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April 2, 2014

Board of Directors  
Jasper County Hospital  
1104 E. Grace Street  
Rensselaer, IN 47978

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2012 to December 31, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Jasper County Hospital, as of December 31, 2012 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 three federal findings, detailed on pages 34 through 36.

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

STATE BOARD OF ACCOUNTS



**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2012**



# JASPER COUNTY HOSPITAL

## TABLE OF CONTENTS DECEMBER 31, 2012

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	Page
<b>Report of Independent Auditors</b> .....	1
<b>Required Supplementary Information</b>	
Management's Discussion and Analysis (Unaudited) .....	i
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheet.....	4
Consolidated Statement of Revenues, Expenses and Changes in Net Position.....	5
Consolidated Statement of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	8
<b>Supplementary Information</b>	
Schedule of Expenditures of Federal Awards.....	28
<b>Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b> .....	29
<b>Report of Independent Auditors on Compliance for Each Major Federal Program and on Internal Control Over Compliance</b> .....	31
<b>Schedule of Findings and Questioned Costs</b> .....	34

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Jasper County Hospital  
Rensselaer, Indiana

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Jasper County Hospital (the Hospital), a component unit of Jasper County, Indiana, and its discretely presented component unit, which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express opinions on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

## **OPINIONS**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2012, and its results of operations, changes in net position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **CORRECTION OF ERROR**

As described in Note 2 to the consolidated financial statements, certain errors resulting in the overstatement of amounts previously reported for patient accounts receivable and net patient service revenue for 2011 were discovered by the Hospital's management during 2012. Accordingly, an adjustment has been made to the Hospital's consolidated net position as of December 31, 2011 to correct the error.

We audited the adjustments described in Note 2 that were applied to restate the Hospital's consolidated net position as of December 31, 2011. In our opinion, such adjustments are appropriate and have been properly applied.

We were not engaged to audit, review or apply any procedures to the 2011 consolidated financial statements of the Hospital other than with respect to the adjustments and, accordingly, we do not express opinions or any form of assurance on the 2011 consolidated financial statements as a whole.

## **REPORT ON REQUIRED SUPPLEMENTARY INFORMATION**

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

## **REPORT ON SUPPLEMENTARY INFORMATION**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such information is the responsibility of management, and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the

Board of Trustees  
Jasper County Hospital  
Rensselaer, Indiana

underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013 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 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.

**Blue & Co., LLC**

Indianapolis, Indiana  
December 10, 2013

**REQUIRED SUPPLEMENTARY INFORMATION**

# JASPER COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012

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This section of Jasper County Hospital's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during the year ended December 31, 2012. This MD&A does include a discussion and analysis of the activities and results of the Hospital's Discrete Component Unit, Jasper County Hospital Foundation, Inc. (the Foundation). Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

### FINANCIAL HIGHLIGHTS

- The Hospital's total assets increased approximately \$2,781,000 or 9.0% during 2012. Total liabilities increased approximately \$3,087,000 or 17.4% during 2012.
- The Hospital's net position decreased approximately \$306,000 or 2.3% in 2012.
- The Hospital reported operating income of approximately \$267,000 for 2012, representing an increase of approximately \$1,771,000 in comparison to the 2011 results.
- The Hospital added capital assets of approximately \$3,493,000 during 2012. Net additions and disposals combined with depreciation expense resulted in net capital assets increasing approximately \$2,584,000 from 2011.
- The Hospital's long-term debt increased approximately \$2,300,000 from 2011 as a result of draws on a loan with the United States Department of Agriculture (USDA) for Hospital construction.
- During 2012, the Hospital entered into an agreement to lease the operations of a long-term care facility. As a result of the lease agreement, the Hospital recognized approximately \$379,000 of additional gross patient service revenue related to long-term care.

### USING THIS ANNUAL REPORT

The Hospital's consolidated financial statements consist of three statements – a Balance Sheet; a Statement of Revenues, Expenses and of Changes in Net Position; and a Statement of Cash Flows. These consolidated financial statements and related notes provide information about the activities and the financial position of the Hospital.

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

All of the current year's revenue earned and expenses incurred are accounted for in the Consolidated Statement of Revenues, Expenses and Changes in Net Position.

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# JASPER COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012

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Finally, the purpose of the Consolidated Statement of Cash Flows is to provide information about the Hospital's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources, uses and the changes in cash and cash equivalents balance during the year.

### **THE CONDENSED BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

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

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

#### Table 1 – Condensed Balance Sheet

The significant change in the Hospital's assets was in capital assets which increased approximately \$2,584,000 in 2012 compared to 2011 as a result of additions and renovations to buildings net of depreciation expense.

The significant change in the Hospital's liabilities was the due to long-term debt which increased approximately \$2,300,000 in 2012 compared to 2011 as a result of draws on a loan with the USDA related to Hospital construction.

Net position decreased by approximately \$306,000 from 2011 through 2012. The decrease relates to expenses outpacing revenues for 2012.

