginning of year	33,072,848	32,857,256
Net position, end of year	$ 31,306,161	$ 33,072,851

See accompanying notes.

PERRY COUNTY MEMORIAL HOSPITAL

Combined Statements of Cash Flows

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 34,124,533	$ 34,827,499
Payments to suppliers and contractors	(13,605,068)	(14,521,117)
Payments to or on behalf of employees	(19,403,631)	(18,346,052)
Other receipts and payments, net	(1,504,570)	(2,433,865)
Net cash used in operating activities	(388,736)	(473,535)
Cash flows from capital and related financing activities:		
Proceeds from long-term debt	6,972,053	24,015,845
Interest paid on long-term debt	(203,666)	(11,552)
Principal payments on long-term debt	(409,152)	(162,018)
Purchases of capital assets	(14,148,678)	(26,171,869)
Net cash used in capital and related financing activities	(7,789,443)	(2,329,594)
Cash flows from investing activities:		
Net realized gain on investments	(118,886)	237,851
Increase in investments, net	3,307,995	(267,164)
Interest and dividend income	96,623	63,772
Net cash provided by investing activities	3,285,732	34,459
Net decrease in cash and cash equivalents	(4,892,447)	(2,768,670)
Cash and cash equivalents, beginning of year	9,007,777	11,776,447
Cash and cash equivalents, end of year	$ 4,115,330	$ 9,007,777
Reconciliation of statements of net position to cash and cash equivalents, end of year:		
Cash and cash equivalents	$ 2,140,330	$ 3,639,162
Assets limited as to use:		
Internally designated for capital acquisition	-	3,391,298
Permanently restricted funds	155,000	155,000
Construction and reserve funds held by trustee	1,820,000	1,822,317
Cash and cash equivalents, end of year	$ 4,115,330	$ 9,007,777

PERRY COUNTY MEMORIAL HOSPITAL

Statements of Cash Flows, continued

Years ended December 31, 2015 and 2014

		2015		2014
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$	**(858,941)**	$	(12,069)
Adjustments to reconcile operating loss to net cash flows used in operating activities:				
Provision for bad debts		**3,886,247**		4,378,900
Depreciation and amortization		**2,057,165**		1,039,048
Increase (decrease) in cash due to changes in:				
Patient accounts receivable		**(4,841,103)**		(3,542,444)
Inventories		**(180,522)**		(79,260)
Prepaid expenses and other assets		**30,547**		(1,183,750)
Accounts payable		**1,201,879**		(137,362)
Accrued payroll and other accrued expenses		**186,563**		(488,178)
Estimated third party settlements		**(1,870,571)**		(448,417)
Net cash used in operating activities	$	**(388,736)**	$	(473,532)

See accompanying notes.

1. Description of the Organization and Reporting Entity

Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB No. 61, *The Financial Reporting Entity: Omnibus -- an Amendment of GASB Statements No. 14 and No. 34* define the financial reporting entity as an entity that consists of the primary governmental and all of its component units. Component units are legally separate organizations that have a fiscal dependency and financial benefit or burden relationship with the primary government and other organizations for which the significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete.

The accompanying combined financial statements include the transactions and accounts of Perry County Memorial Hospital District (the District), Perry County Memorial Hospital Association, Perry County Memorial Hospital Foundation, and the leased skilled nursing facility discussed at Note 13 (collectively, the Hospital).

The Hospital operates under a board established in accordance with Indiana County Hospital Law, Indiana Code 16-22. The Board of County Commissioners of Perry County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Perry County.

The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Perry County and its surrounding counties.

Although it is legally separate from the Hospital, Perry County Memorial Foundation (the Foundation) is reported if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital. The Foundation's purpose is to support the Hospital through fundraising drives. The Foundation has been recognized as tax exempt under section 501(c)(3) of the Internal Revenue Code (the Code).

Perry County Memorial Hospital Association (the Association) was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

Additionally, the combined financial statements of the Hospital include a joint-venture, Perry County Pain Management, LLC (Pain Management), in which the Hospital maintains a controlling interest. Management has elected not to show the minority owners' interests in the entity as "noncontrolling interest" in the combined net position of the Hospital as it deems the amount of equity not controlled by the Hospital to be immaterial to the Hospital's combined financial statements. The joint-venture is presented in the combining financial statements.

Complete financial statements for the District, Foundation, Association and Pain Management can be obtained by writing to: Perry County Memorial Hospital c/o Steven J. Berkhouse, VP of Finance/CFO at 8885 State Route 237, Tell City, IN 47586.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Hospital presents its financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As a proprietary activity, the Hospital has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Therefore, the Hospital follows GASB pronouncements and all Financial Accounting Standards Board and predecessor boards' pronouncements except those that conflict with or contradict GASB pronouncements.

Use of Estimates

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

Principles of Combination

The combined financial statements include the financial statements of the District, the Association, the Foundation, Pain Management, and the leased skilled nursing facility described at Note 13. All significant intercompany accounts and transactions are eliminated in combination.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and other highly liquid resources, such as investments in certificates of deposit and money market funds, with an original maturity of three months or less when purchased.

At times, balances in the Hospital's cash accounts may exceed federally insured limits. The Hospital has not experienced any losses on such accounts. The Hospital believes it is not exposed to any significant custodial credit risk on cash and cash equivalents.

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital deposits may not be returned to it. Indiana Code 16-22-3-16 allows the Hospital to deposit public funds in a financial institution. The Hospital does not have a formal policy regarding custodial credit risk for deposits. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

2. Summary of Significant Accounting Policies, continued

Investments, continued

The Hospital has elected not to further disaggregate the investments as displayed in Notes 3 and 4 as additional risk information is not deemed material to the combined financial statements.

Patient Accounts Receivable

Patient accounts receivable consist of amounts due from government programs (e.g., Medicare and Medicaid) and non-government payors (e.g., self-pay and commercial payors). Management believes there are minimal credit risks associated with the receivables from government programs. Non-government receivables are from various payors that are subject to differing economic conditions. Management continually monitors and adjusts the allowance for uncollectible accounts associated with credit risk of patient accounts receivable.

Inventories

Inventories (principally pharmaceuticals and medical supplies) are stated at the lower of cost (first-in, first-out method) or market.

Assets Limited as to Use

Assets limited as to use include assets held by trustees under debt agreements, assets whose use is restricted by a donor and designated assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes. All the assets consist of cash and cash equivalents.

Capital Assets

Capital asset acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Assets Available for Sale

Due to the completion and move into the new hospital facility, the former facility was vacated and reclassified as an asset available for sale in August 2015. As of December 31, 2015, the asset has not been sold and no gain or loss has been recognized in the Combined Statements of Operations and Changes in Net Position.

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources. As of December 31, 2015 and 2014, the Hospital had no such resources.

2. Summary of Significant Accounting Policies, continued

Net Position

Net position of the Hospital is classified in four components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by bond indentures. *Restricted nonexpendable net position* equal the principal portion of permanent endowments. *Unrestricted net position* is remaining net position that does not meet the definition of *invested in capital assets net of related debt* or *restricted.*

Operating Revenues and Expenses

The Hospital's statements of operations and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per is discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

2. Summary of Significant Accounting Policies, continued

Risk Management

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

Compensated Absences

Hospital employees earn sick leave at the rate of 12 days per year. Unused sick leave may be accumulated to a maximum of 30 days. Accumulated sick leave is not paid to employees upon retirement or termination.

Hospital employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Accrued vacation may be used upon completion of a 90-day waiting period. It is highly recommended that employees use their allotted vacation time yearly. Unused vacation leave is paid to employees through cash payment upon termination.

Charity Care

The Hospital accepts patients regardless of their ability to pay. A patient is classified as a charity patient based on certain established policies. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital includes certain cases where incurred charges are significant when compared to the patient's income. These charges are not included in net patient service revenue as payment is not expected.

Statutory Authorization for Investments

Indiana Code 16-22-3-20 authorizes the Hospital to invest in any interest bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana. It also allows the Hospital to repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States of America or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective. Mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana. Securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency. Pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

2. Summary of Significant Accounting Policies, continued

Income Taxes

The District and Association are exempt from taxation pursuant to Internal Revenue Code (the Code) Section 115. The Foundation is a not-for-profit organization as described in Section 501(c)(3) of the Code and is exempt from federal income taxes on related income pursuant to 501(a) of the Code. Accordingly, no provision for federal income tax is required. However, the Hospital is subject to federal income tax on any unrelated business taxable income. Management believes they do not have any unrelated business taxable income.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through September 20, 2016, the date that the combined financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. The reclassifications had no effect on net position or the change in net position.

3. Investments

Investments, stated at fair value, at December 31, 2015 and 2014, include:

	2015	2014
Certificates of deposit	$ 569,822	$ 4,276,598
Accrued interest receivable	-	3,827
Mutual funds	5,320,335	5,024,597
Equity interest in joint venture	51,000	51,000
	$ 5,941,157	$ 9,356,022

Investment income and gains for assets limited as to use and cash equivalents are comprised of the following for the years ended December 31, 2015 and 2014:

	2015	2014
Investment income:		
Interest and dividends	$ 96,623	$ 63,772
Net realized and unrealized (losses) gains on sales	(118,886)	237,851
Net unrealized losses	(106,870)	(62,407)
	$ (129,133)	$ 239,216

4. Fair Value Measurements

The Hospital classifies its investments based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

There have been no changes in the valuation methodologies used at December 31, 2015.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Hospital's investments at fair value as of December 31:

2015	Level 1	Level 2	Level 3	Total
Mutual funds	$ 5,320,335	$ -	$ -	$ 5,320,335
Total investments	$ 5,320,335	$ -	$ -	$ 5,320,335

2014	Level 1	Level 2	Level 3	Total
Mutual funds	$ 5,024,597	$ -	$ -	$ 5,024,597
Total investments	$ 5,024,597	$ -	$ -	$ 5,024,597

5. Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2015 and 2014, were as follows:

	Balance Dec. 31, 2014	Additions	Retirements/ Write Downs	Transfers	Balance Dec. 31, 2015
Land and improvements	$ 2,945,631	$ -	$ (1,424,132)	$ 1,060,000	$ 2,581,499
Buildings and improvements	10,365,854	-	(6,958,082)	40,400,490	43,808,262
Machinery and equipment	15,862,797	595,085	(139,840)	7,613,281	23,931,323
Leasehold improvements	1,494,906	-	-	-	1,494,906
Construction in progress	39,976,152	9,097,619	-	(49,073,771)	-
	70,645,340	9,692,704	(8,522,054)	-	71,815,990
Less accumulated depreciation	22,114,780	2,057,165	(6,414,464)	-	17,757,481
Capital assets, net	$ 48,530,560	$ 7,635,539	$ (2,107,590)	$ -	$ 54,058,509

	Balance Dec. 31, 2013	Additions	Retirements/ Write Downs	Transfers	Balance Dec. 31, 2014
Land and improvements	$ 2,945,631	$ -	$ -	$ -	$ 2,945,631
Buildings and improvements	10,365,854	-	-	-	10,365,854
Machinery and equipment	15,476,514	614,969	(228,686)	-	15,862,797
Leasehold improvements	1,494,906	-	-	-	1,494,906
Construction in progress	13,980,809	25,998,381	(3,038)	-	39,976,152
	44,263,714	26,613,350	(231,724)	-	70,645,340
Less accumulated depreciation	21,094,485	1,248,981	(228,686)	-	22,114,780
Capital assets, net	$ 23,169,229	$ 25,364,369	$ (3,038)	$ -	$ 48,530,560

6. Long-Term Debt

A schedule of changes in the Hospital's long-term debt during 2015 and 2014 follows:

	Balance Dec. 31, 2014	Additions	Reductions	Balance Dec. 31, 2015	Amounts Due Within One Year
USDA construction loan payable	$ 33,156,185	$ 6,843,815	$ 283,000	$ 39,717,000	$ 567,000
Bank note payable	57,209	-	45,484	11,725	11,725
Mortgage note payable	86,645	-	55,160	31,485	31,485
Total bonds and notes payable	33,300,039	6,843,815	383,644	39,760,210	610,210
Capital lease obligations	4,135	-	4,135	-	-
Equipment financing arrangements	-	128,238	21,373	106,865	106,865
Total other liabilities	4,135	128,238	25,508	106,865	106,865
Long-term debt	$ 33,304,174	$ 6,972,053	$ 409,152	$ 39,867,075	$ 717,075

6. Debt, continued

	Balance Dec. 31, 2013	Additions	Reductions	Balance Dec. 31, 2014	Amounts Due Within One Year
USDA construction loan payable	$ 9,140,340	$ 24,015,845	$ -	$ 33,156,185	$ 283,000
Bank note payable	104,009	-	46,800	57,209	45,298
Mortgage note payable	152,820	-	66,175	86,645	61,384
Total loans and notes payable	9,397,169	24,015,845	112,975	33,300,039	389,682
Capital lease obligations	53,178	-	49,043	4,135	4,135
Long-term debt	$ 9,450,347	$ 24,015,845	$ 162,018	$ 33,304,174	$ 393,817

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at December 31, 2015 and 2014 are as follows:

- USDA construction loan payable not to exceed $40,000,000, maturing semi-annually through January 2053 in the form of Perry County Hospital Association Lease Revenue Bonds, Series 2013 with an interest rate not to exceed 3.5%. The interest rate at both December 31, 2015 and 2014 was 3.125%. The bonds are payable semiannually beginning in July 2015 until the maturity date.
- Bank note payable, maturing in March 2016, bearing interest at 4.93% as of both December 31, 2015 and 2014, payable in monthly installments of principal and interest of $3,940 through the maturity date.
- Mortgage note payable, maturing in June 2016, bearing interest at 4.70% as of both December 31, 2015 and 2014, payable in monthly installments of principal and interest of $3,940 through the maturity date.
- Capital lease obligation bearing imputed interest of 2.14%, collateralized by leased equipment with a net book value of $3,925 at December 31, 2014 was paid off in 2015.
- Equipment financing loan, bearing no interest, payable in six monthly installments of $21,373.

Under the terms of the USDA loan payable, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included in assets limited as to use. The USDA loan payable also places limits on the incurrence of additional borrowings and requires the Hospital to satisfy certain measures of financial performance as long as the bonds are outstanding.