# JASPER COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012

The following is a summary of the consolidated balance sheets:

	2012	(Restated) 2011	Change
<b>Assets</b>			
Current assets	\$ 9,679,671	\$ 8,972,990	\$ 706,681
Assets whose use is limited	1,988,707	2,483,878	(495,171)
Capital assets, net	21,694,966	19,111,408	2,583,558
Other assets	352,187	366,562	(14,375)
Total assets	\$ 33,715,531	\$ 30,934,838	\$ 2,780,693
<b>Liabilities</b>			
Current liabilities	\$ 5,362,293	\$ 4,575,211	\$ 787,082
Long-term debt	15,435,128	13,135,218	2,299,910
Total liabilities	20,797,421	17,710,429	3,086,992
<b>Net position</b>			
Net investment in capital assets	5,654,594	5,766,635	(112,041)
Restricted for debt service	794,207	792,469	1,738
Unrestricted	6,469,309	6,665,305	(195,996)
Total net position	12,918,110	13,224,409	(306,299)
Total liabilities and net position	\$ 33,715,531	\$ 30,934,838	\$ 2,780,693

### Table 2 – Condensed Statement of Revenues, Expenses and Changes in Net Position

The Hospital's performance in 2012 was improved with a negative return on equity of (2.3%) compared to prior year of (12.0%). Total operating revenue increased approximately \$3,733,000 as utilization of outpatient services increased. The Hospital's net patient service revenue was enhanced by approximately \$2,900,000 during 2012 through the Hospital Assessment Fee (HAF) Program which began in 2012.

Expenses increased approximately \$1,962,000 between 2011 and 2012. Salaries, wages and benefits decreased approximately \$1,453,000 due to staffing changes. Supplies expense decreased \$710,000 as cost containment was a focus during 2012. Depreciation expense increased approximately \$439,000 from 2011 due to capital asset additions from 2011 and 2012 being placed in service. Facility and equipment lease expense increased \$1,544,000 and the HAF Program, which started in 2012, increased \$1,918,000 comprising the majority of the increase in other expenses during 2012.

Nonoperating revenue (expense) changed by approximately \$388,000 mainly due to an increase in interest expense of approximately \$358,000 from 2011.

# JASPER COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012

The following is a summary of the consolidated statement of revenues, expenses and changes in net position:

	2012	(Restated) 2011	Change
<b>Operating revenue</b>			
Net patient service revenue	\$ 35,864,002	\$ 31,007,111	\$ 4,856,891
Other operating revenue	1,522,667	2,646,680	(1,124,013)
Total operating revenue	<u>37,386,669</u>	<u>33,653,791</u>	3,732,878
<b>Operating expenses</b>			
Salaries and benefits	20,311,826	21,764,887	(1,453,061)
Professional fees and contract services	3,884,559	3,850,974	33,585
Supplies	4,192,428	4,902,415	(709,987)
Depreciation and amortization	1,063,144	623,692	439,452
Other	7,667,534	4,015,411	3,652,123
Total operating expenses	<u>37,119,491</u>	<u>35,157,379</u>	1,962,112
Operating income (loss)	267,178	(1,503,588)	1,770,766
<b>Nonoperating revenue (expense), net</b>	<u>(573,477)</u>	<u>(185,066)</u>	<u>(388,411)</u>
Change in net position	(306,299)	(1,688,654)	1,382,355
<b>Net position</b>			
Beginning of year	13,224,409	14,913,063	(1,688,654)
End of year	<u>\$ 12,918,110</u>	<u>\$ 13,224,409</u>	<u>\$ (306,299)</u>

### Table 3 – Condensed Statement of Cash Flows

The final required statement is the consolidated statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as “Where did cash come from?” “What was cash used for?” and “What was the change in cash balance during the reporting period?”

Total cash and cash equivalents decreased approximately \$980,000 during 2012. Operating activities generated cash and cash equivalents of \$614,000 during 2012 mainly from improved operating income. Capital and related financing used cash and cash equivalents of \$1,588,000 during 2012 mainly as the result of expenditures for capital asset additions and debt service, net of additional long-term debt borrowings. Investing activities were consistent between years.

# JASPER COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012

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The following is a summary of cash flows for 2012 and 2011:

Cash flows	2012	(Restated)	Change
		2011	
From operating activities	\$ 613,850	\$ (294,127)	\$ 907,977
From capital and related financing activities	(1,588,033)	(73,886)	(1,514,147)
From investing activities	(6,744)	39,535	(46,279)
Change in cash and cash equivalents	<u>\$ (980,927)</u>	<u>\$ (328,478)</u>	<u>\$ (652,449)</u>

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

During 2012, the Hospital invested approximately \$3,493,000 in capital assets net of asset disposals. Accumulated depreciation increased \$910,000 net of disposals. Capital assets are comprised of the following as of December 31, 2012 and 2011:

	2012	(Restated)	Change
		2011	
Land	\$ 53,965	\$ 53,965	\$ -0-
Land improvements	1,859,740	1,859,740	-0-
Buildings and improvements	22,436,670	17,748,723	4,687,947
Equipment	7,994,975	5,952,582	2,042,393
Construction in process	-0-	3,236,853	(3,236,853)
Total capital assets	<u>32,345,350</u>	<u>28,851,863</u>	<u>3,493,487</u>
Less accumulated depreciation	<u>10,650,384</u>	<u>9,740,455</u>	<u>909,929</u>
Capital assets, net	<u>\$ 21,694,966</u>	<u>\$ 19,111,408</u>	<u>\$ 2,583,558</u>

#### Long-Term Debt and Capital Leases

The Hospital has debt outstanding with the USDA and capital lease obligations. Overall, debt and capital leases increased approximately \$2,695,000 from 2011 and 2012. More detailed information about the Hospital's long-term debt and capital leases is presented in the notes to the consolidated financial statements.

# **JASPER COUNTY HOSPITAL**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2012

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## **ECONOMIC OUTLOOK**

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services.

The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant cost factor affecting the Hospital is the increases in labor costs due to the increasing competition for quality health care workers. Uncompensated care is also a significant factor on the Hospital's margin.