6. Debt, continued

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

	Long-term Debt	
Year ending December 31:	Principal	Interest
2016	$ 717,075	$ 1,242,283
2017	587,000	1,219,005
2018	605,000	1,200,522
2019	624,000	1,181,461
2020	641,000	1,164,976
2021 to 2025	3,537,000	5,495,001
2026 to 2030	4,128,000	4,902,023
2031 to 2035	4,823,000	4,209,189
2036 to 2040	5,633,000	3,401,527
2041 to 2045	6,578,000	2,454,201
2046 to 2050	7,682,000	1,350,606
2051 to 2053	4,312,000	204,702
Total	$ 39,867,075	$ 28,025,496

A summary of interest cost and investment income on borrowed funds held by the trustee under the USDA loan during the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Interest cost:		
Capitalized	$ **564,719**	$ 765,447
Charged to operations	**778,613**	11,552
	$ **1,343,332**	$ 776,999

7. Net Patient Service Revenue

The Hospital has agreements with federal, state and third-party payers that provide for payments at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates and amounts reimbursed by third-party payers. The Hospital participates in the Medicare and Medicaid programs. Approximately 46% and 18%, respectively, of the Hospital's 2015 net patient service revenue was derived from services to patients covered by these programs. Comparable percentages for 2014 were 46% and 17%, respectively. Changes in the Medicare and/or Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. A summary of the payment arrangements with major third-party payers follows:

7. Net Patient Service Revenue, continued

Hospital

Medicare

The Hospital has been granted Critical Access Hospital (CAH) status by Medicare. Under the CAH designation, services rendered to Medicare program beneficiaries are reimbursed under a cost reimbursement methodology.

Medicaid

The Hospital has been granted CAH status by Medicare. Under the CAH designation, most services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology.

For cost-reimbursed services, the Hospital receives interim payments from Medicare and Medicaid. Final settlements are determined after submission of annual cost reports filed by the Hospital and audit or desk review thereof by Medicare or Medicaid. Management feels that adequate provision has been made for the effects, if any, of audits or desk reviews by either program.

The Hospital has also entered into reimbursement agreements with certain commercial insurance carriers and other organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per-diem rates.

Following is a summary of gross and net patient service revenue for the years ended December 31:

	2015	2014
Gross patient service revenue	$ 82,256,491	$ 75,915,298
Less provisions for:		
Contractual adjustments under third-party reimbursement programs	40,407,929	35,391,528
Charity care	805,741	1,434,841
Provision for bad debts	3,886,247	4,378,900
Administrative, personnel and other adjustments	206,614	270,569
	45,306,531	41,475,838
Net patient service revenue	$ 36,949,960	$ 34,439,460

8. Charity Care

The amounts of indirect and direct costs incurred by the Hospital for services and supplies furnished under the Hospital's charity care policy were approximately $297,650 and $530,000 for the years ended December 31, 2015 and 2014, respectively. These costs were estimated by management using a ratio of cost to gross charges.

9. Retirement Plan

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

Plan Administrators, Inc.
115 S. Wisconsin Street
Depere, WI 54775-2765
Ph. (920) 337-9906

The Hospital Board of Trustees approved discretionary contribution to the 403(b) retirement accounts of eligible employees of three percent of the annual covered salary plus an optional three percent matching contribution. Employer contributions to the plan were $537,299 and $495,113, respectively.

10. Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an individual employee amount of $300,000 per year. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near future.

11. Concentration of Credit Risk

Patient Accounts Receivable

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

	2015	2014
Medicare	**36** %	33 %
Medicaid	**14**	9
Commercial	**16**	19
All other	**34**	39
	100 %	100 %

11. Concentrations of Credit Risk, continued

Patient Account Receivable, continued

Management believes the credit risks associated with the receivables from governmental programs are minimal. Non-government receivables are from various payers that are subject to differing economic conditions. Such non-government receivables do not represent any concentration risks to the Hospital. Management continually monitors and adjusts the allowance for uncollectible accounts associated with the credit risk of patient accounts receivable.

12. Provider Tax

The Indiana General Assembly enacted legislation which established a Hospital Assessment Fee for the purpose of funding the Medicaid program and providing the state share of the disproportionate share hospital (DSH) payments. The Hospital Assessment Fee and increases in funding levels are to continue through June 30, 2015 based on recently passed legislation. The calculation of the assessment fee is based on the hospital's cost report information. Due to the Hospital Assessment Fee, inpatient and outpatient Medicaid payment rates were increased by certain published adjustment factors, for both fee-for-service and managed care programs. DSH funds were paid to the Hospital based on its respective hospital specific limit. For the years ended December 31, 2015 and 2014, provider taxes amounted to $654,400 and $1,670,215, respectively. For the years ended December 31, 2015 and 2014, DSH funds paid to the Hospital were $610,712 and $848,372, respectively.

13. Commitments

Long-Term Care Operating Lease

The Hospital entered into an agreement to lease the facilities and equipment for the operation of a skilled nursing facility. Along with the lease agreement, the Hospital also entered into a management agreement with the facility's previous manager (Manager) to continue to operate the facility. These agreements expired in June 2016. The Hospital and Manager opted into the optional two year extension until June 2018. The management agreement includes an optional termination clause by either party if material changes in circumstances occur, as defined in the agreement.

The agreements call for various rental, management, incentive, royalty and other fees. Fees paid to the Manager in 2015 and 2014 were $150,701 and $83,182, respectively. As of December 31, 2015 and 2014, amounts due to the Manager by the Hospital were $77,569 and $47,476, respectively.

Management Contract

The Hospital has contracted with Alliant Management Services (Alliant) to operate, manage and supervise day-to-day activities of the Hospital. Under the terms of the contract, the management fee is approximately $706,000 and adjusted annually by an agreed-upon inflationary adjustment. Total management and consulting fees paid to Alliant during the years ended December 31, 2015 and 2014 were $743,648 and $822,729, respectively.

13. Commitments, continued

Management Contract, continued

Blue & Co., LLC, an accounting firm related to Alliant, was paid $286,280 and $198,767 during 2015 and 2014, respectively, for various consulting services.

14. Risk Management and Contingent Liabilities

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. The Hospital is insured for medical malpractice claims and judgments via healthcare professional and general liability insurance on a claims-made basis. Insurance coverages are $1,000,000 individually and $2,000,000 in the aggregate, annually, for both the Hospital's professional and general liability policies. In addition the Hospital has an excess healthcare professional liability policy and a healthcare umbrella liability policy that offer additional coverage. Management intends to maintain such coverages in the future and is of the opinion that insurance coverages are adequate to cover any potential losses on asserted claims.

15. Healthcare Reform

Patient Protection and Affordable Care Act

On March 23, 2010, *The Patient Protection and Affordable Care Act* (the Act) was signed into law. The effects of this legislation on hospitals are wide-ranging and potentially dramatic. In particular, the Act imposes additional requirements on hospital seeking to obtain or maintain charitable tax-exempt status as defined under Section 501 of the Code. Hospitals seeking to obtain or maintain charitable tax-exempt status must now:

1) *Conduct a community health needs assessment.* Hospitals must conduct a community health needs assessment once every three years and then adopt and implement a strategy addressing the needs associated with the assessment.

2) *Establish written financial assistance and emergency care policies.*

3) *Limit billed charge amounts for emergency or other medically necessary care to patients eligible for financial assistance.*

4) *Prohibit the use of "extraordinary" collection efforts on patients who qualify for financial assistance.*

Charitable hospitals seeking to obtain or maintain charitable tax-exempt status must meet the new requirements by fiscal years beginning after March 23, 2010 with the exception of the community health needs assessment which is required for fiscal years beginning after March 23, 2012.

The Hospital believes it is in compliance with the Act.

15. Healthcare Reform, continued

The Recovery Act

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the Recovery Act) was signed into law. A major component of the Recovery Act is its emphasis on improving health information technology (also known as HIT). The federal government believes the implementation of technology will ultimately increase the quality and reduce the cost of healthcare.

To accomplish the improvement in HIT, the Recovery Act includes payment incentives for qualifying professionals. Physicians and hospitals that are considered early adopters of electronic health records can become eligible to receive a significant amount of money from Medicare or Medicaid.

During the fiscal year ended December 31, 2014, the Hospital applied for and received approximately $59,000 in Medicaid HIT funds, which is included in other revenue in the accompanying combined statements of operations and changes in net position. During the fiscal year ended December 31, 2015, the Hospital did not receive any HIT funds. The Hospital intends to apply for additional funds in the coming years. The funds received and any funds from future applications are dependent upon reaching certain metrics and various states of "meaningful use" as defined by the Recovery Act.

PERRY COUNTY MEMORIAL HOSPITAL

Combining Statement of Net Position

December 31, 2015

Assets	District	Association	Foundation	Skilled Nursing Facility	Eliminations	Combined
Current assets:						
Cash and cash equivalents	$ 1,681,541	$ 2,815	$ -	$ 455,974	$ -	$ 2,140,330
Investments	3,926,533	-	2,014,624	-	-	5,941,157
Assets limited as to use for current liabilities	567,000	-	-	-	-	567,000
Patient accounts receivable, net of estimated uncollectibles	6,303,806	-	-	463,621	-	6,767,427
Other accounts receivable	1,055,451	-	-	-	(376,572)	678,879
Inventories	1,026,740	-	-	-	-	1,026,740
Prepaid expenses and other current assets	624,503	-	-	-	-	624,503
Estimated third-party payables	288,988	-	-	-	-	288,988
Total current assets	15,474,562	2,815	2,014,624	919,595	(376,572)	18,035,024
Assets limited as to use:						
Permanently restricted funds	155,000	-	-	-	-	155,000
Construction and reserve funds held by trustee	1,820,000	-	-	-	-	1,820,000
Total assets limited as to use	1,975,000	-	-	-	-	1,975,000
Less amount required to meet current debt liabilities	(567,000)	-	-	-	-	(567,000)
	1,408,000	-	-	-	-	1,408,000
Capital assets, net	6,086,299	47,913,601	-	58,609	-	54,058,509
Assets available for sale	2,107,590	-	-	-	-	2,107,590
Related party due from (to)	9,508,391	(9,508,391)	-	-	-	-
Other assets	25,000	-	(8,765)	-	-	16,235
Total assets	34,609,842	38,408,025	2,005,859	978,204	(376,572)	75,625,358

See Report of Independent Auditors.