## **CONTACTING HOSPITAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's financial condition. If you have any questions about this report, you may contact the Hospital's Administrative offices at 1104 East Grace Street, Rensselaer, Indiana 47978

# JASPER COUNTY HOSPITAL

## CONSOLIDATED BALANCE SHEET DECEMBER 31, 2012

<b>ASSETS</b>			
	Hospital	Foundation	Total reporting entity
<b>Current assets</b>			
Cash and cash equivalents	\$ 1,549,696	\$ 295,501	\$ 1,845,197
Investments	-0-	623,577	623,577
Patient accounts receivable, net of estimated uncollectible allowance of \$1,800,000	5,325,592	-0-	5,325,592
Inventory and other current assets	1,885,305	-0-	1,885,305
Total current assets	8,760,593	919,078	9,679,671
<b>Assets whose use is limited</b>			
Internally designated	1,194,500	-0-	1,194,500
Restricted for debt service	794,207	-0-	794,207
Total assets whose use is limited	1,988,707	-0-	1,988,707
<b>Capital assets</b>			
Land	53,965	-0-	53,965
Depreciable capital assets	32,291,385	-0-	32,291,385
Total capital assets	32,345,350	-0-	32,345,350
Less accumulated depreciation	10,650,384	-0-	10,650,384
Capital assets, net	21,694,966	-0-	21,694,966
<b>Other assets</b>			
Total assets	\$ 32,796,453	\$ 919,078	\$ 33,715,531
<b>LIABILITIES AND NET POSITION</b>			
<b>Current liabilities</b>			
Current portion of capital leases	\$ 372,408	\$ -0-	\$ 372,408
Current portion of long-term debt	232,836	-0-	232,836
Accounts payable and accrued expenses	1,803,901	-0-	1,803,901
Accrued salaries and related liabilities	2,053,148	-0-	2,053,148
Estimated third party settlements	900,000	-0-	900,000
Total current liabilities	5,362,293	-0-	5,362,293
<b>Long-term liabilities</b>			
Capital leases	997,939	-0-	997,939
Long-term debt	14,437,189	-0-	14,437,189
Total long-term liabilities	15,435,128	-0-	15,435,128
Total liabilities	20,797,421	-0-	20,797,421
<b>Net position</b>			
Net investment in capital assets	5,654,594	-0-	5,654,594
Restricted for debt service	794,207	-0-	794,207
Unrestricted	5,550,231	919,078	6,469,309
Total net position	11,999,032	919,078	12,918,110
Total liabilities and net position	\$ 32,796,453	\$ 919,078	\$ 33,715,531

See accompanying notes to consolidated financial statements.

# JASPER COUNTY HOSPITAL

## CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2012

	<u>Hospital</u>	<u>Foundation</u>	<u>Total reporting entity</u>
<b>Operating revenue</b>			
Net patient service revenue	\$ 35,864,002	\$ -0-	\$ 35,864,002
Other operating revenue	<u>1,208,275</u>	<u>314,392</u>	<u>1,522,667</u>
Total operating revenue	37,072,277	314,392	37,386,669
<b>Operating expenses</b>			
Salaries and benefits	20,311,826	-0-	20,311,826
Professional fees and contract services	3,884,559	-0-	3,884,559
Supplies	4,192,428	-0-	4,192,428
Facility and equipment leases	2,573,934	-0-	2,573,934
Insurance	584,105	-0-	584,105
HAF Program	1,917,612	-0-	1,917,612
Depreciation and amortization	1,063,144	-0-	1,063,144
Other	<u>2,283,389</u>	<u>308,494</u>	<u>2,591,883</u>
Total operating expenses	<u>36,810,997</u>	<u>308,494</u>	<u>37,119,491</u>
Operating income	261,280	5,898	267,178
<b>Nonoperating revenue (expense)</b>			
Investment income	4,618	57,518	62,136
Interest expense	(651,305)	-0-	(651,305)
Other	<u>15,692</u>	<u>-0-</u>	<u>15,692</u>
Total nonoperating revenue (expense)	<u>(630,995)</u>	<u>57,518</u>	<u>(573,477)</u>
Change in net position	(369,715)	63,416	(306,299)
<b>Net position</b>			
Beginning of year, as restated	<u>12,368,747</u>	<u>855,662</u>	<u>13,224,409</u>
End of year	<u>\$ 11,999,032</u>	<u>\$ 919,078</u>	<u>\$ 12,918,110</u>

See accompanying notes to consolidated financial statements.

# JASPER COUNTY HOSPITAL

## CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2012

	Hospital	Foundation	Total reporting entity
<b>Operating activities</b>			
Cash received from patients and third party payors	\$ 34,140,114	\$ -0-	\$ 34,140,114
Cash paid to employees for salaries and benefits	(20,875,660)	-0-	(20,875,660)
Cash paid to vendors for goods and services	(13,864,777)	(308,494)	(14,173,271)
Other operating receipts, net	1,208,275	314,392	1,522,667
Net cash from operating activities	607,952	5,898	613,850
<b>Capital and related financing activities</b>			
Acquisition and construction of capital assets	(1,722,350)	-0-	(1,722,350)
Proceeds from issuance of debt	1,942,129	-0-	1,942,129
Interest paid on debt	(651,305)	-0-	(651,305)
Principal payments on debt	(1,156,507)	-0-	(1,156,507)
Net cash from capital and related financing activities	(1,588,033)	-0-	(1,588,033)
<b>Investing activities</b>			
Purchase of investments	-0-	(84,572)	(84,572)
Investment and other nonoperating revenue (expense)	20,310	57,518	77,828
Net cash from investing activities	20,310	(27,054)	(6,744)
Change in cash and cash equivalents	(959,771)	(21,156)	(980,927)
<b>Cash and cash equivalents</b>			
Beginning of year	4,498,174	316,657	4,814,831
End of year	<u>\$ 3,538,403</u>	<u>\$ 295,501</u>	<u>\$ 3,833,904</u>
<b>Reconciliation of cash and cash equivalents to the balance sheet</b>			
Cash and cash equivalents			
In current assets	\$ 1,549,696	\$ 295,501	\$ 1,845,197
In noncurrent cash	1,988,707	-0-	1,988,707
Total cash and cash equivalents	<u>\$ 3,538,403</u>	<u>\$ 295,501</u>	<u>\$ 3,833,904</u>