PERRY COUNTY MEMORIAL HOSPITAL

Combining Statement of Net Position, continued

December 31, 2015

Liabilities and Net Position	District	Association	Foundation	Skilled Nursing Facility	Eliminations	Combined
Current liabilities:						
Accounts payable	1,383,945	-	-	792,329	(376,572)	1,799,702
Construction payables	-	50,000	-	-	-	50,000
Accrued payroll	1,518,351	-	-	-	-	1,518,351
Other accrued expenses	323,247	574,947	-	185,875	-	1,084,069
Current portion of long-term debt	150,075	567,000	-	-	-	717,075
Total current liabilities	3,375,618	1,191,947	-	978,204	(376,572)	5,169,197
Long-term debt, net of current portion	-	39,150,000	-	-	-	39,150,000
Total liabilities	3,375,618	40,341,947	-	978,204	(376,572)	44,319,197
Net position (deficit):						
Net investment in capital assets	17,552,205	(1,361,790)	-	58,609	-	16,249,024
Restricted						
Nonexpendable	155,000	-	-	-	-	155,000
Expendable	1,820,000	-	-	-	-	1,820,000
Unrestricted	11,707,019	(572,132)	2,005,859	(58,609)	-	13,082,137
Total net position (deficit)	$ 31,234,224	$ (1,933,922)	$ 2,005,859	$ -	$ -	$ 31,306,161

See Report of Independent Auditors.

PERRY COUNTY MEMORIAL HOSPITAL

Combining Statement of Operations and Changes in Net Position

Year ended December 31, 2015

	District	Association	Foundation	Skilled Nursing Facility	Eliminations	Combined
Operating revenues:						
Net patient service revenue, net of provision for bad debts of $3,886,247 in 2015	$ 34,966,008	$ -	$ -	$ 1,983,952	$ -	$ 36,949,960
Other revenue	520,534	-	88,160	-	-	608,694
Total operating revenues	35,486,542	-	88,160	1,983,952	-	37,558,654
Operating expenses:						
Salaries and other wage costs	17,925,311	-	-	1,664,883	-	19,590,194
Supplies and other expenses	3,536,557	-	-	62,545	-	3,599,102
General and administrative expenses	2,063,705	-	-	22,963	-	2,086,668
Professional fees	1,994,944	-	-	-	-	1,994,944
Contracted services	6,964,236	-	-	12,022	-	6,976,258
Depreciation and amortization	896,995	1,160,170	-	-	-	2,057,165
Provider tax expense	654,400	-	-	-	-	654,400
Other expense	1,335,217	-	28,239	95,408	-	1,458,864
Total operating expenses	35,371,365	1,160,170	28,239	1,857,821	-	38,417,595
Operating income (loss)	115,177	(1,160,170)	59,921	126,131	-	(858,941)
Nonoperating revenues (expenses):						
Investment (loss) income	(118,886)	-	96,623	-	-	(22,263)
Interest expense	(4,861)	(773,752)	-	-	-	(778,613)
Net unrealized losses on investments	-	-	(106,870)	-	-	(106,870)
Total nonoperating revenues	(123,747)	(773,752)	(10,247)	-	-	(907,746)
Increase (decrease) in net position	(8,570)	(1,933,922)	49,674	126,131	-	(1,766,687)
Net position (deficit), beginning of year	31,242,794	-	1,956,185	(126,131)	-	33,072,848
Net position (deficit), end of year	$ 31,234,224	$ (1,933,922)	$ 2,005,859	$ -	$ -	$ 31,306,161

See Report of Independent Auditors.

PERRY COUNTY MEMORIAL HOSPITAL

Combining Statement of Net Position

December 31, 2014

Assets	District	Association	Foundation	Skilled Nursing Facility	Eliminations	Combined
Current assets:						
Cash and cash equivalents	$ 1,695,597	$ -	$ 1,800,723	$ 142,842	$ -	$ 3,639,162
Investments	9,143,693	-	212,329	-	-	9,356,022
Assets limited as to use for current liabilities	283,000	-	-	-	-	283,000
Patient accounts receivable, net of estimated uncollectibles	5,014,931	-	-	199,003	-	5,213,934
Other accounts receivable	1,487,520	114,738	-	-	(324,742)	1,277,516
Inventories	846,218	-	-	-	-	846,218
Prepaid expenses and other current assets	588,414	-	-	-	-	588,414
Total current assets	19,059,373	114,738	2,013,052	341,845	(324,742)	21,204,266
Assets limited as to use:						
Internally designated for capital acquisition	3,391,298	-	-	-	-	3,391,298
Permanently restricted funds	155,000	-	-	-	-	155,000
Construction and reserve funds held by trustee	1,819,541	2,776	-	-	-	1,822,317
Total assets limited as to use	5,365,839	2,776	-	-	-	5,368,615
Less amount required to meet current debt liabilities	(283,000)	-	-	-	-	(283,000)
	5,082,839	2,776	-	-	-	5,085,615
Capital assets, net	10,910,795	37,544,645	-	75,120	-	48,530,560
Other assets	25,000	-	57,871	-	-	82,871
Total assets	35,078,007	37,662,159	2,070,923	416,965	(324,742)	74,903,312

See Report of Independent Auditors.

PERRY COUNTY MEMORIAL HOSPITAL

Combining Statement of Net Position, continued

December 31, 2014

Liabilities and Net Position	District	Association	Foundation	Skilled Nursing Facility	Eliminations	Combined
Current liabilities:						
Accounts payable	402,585	-	114,738	405,242	(324,742)	597,823
Construction payables	-	4,505,974	-	-	-	4,505,974
Accrued payroll	1,324,532	-	-	-	-	1,324,532
Other accrued expenses	378,524	-	-	137,854	-	516,378
Estimated third-party payor settlements	1,581,583	-	-	-	-	1,581,583
Current portion of long-term debt	104,779	289,038	-	-	-	393,817
Total current liabilities	3,792,003	4,795,012	114,738	543,096	(324,742)	8,920,107
Long-term debt, net of current portion	43,210	32,867,147	-	-	-	32,910,357
Total liabilities	3,835,213	37,662,159	114,738	543,096	(324,742)	41,830,464
Net position:						
Net investment in capital assets	10,762,806	-	-	-	-	10,762,806
Restricted						
Nonexpendable	155,000	-	-	-	-	155,000
Expendable	1,819,541	-	-	-	-	1,819,541
Unrestricted	18,505,447	-	1,956,185	(126,131)	-	20,335,501
Total net position	$ 31,242,794	$ -	$ 1,956,185	$ (126,131)	$ -	$ 33,072,848

See Report of Independent Auditors.

PERRY COUNTY MEMORIAL HOSPITAL

Combining Statement of Operations and Changes in Net Position

Year ended December 31, 2014

	District	Association	Foundation	Skilled Nursing Facility	Eliminations	Combined
Operating revenues:						
Net patient service revenue, net of provision for bad debts of $4,378,900 in 2014	$ 33,298,048	$ -	$ -	$ 1,141,412	$ -	$ 34,439,460
Other revenue	562,679	-	94,760	-	(114,738)	542,701
Total operating revenues	33,860,727	-	94,760	1,141,412	(114,738)	34,982,161
Operating expenses:						
Salaries and other wage costs	16,915,351	-	-	942,523	-	17,857,874
Supplies and other expenses	3,303,654	-	-	39,828	-	3,343,482
General and administrative expenses	1,701,919	-	-	11,557	-	1,713,476
Professional fees	2,118,241	-	-	-	-	2,118,241
Contracted services	5,937,869	-	-	7,677	-	5,945,546
Depreciation and amortization	1,039,048	-	-	-	-	1,039,048
Provider tax expense	1,670,215	-	-	-	-	1,670,215
Other expense	1,012,840	-	142,291	265,958	(114,738)	1,306,351
Total operating expenses	33,699,137	-	142,291	1,267,543	(114,738)	34,994,233
Operating (loss) income	161,590	-	(47,531)	(126,131)	-	(12,072)
Nonoperating revenue (expenses):						
Investment income	237,851	-	63,772	-	-	301,623
Interest expense	(11,552)	-	-	-	-	(11,552)
Net unrealized gains on investments	-	-	(62,407)	-	-	(62,407)
Total nonoperating revenues	226,299	-	1,365	-	-	227,664
Increase (decrease) in net position	387,889	-	(46,166)	(126,131)	-	215,592
Net position, beginning of year	30,854,905	-	2,002,351	-	-	32,857,256
Net position, end of year	$ 31,242,794	$ -	$ 1,956,185	$ (126,131)	$ -	$ 33,072,848

See Report of Independent Auditors.

Perry County Memorial Hospital

Schedule of Expenditures of Federal Awards

Year ended December 31, 2015

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Grant / Contract Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture (USDA):			
Community Facilities Loans and Grants		10.766	$ 4,580,394
Total expenditures of federal awards			$ 4,580,394

Perry County Memorial Hospital

Notes to the Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Perry County Memorial Hospital (the Hospital) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. U.S. Department of Agriculture Loan

Perry County Memorial Hospital did not provide a federal award to a subrecipient during the year ended December 31, 2015.

DEANDORTON
DEAN DORTON ALLEN FORD, PLLC

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

Report of Independent Auditors

Board of Trustees
Perry County Memorial Hospital
Tell City, Indiana

We have audited, in accordance with the 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 combined financial statements of Perry County Memorial Hospital (the Hospital), which comprise the combined balance sheet as of December 31, 2015, and the related combined statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated September 20, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control, items 2015-001 and 2015-002.

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Compliance and Other Matters

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

Hospital's Response to Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. Those responses were not subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on them.

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

Dean Dorton Allen Ford, PLLC

September 20, 2016
Louisville, Kentucky

DEAN DORTON

DEAN DORTON ALLEN FORD, PLLC

Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Report of Independent Auditors

Board of Trustees
Perry County Memorial Hospital
Tell City, Indiana

Report on Compliance for Each Major Federal Program

We have audited the compliance of Perry County Memorial Hospital (the Hospital) with the types of compliance requirements described in the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) that could have a direct and material effect on the System's major federal programs for the year ended December 31, 2015. The System's major federal programs are identified in the summary of auditors' 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 Hospital'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 the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance 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 Hospital'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 Hospital's compliance.

Opinion on Each Major Federal Program

In our opinion, the Hospital 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, 2015.