See accompanying notes to consolidated financial statements.

# JASPER COUNTY HOSPITAL

## CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2012

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	<u>Hospital</u>	<u>Foundation</u>	<u>Total reporting entity</u>
<b>Reconciliation of operating income to net cash from operating activities</b>			
Operating income	\$ 261,280	\$ 5,898	\$ 267,178
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization	1,063,144	-0-	1,063,144
Bad debts	3,481,440	-0-	3,481,440
Changes in assets and liabilities			
Patient accounts receivable	(3,987,716)	-0-	(3,987,716)
Inventory and other current assets	(601,589)	-0-	(601,589)
Accounts payable and accrued expenses	255,227	-0-	255,227
Accrued salaries and related liabilities	(563,834)	-0-	(563,834)
Estimated third party settlements	700,000	-0-	700,000
Net cash flows from operating activities	<u>\$ 607,952</u>	<u>\$ 5,898</u>	<u>\$ 613,850</u>
<b>Supplementary disclosure of cash flows information</b>			
Capitalized interest recorded as capital asset addition	\$ 64,929	\$ -0-	\$ 64,929
Capital assets acquired through capital leases	\$ 1,909,977	\$ -0-	\$ 1,909,977

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See accompanying notes to consolidated financial statements.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

Jasper County Hospital (the Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient, outpatient and long-term health care. The Board of County Commissioners of Jasper 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 Jasper County Indiana (the County).

The consolidated financial statements of Hospital are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial position of the County as of December 31, 2012 and the changes in its financial position or its cash flows for the year then ended.

#### Discrete Component Units

Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the consolidated financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Jasper County Foundation, Inc. (the Foundation) is considered a discrete component unit for reporting purposes. All significant transactions between the Hospital and the Foundation have been eliminated for financial reporting purposes. The financial statements of the Foundation may be obtained from the Treasurer's office at 1104 East Grace Street, Rensselaer, Indiana 47978.

#### Long-Term Care Services

The Hospital owns the operations of a long-term care facility through an arrangement with a manager (the Manager) of the long-term care facility. The facility provides inpatient and therapy services. Generally, gross revenues from the operations of the facility are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

The Hospital entered into a lease agreement with the long-term care facility, referred to as the Lessor, to lease the facility managed by the Manager. Concurrently, the Hospital entered into an agreement with the Manager to manage the above leased facility. As part of the agreement, the Hospital pays the Manager a management fee to

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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manage the facility on behalf of the Hospital in accordance with the terms of the agreement. The agreements expire in October of 2014. The terms of the agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice. While the management and related agreements are in effect, the performance of all activities of the Manager shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facility.

### Use of Estimates

The preparation of the consolidated financial statements include only the financial position, results of operations, changes in net position and cash flows of the Hospital in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Enterprise Fund Accounting

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

### Accounting Standards

During 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position, changes in net position or financial reporting disclosures.

Also during 2012, the Hospital adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This change resulted in renaming net assets to net position within the consolidated financial statements. GASB No. 63 has been applied retrospectively in the accompanying consolidated financial statements.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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### Cash and Cash Equivalents and Consolidated Statements of Cash Flows

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less. The Hospital maintains its cash in accounts, which at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

### Investments

Investments consist of mutual funds held by the Foundation. Investments are stated at fair value in the consolidated financial statements. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenues (expenses) in the consolidated statement of revenues, expenses and changes in net position.

### Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2009 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2010 through 2012 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2012, the Hospital recognized an increase of approximately \$50,000 in net patient service revenue in the consolidated statement of revenues, expenses and changes in net position due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies. Patient charges under these programs, on which no interim payments have been received, are included in patient accounts receivable at the estimated net realizable value of such charges.

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

### Inventory and Other Current Assets

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory consists of medical supplies and pharmaceuticals. Other current assets consist of other receivables and various other current items related to long-term care operations. These assets are classified as current as they are expected to be utilized during 2013.

### Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes such as funded depreciation and investments restricted for debt service. These investments consist of cash and cash equivalents. Investment income is reported as nonoperating revenue in the consolidated statement of revenues, expenses and changes in net position.

### Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at historical cost. Contributed or donated assets are reported at estimated fair value at the time received. Capital assets under capital lease obligations are 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 consolidated financial statements.

The capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) is \$2,500 per item. Depreciation is calculated on the straight-line method over the estimated useful lives of capital assets which range from 5-40 years. A mid-year convention is used for calculating depreciation of capital assets. For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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### Other Assets

Other assets consist of goodwill resulting from an acquisition of a health care entity in 1997. Goodwill is amortized over 40 years. The original cost of the goodwill was approximately \$575,000. Accumulated amortization of approximately \$223,000 has been recorded for a net carry value of approximately \$352,000 as of December 31, 2012. The Hospital expects to recognize amortization expense of approximately \$14,000 annually over the remaining life of the goodwill.

### Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. During 2012, capitalized interest approximated \$65,000.

### Net Position

The net position of the Hospital is classified into three components. Net investment in capital assets represents 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 the assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. Unrestricted net position is the remaining assets that do not meet the definition of invested in capital assets net of related debt or restricted.

### Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Hospital's consolidated statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonoperating revenue includes contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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### Grants and Contributions

From time to time, the Hospital receives 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 revenue. Amounts, if any, restricted to capital acquisitions are reported as nonoperating revenue and expense.

### Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because the Hospital does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue.

Of the Hospital's total expenses reported of approximately \$37,119,000, an estimated \$84,000 arose from providing services to charity patients. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses including interest expense divided by gross patient service revenue.

### Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30).

The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports. For Critical Access Hospitals, the payment calculation is based upon the net book value of the qualifying assets multiplied by the Medicare utilization using Medicare to total inpatient days plus 20%, not to exceed 100%. The total days are multiplied by a factor of total charges excluding charity care to total charges. Critical Access Hospitals can be reimbursed over a four year period for additional qualifying assets not claimed in the first year. The transitional factor ranges from 100% in first payment year and decreases by 25% each payment year until it is completely phased out in the fifth year.

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# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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The Hospital recognizes EHR incentive payments as grant income, under the ratable recognition method, when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific contract requirements. In addition, the consolidated financial statement effects of the revenue must be both recognizable and measurable. During 2012, the Hospital recognized approximately \$217,000 in EHR incentive payments as grant income. EHR incentive revenue is included in other operating revenue in the consolidated statement of revenues, expenses and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

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

### Advertising and Community Relations

The Hospital expenses advertising and community relations costs as they are incurred. Total advertising and community relations expense for 2012 was approximately \$70,000.

### Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick and vacation leaves. The estimated amount of unused time off is reported as a liability within the accrued salaries and related liabilities on the consolidated balance sheet.

### Income Taxes

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

The Foundation is a tax-exempt organization under Internal Revenue Code 501(c)(3). As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and Foundation and recognize a tax liability if these organizations have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and the Foundation and has concluded that as of December 31, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements.

The Foundation has filed its federal and state income tax returns for periods through December 31, 2012. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions). The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

### Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

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

### Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is December 10, 2013.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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### 2. RESTATEMENT

The net position as of December 31, 2011 has been restated to reflect a correction in the Hospital's recorded net realizable value of patient accounts receivable. As a result of management's review of its methodology to estimate the net realization of patient accounts receivable, management determined that valuation allowances did not sufficiently incorporate historical collections against certain patient charges. The net realizable value of the Hospital's patient accounts receivable was overstated by approximately \$775,000 as of December 31, 2011. As such, the Hospital's net position as of December 31, 2011 was restated from approximately \$13,999,000 to \$13,224,000. The restatement also reduced previously reported 2011 change in net position by approximately \$57,000 from \$(1,631,000) to \$(1,688,000).

### 3. INVESTMENTS

Investments consist of mutual funds report at fair value of approximately \$624,000 as of December 31, 2012.

### 4. ASSETS WHOSE USE IS LIMITED

Assets whose is limited consist of cash and cash equivalent and are designated as follows:

Internally designated - Amounts transferred by the Hospital's Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by IC 16-22-3-13.

Restricted for debt service - Hospital funds deposited with a trustee and limited as to use in accordance with the requirements of a trust indenture for debt service.

### 5. DEPOSITS AND INVESTMENTS

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

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

As of December 31, 2012, the Hospital, through the Foundation, had the following investments and maturities, all of which were held in the Foundation's name by custodial banks that are agents of the Foundation:

	December 31, 2012				
	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 623,577	\$ 623,577	\$ -0-	\$ -0-	\$ -0-

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

*Credit risk* – Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the U.S. Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

*Concentration of credit risk* – The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits consist of the following as of December 31, 2012:

Carrying amount	
Deposits	\$ 3,833,904
Investments	623,577
	<u>\$ 4,457,481</u>
Included in the balance sheet captions	
Cash and cash equivalents	\$ 1,845,197
Investments	623,577
Internally designated	1,194,500
Restricted for debt service	794,207
	<u>\$ 4,457,481</u>

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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### 6. FAIR VALUE MEASUREMENTS

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2012.

- *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 and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments				
Mutual funds				
Mid cap	\$ 48,922	\$ 48,922	\$ -0-	\$ -0-
Large cap	150,942	150,942	-0-	-0-
International and global	234,653	234,653	-0-	-0-
Intermediate government	132,889	132,889	-0-	-0-
Fixed income	56,171	56,171	-0-	-0-
Total investments	<u>\$ 623,577</u>	<u>\$ 623,577</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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

Realized gains (losses) are included in earnings are reported in the consolidated statement of revenues, expenses and changes in net position as a component of investment income. There were no realized gains (losses) recorded in 2012. Gains of approximately \$57,000 included in earnings for 2012 are attributable to the change in unrealized gains relating to assets held as of December 31, 2012 and are reported in the consolidated statement of revenues, expenses and changes in net position as a component of investment income.

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

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

### 7. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital consisted of the following amounts as of December 31, 2012:

Patient accounts receivable	
Receivable from patients and insurance carriers	\$ 5,798,326
Receivable from Medicare	2,328,623
Receivable from Medicaid	<u>692,188</u>
Total patient accounts receivable	8,819,137
Less allowances for contractual agreements and uncollectible amounts	<u>3,493,545</u>
Patient accounts receivable, net	<u><u>\$ 5,325,592</u></u>
Accounts payable and accrued salaries	
Payable to employees and related liabilities	\$ 2,053,148
Payable to suppliers and others	<u>1,803,901</u>
Total accounts payable and accrued salaries	<u><u>\$ 3,857,049</u></u>

### 8. CAPITAL ASSETS

Capital asset activity for 2012 is as follows:

	Balance December 31, 2011	Additions	Retirements	Transfers	Balance December 31, 2012
Land	\$ 53,965	\$ -0-	\$ -0-	\$ -0-	\$ 53,965
Land improvements	1,859,740	-0-	-0-	-0-	1,859,740
Buildings and improvements	17,748,723	30,343	-0-	4,657,604	22,436,670
Equipment	5,952,582	2,157,289	(138,840)	23,944	7,994,975
Construction in process	<u>3,236,853</u>	<u>1,444,695</u>	<u>-0-</u>	<u>(4,681,548)</u>	<u>-0-</u>
Total	28,851,863	3,632,327	(138,840)	-0-	32,345,350
Accumulated depreciation	<u>9,740,455</u>	<u>1,048,769</u>	<u>(138,840)</u>	<u>-0-</u>	<u>10,650,384</u>
Net capital assets	<u><u>\$19,111,408</u></u>	<u><u>\$ 2,583,558</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$21,694,966</u></u>

There were no significant remaining outstanding commitments for capital assets as of December 31, 2012.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

### 9. LONG-TERM DEBT

During 2010, the Hospital entered into a long-term debt arrangement with the United States Department of Agriculture (USDA) in order to finance a construction/renovation project primarily related to the Hospital's main building. The construction/renovation project was completed during 2012. The USDA loan matures in 2050, is due in semi-annual installments of approximately \$392,500 with fixed interest rate of 4.125%, secured by Hospital revenues.

The Hospital also has capital lease obligations with interest rates ranging from 4% to 12% executed for property and equipment and are due at various times through 2016. Amounts are due in monthly installments ranging from approximately \$2,000 to \$12,000, including interest and are collateralized by equipment with net book values of approximately \$1,478,000 as of December 31, 2012.

Notes payable, due in March 2013, bear interest at 6.3% and are unsecured.

A schedule of changes in the Hospital's long-term debt for 2012 follows:

	Balance December 31, 2011	Additions	Payments	Balance December 31, 2012	Current portion
USDA loan payable	\$13,187,129	\$ 1,582,060	\$ (164,000)	\$14,605,189	\$ 168,000
Notes payable	2,403	360,069	(297,636)	64,836	64,836
Capital leases	155,241	1,909,977	(694,871)	1,370,347	372,408
Total long-term debt	<u>\$13,344,773</u>	<u>\$ 3,852,106</u>	<u>\$ (1,156,507)</u>	<u>\$16,040,372</u>	<u>\$ 605,244</u>

Scheduled principal and interest payments on long-term debt are as follows:

Year Ending December 31,	Principal			Total Principal	Interest	Total
	USDA	Notes Payable	Capital Leases			
2013	\$ 168,000	\$ 64,836	\$ 372,408	\$ 605,244	\$ 663,590	\$ 1,268,834
2014	178,000	0-	408,355	586,355	638,073	1,224,428
2015	186,000	0-	382,642	568,642	611,465	1,180,107
2016	192,000	0-	206,942	398,942	583,331	982,273
2017	200,000	0-	0-	200,000	570,457	770,457
2018-2022	1,137,000	0-	0-	1,137,000	2,719,631	3,856,631
2023-2027	1,397,000	0-	0-	1,397,000	2,462,107	3,859,107
2028-2032	1,710,000	0-	0-	1,710,000	2,145,864	3,855,864
2033-2037	2,098,000	0-	0-	2,098,000	1,758,609	3,856,609
2038-2042	2,572,000	0-	0-	2,572,000	1,283,594	3,855,594
2043-2047	3,155,000	0-	0-	3,155,000	700,979	3,855,979
2048-2050	1,612,189	0-	0-	1,612,189	91,863	1,704,052
	<u>\$14,605,189</u>	<u>\$ 64,836</u>	<u>\$ 1,370,347</u>	<u>\$16,040,372</u>	<u>\$14,229,563</u>	<u>\$30,269,935</u>

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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The cost and accumulated depreciation of assets under capital leases included in property and equipment as of December 31, 2012 are as follows:

Equipment	\$ 1,693,222
Accumulated depreciation	<u>(214,849)</u>
	<u>\$ 1,478,373</u>

### 10. OPERATING LEASES

The Hospital has multiple operating leases expiring at various times through 2017. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating expense as incurred. Total facility and equipment lease expense, including cancelable and non-cancelable leases, for 2012 was approximately \$2,544,000. Minimum lease payments operating leases for the years ending subsequent to December 31, 2012 are as follows:

<u>Year Ending December 31,</u>	
2013	\$ 2,190,763
2014	458,489
2015	190,160
2016	112,068
2017	<u>61,181</u>
	<u>\$ 3,012,661</u>

Lease expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$30,000 for 2012.