Board of Trustees
Perry County Memorial Hospital
Page 2

Report on Internal Control Over Compliance

Management of the Hospital 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 Hospital'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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Hospital'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 or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dean Dorton Allen Ford, PLLC

September 20, 2016
Louisville, Kentucky

Perry County Memorial Hospital

Schedule of Findings and Questioned Costs

Year ended December 31, 2015

Section I - Summary of Auditors' Results:

Financial Statements:

a. The type of report issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified opinion**

b. Internal control over financial reporting:
   Material weakness identified: **No**
   Significant deficiencies identified: **Yes**

c. Noncompliance which is material to the financial statements: **No**

Federal Award:

d. Internal control over major programs:
   Material weakness identified: **No**
   Significant deficiencies identified: **None Reported**

e. The type of auditor's report issued on compliance for major programs: **Unmodified opinion**

f. Any audit findings which are required to be reported under 2 CFR 200.516(a): **None noted**

g. Identification of major programs:
   USDA Community Facilities Loans and Grants, CFDA 10.766

h. Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

i. Auditee qualified as a low-risk auditee: **No**

Perry County Memorial Hospital

Schedule of Findings and Questioned Costs, continued

Year ended December 31, 2015

Section II - Financial Statement Findings:

Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards:* **2015-001, and 2015-002**

Finding 2015-001 (Repeat of 2014-001):

Condition, Effect and Recommendation:

During our review of the December 31, 2015 bank reconciliations, we noted that reconciling items were identified through the reconciliation process, but were not recorded into the general ledger timely **(Cause)** to ensure that the Hospital's cash account balances are accurately reflected in the financial statements and that the funds remain intact. This resulted in entries to accounts payable and investments.

We recommend that the both the preparer and the reviewer of the monthly cash account reconciliations evaluate any reconciling items noted and take necessary actions to ensure that they are investigated and resolved in a timely manner.

Management's Response:

Cash accounts are reconciled, with reconciling items noted, and reviewed each period. At year end for 2015, the review process was not completed timely due to an extended medical leave for the CFO. The reconciliation items were noted and the four reconciling entries were provided to auditors. Management will complete the review process more timely in the future.

Finding 2015-002:

Condition, Effect and Recommendation:

During the audit, we noted that historically the clinic accounts receivable is analyzed by third-party consultants. Hospital accounting staff records cash receipt, adjustments and charges each month. A detailed review of the accounts receivables is not completed **(Cause)**.

We recommend that a more detailed analysis of the clinic accounts receivable be developed and allowances be established for amounts determined to be uncollectible.

Management's Response:

Finance will work with the clinic management to develop a monthly process to review and evaluate the clinic accounts receivable.

Section III - Federal Award Findings and Questioned Costs

Findings and Questioned Costs relating to Federal Awards: **None noted**

Perry County Memorial Hospital

Schedule of Prior Year Findings

Year ended December 31, 2015

Finding 2014-001:

Condition, Effect, and Recommendation:

Cash Account Reconciliations

Our review of the cash account reconciliations revealed that reconciling items are not being resolved in a timely manner (**Cause**) to ensure that the Hospital's cash account balances are accurately reflected in the financial statements and that the funds remain intact.

We recommend that the both the preparer and the reviewer of the monthly cash account reconciliations evaluate any reconciling items noted and take necessary actions to ensure that they are investigated and resolved in a timely manner.

Current Year Status:

See finding 2015-001

Finding 2014-002:

Condition, Effect, and Recommendation:

Contractual and Bad Debt Allowances

Our review of the Hospital's clinics' contractual and bad debt allowances revealed there is not a consistent method for calculating, recording, and evaluating contractual and bad debt allowances (**Cause**). Using an ad-hoc method for determining these balances increases the risk that the Hospital is unable to accurately calculate net realizable value for patient accounts receivable. During the current year, this resulted in an adjustment to increase contractual allowance and decrease net patient accounts receivable.

We recommend that senior management develop a formal method for evaluating patient contractual and bad debt allowances. At a minimum, the method should include an adequate look-back period by major payers and/or by department to ensure that the Hospital's historical reimbursement trends are captured, for all combined entities. This will allow for an adequate review process by senior management so that adjustments to these allowances are accurately recorded to properly state patient accounts receivable to their net realizable value.

The review of the contractual and bad debt allowances should be incorporated into the Hospital's financial close and reporting process to ensure that these settlements are accurately captured in the Hospital's financial statements.

Finding 2014-002, continued:

Conditions, Effects, and Recommendations, continued:

The method itself should also be evaluated periodically by senior management and the Board of Trustees to account for and adjusted accordingly for changes in the Hospital's payer mix, governmental and commercial reimbursement terms, and commercial insurance contracts.

Current Year Status:

This finding was resolved in the current year.

Finding 2014-003:

Condition, Effect, and Recommendation:

Financial Statement Closing and Audit Preparation:

During the financial statement audit, we encountered several delays in receiving information and accounting records (**Cause**). The majority of the delays related to the Hospital's move to a new facility during the audit period. The original trial balance we received was not the final year-end trial balance. This was corrected later in the audit.

Current Year Status:

This finding was resolved in the current year.