### 11. PATIENT SERVICE REVENUE

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

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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### Medicare

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

### Medicaid and the Hospital Assessment Fee Program

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

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

During 2012, the Hospital recognized HAF Program expense of approximately \$1,900,000 which resulted in Medicaid rate increases of approximately \$2,900,000. The HAF Program expense is included in expenses in the consolidated statement of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the consolidated statement of revenues, expenses and changes in net position.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$410,000 during 2012. These programs are administered by the State of Indiana, but rely on Federal funding.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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### Other Payors

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

Net patient service revenue for 2012 consists of the following:

Inpatient services	\$ 12,114,541
Outpatient services	40,964,912
Long-term care services	<u>379,303</u>
Gross patient service revenue	53,458,756
Contractual allowances	13,994,929
Bad debts	3,481,440
Charity care	<u>118,385</u>
Deductions from revenue	<u>17,594,754</u>
Net patient service revenue	<u><u>\$ 35,864,002</u></u>

## 12. EMPLOYEE HEALTH PLAN

The Hospital is self-insured for employee health claims. The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees. An excess policy through commercial insurance covers individual claims in excess of \$80,000 per year with an overall aggregate of approximately \$3,700,000.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNR).

Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors. Health insurance expense for 2012 was approximately \$2,746,000.

Changes in IBNR for 2012 are as follows:

Unpaid claims, beginning of year	\$ 361,581
Incurred claims and changes in estimates	2,745,810
Claim payments	<u>(2,789,889)</u>
Unpaid claims, end of year	<u><u>\$ 317,502</u></u>

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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### 13. RISK MANAGEMENT

The Indiana Medical Malpractice Act (the Act) provides for a maximum recovery of \$1,250,000 per claim (\$7,500,000 annual aggregate) for professional liability, \$250,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. The Hospital is insured against medical malpractice claims under a claims-made basis policy, whereby claims resulting from incidents that occur and are reported to the insurance carrier during the policy term are covered. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$250,000 or aggregate claims exceeding \$5,000,000, for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$5,000,000 of coverage.

### 14. CONCENTRATIONS OF CREDIT RISK

The Hospital is primarily located in Rensselaer, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable and gross patient revenues from self-pay and third party payors as of and for the year ended December 31, 2012 was as follows:

	<u>Receivables</u>	<u>Revenue</u>
Medicare and Medicaid	28%	59%
Blue Cross	10%	15%
Commercial and other payors	23%	17%
Self-pay payors	39%	9%
	<u>100%</u>	<u>100%</u>

### 15. PENSION PLAN

#### Plan Description

The Hospital has a defined contribution pension plan for employees that meet certain eligibility requirements. The Plan provides retirement benefits to plan members. The Plan was established by written agreement between the Board of Trustees and the Plan administrator. Reports of the plan are available by contacting the Hospital's accounting department.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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### Funding Policy

The contribution requirements of Plan members are established by the written agreement between the Board of Trustees and the Plan administrator. Plan members are not required to contribute to the Plan. The current employer contribution rate is 2.5% of an eligible employee's first \$50,000 in wages and 5.0% on all wages above \$50,000 up to the maximum allowed by the Internal Revenue Service. Pension expense for 2012 was approximately \$327,000.

### **16. COMMITMENTS AND CONTINGENCIES**

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

### **17. UPCOMING GASB PRONOUNCEMENTS**

Management has not currently determined what, if any, effects of implementation of the following statement may have on the consolidated financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012, is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

# JASPER COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

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### **18. MANAGEMENT'S CONSIDERATION OF GOING CONCERN**

As shown in the accompanying consolidated financial statements, The Hospital incurred a decrease in net position of approximately \$307,000 and a decrease in cash and cash equivalents of approximately \$981,000 during 2012. Furthermore, net position decreased by approximately \$4,000,000 over the 2 year period from January 1, 2010 through December 31, 2011. These factors create an uncertainty about the Hospital's ability to continue as a going concern. Management implemented several initiatives to mitigate these financial conditions during 2012. As a result, operating income was approximately \$267,000 in 2012 compared to a restated operating loss of approximately \$1,504,000 in 2011. These initiatives include implementation of programs to increase overall utilization including long-term care, revenue enhancement strategies, development of medical staff and reduction and control of certain expenditures as deemed appropriate. The ability of the Hospital to continue as a going concern is dependent on the plan's success. The consolidated financial statements do not include any adjustments that might be necessary if the Hospital is unable to continue as a going concern.

**SUPPLEMENTARY INFORMATION**

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# JASPER COUNTY HOSPITAL

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>Major program</b>			
Department of Agriculture ARRA - Community Facilities Loans and Grants	10.780	Not available	\$ 1,582,060
<b>Non-major programs</b>			
Department of Justice Crime Victim Assistance Funds passed through the Indiana Criminal Justice Institute	16.575	Not available	22,824
Department of Health and Human Services Small Rural Hospital Improvement Grant Program Funds passed through the Indiana State Department of Health	93.301	Not available	9,211
Department of Health and Human Services National Bioterrorism Hospital Preparedness Program Funds passed through the Indiana Department of Homeland Security	93.889	Not available	<u>13,242</u>
Total non-major programs			<u>45,277</u>
Total federal expenditures			<u><u>\$ 1,627,337</u></u>

### **BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hospital under programs of the federal government for 2012. 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*. The basic consolidated financial statement classifications may include other financial activity for reporting purposes. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

### **LOANS OUTSTANDING**

The Hospital had the following loan balances, with continuing federal compliance requirements, outstanding as of December 31, 2012.

Program Title	Federal CFDA Number	Amount Outstanding
Community Facilities Loans and Grants	10.780	<u><u>\$ 14,605,189</u></u>

See Report of Independent Auditors on pages 1 through 3.



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REPORT OF INDEPENDENT AUDITORS 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

Board of Trustees  
Jasper County Hospital  
Rensselaer, Indiana

**REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources, issued by the Indiana State Board of Accounts, the consolidated financial statements of Jasper County Hospital (the Hospital), a component unit of Jasper County, Indiana, and its discretely presented component unit, which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 10, 2013.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the consolidated 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 consolidated 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.

Our consideration of internal control 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described 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 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 Hospital's consolidated 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 2012-01 and 2012-02 to be material weaknesses.

Board of Trustees  
Jasper County Hospital  
Rensselaer, Indiana

A significant deficiency is a deficiency, or 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.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Hospital's consolidated 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*.

## **THE HOSPITAL'S RESPONSES TO FINDINGS**

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the consolidated 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

**Blue & Co., LLC**

Indianapolis, Indiana  
December 10, 2013



Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282  
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

## REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

Board of Trustees  
Jasper County Hospital  
Rensselaer, Indiana

### REPORT ON COMPLIANCE FOR EACH FEDERAL PROGRAM

We have audited Jasper County Hospital's (the Hospital) compliance 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 the Hospital's major federal programs for the year ended December 31, 2012. The Hospital's major federal program is 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 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 *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 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, 2012.

## **OTHER MATTERS**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-03. Our opinion on each major federal program is not modified with respect to this matter.

The Hospital's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **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 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 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. 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.

Board of Trustees  
Jasper County Hospital  
Rensselaer, Indiana

**PURPOSE OF THIS REPORT**

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.

*Blue & Co., LLC*

Indianapolis, Indiana  
December 10, 2013

# JASPER COUNTY HOSPITAL

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED DECEMBER 31, 2012

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### Summary of Auditor's Results

#### *Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  X  yes   no

Significant deficiency(ies) identified that are not considered to be material weakness(es)?   yes  X  none noted

Noncompliance material to financial statements noted?   yes  X  no

#### *Federal Awards*

Internal controls over major programs:

Material weakness(es) identified?   yes  X  no

Significant deficiency(ies) identified that are not considered to be material weakness(es)?   yes  X  none noted

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?   yes  X  no

Identification of major program:

CFDA Number  
10.780

Name of Federal Program or Cluster  
ARRA - Community Facilities  
Loans and Grants

Dollar threshold used to distinguish between type A and B programs: \$300,000

Auditee qualified as low-risk auditee?  X  yes   no

### **SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS:**

#### 2012-01 - Material weakness related to the valuation of patient accounts receivable:

*Criteria* – Management is responsible for establishing and maintaining effective internal control over financial reporting.

*Condition* – The consolidated financial statements were restated to reflect a correction in the Hospital's recorded net realizable value of patient accounts receivable.

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# JASPER COUNTY HOSPITAL

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED DECEMBER 31, 2012

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*Context* – A strong internal control environment requires an understanding and application of accounting principles generally accepted in the United States of America and oversight including the determination of net realizable value for reporting patient accounts receivable.

*Effect* - Potential material misstatements in the consolidated financial statements due to error or fraud could occur and not be prevented or detected and corrected in a timely manner.

*Cause* – The cause of this deficiency relates to oversight, review and approval processes which were not consistently in place during the period to determine the net realizable value for patient accounts receivable.

*Recommendation:* We recommend management implement procedures to review the accuracy and overall valuation of patient accounts receivable on a timely basis.

*Views of Responsible Officials and Planned Corrective Actions:* The Hospital agrees with the finding 2012-01 and has implemented procedures to assess the net realizable value of patient accounts receivable on a timely basis.

### 2012-02 – Material weakness related to segregation of duties:

*Criteria* – Management is responsible for establishing and maintaining effective internal control over financial reporting.

*Condition* – With limited personnel resources in the Hospital's accounting department, maintaining segregation of duties in key accounting functions is restricted in assessing and reviewing key financial statement accounts.

*Context* – A strong internal control environment requires adequate review and oversight of processes and procedures in the Hospital's key transaction cycles.

*Effect* - Potential material misstatements in the consolidated financial statements due to error or fraud could occur and not be prevented or detected and corrected in a timely manner.

*Cause* – The cause of this deficiency relates to limited personnel resources to provide oversight, review and approval of processes in the Hospital's key transaction cycles.

*Recommendation:* We recommend management review available personnel resources in conjunction with the procedures in the Hospital's key transaction cycles to strengthen and improve segregation of duties to promote cross training and additional compensating controls.

*Views of Responsible Officials and Planned Corrective Actions:* The Hospital agrees with the finding 2012-02 and is assessing the resources available in the accounting department to strengthen segregation of duties.

# JASPER COUNTY HOSPITAL

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED DECEMBER 31, 2012

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### **SECTION III – FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS:**

#### 2012-03 – Submission of the single audit reporting package.

*Criteria* – The single audit reporting package is due to the Federal Audit Clearinghouse within nine months after year end.

*Condition* – The single audit reporting package was not submitted within this timeframe.

*Questioned costs* - \$--

*Context* – Single audit requirements direct the grant recipient to comply with the filing requisites.

*Effect* - The single audit reporting package was not submitted to the Federal Audit Clearinghouse within the timeframe which resulted in an instance of noncompliance.

*Cause* – Due to the timing of the financial statement audit, the single audit reporting package was not submitted to the Federal Audit Clearinghouse within the timeframe.

*Recommendation* – We recommend the Hospital file the single audit reporting package with the Federal Audit Clearinghouse.

*Views of Responsible Officials and Planned Corrective Actions* – Management understands the due date for single audit reporting package submission to the Federal Audit Clearinghouse and will file the single audit reporting package as soon as possible.

### **SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS:**

None reported