

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

PERRY COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF
PERRY COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
10/03/2013

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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chief Executive Officer	Joseph Stuber	01-01-12 to 12-31-13
Treasurer	Kathy Clayton (Vacant) Earl Wolff (Interim)	01-01-12 to 03-25-13 03-26-13 to 04-29-13 04-30-13 to 12-31-13
Chairman of the Hospital Board	John B. Land	01-01-12 to 12-31-13
President of the Board of County Commissioners	William Amos Tom Hauser	01-01-12 to 12-31-12 01-01-13 to 12-31-13



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE PERRY COUNTY MEMORIAL HOSPITAL, PERRY COUNTY, INDIANA

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Perry County Memorial Hospital (Hospital), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Hospital as of December 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Matters

Required Supplementary Information

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



Bruce Hartman
State Examiner

June 26, 2013

Management's Discussion and Analysis Perry County Memorial Hospital

Our discussion and analysis of Perry County Memorial Hospital's (PCMH) financial performance provides an overview of PCMH's financial activities for the fiscal year ended December 31, 2012. Please read it in conjunction with PCMH's financial statements and accompanying notes to the financial statements.

Using This Annual Report

This annual report consists of two parts—Management's Discussion and Analysis, and the Basic Financial Statements.

In the "Management Discussion and Analysis" section of this report the management of the hospital discusses various components of the annual report and provides an analysis of the current financial statement information.

The "Basic Financial Statement" section of this report includes a series of financial statements that provide information about the activities of PCMH as a whole. The Statement of Net Position reveals the assets and liabilities of PCMH on December 31, 2012 while the Statement of Revenues, Expenses, and Changes in Net Position summarize the changes in the assets and liabilities for the year then ended. The Statement of Cash Flows summarizes the change in cash and cash equivalents as a result of the financial activity during the year. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

Financial Highlights

With increases in net patient revenues and other operating revenues, fiscal year 2012 was an improved fiscal year when compared to 2011. The following report represents changes in hospital operations as follows:

- Acute Care Discharges decreased 6.2%
- Patient Days decreased 5.8%
- Net Patient Revenue increased by 4.1%.
- Total Margin was 3.67%
- PCMH invested \$1,293,761 for Capital Equipment, Land, and Improvements in 2012
- Maximum Annual Debt Service coverage increased to 5.24.
- Cash Not Restricted for Debt Service of \$13,985,217 is strong at 150.4 days cash on hand.

- During the year, PCMH made the following significant Capital Expenditures:
 - Sterrad Nx Sterilizer (\$46,444)
 - Steris Chemical Sterilant (\$20,049)
 - Electronic Health Record Software (\$174,995)
 - Radiology Work Station (\$25,398)
 - Video Colon scope (\$29,815)
 - Video Gastro scope (\$29,553)
 - Information System Upgrades (\$525,832)
 - ER Diagnostic Information System (340,030)

Utilization

Total Inpatient Services have increased in revenue on a mixed change in volumes. Swing Bed revenues were up, but Swing Bed days have decreased. Acute Care Discharges have decreased 6.19% from 2011 with Average Length of Stay at 3.3 days and Acute Care Days have decreased by 5.84% from 2011.

Perry County Memorial experienced both increases and decreases in volumes in several areas during 2012. Home Health Visits have increased 64%; Emergency Room Visits were flat and EMS volumes decreased 3%. Outpatient Visits saw an increase of 14% while Physical Therapy and Occupational Therapy saw increases of 23% and 62% respectively. Laboratory saw an increase of 3%. Imaging Procedures decreased 1%; Respiratory Therapy Treatments have decreased 10%, and Surgical Operations have decreased by 3%.

Sources of Revenue

PCMH receives a significant portion of its revenues from government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs are 57.9% of gross revenues in 2012, down from 59.8% in 2011.

	<u>2012</u>	<u>2011</u>
Medicare	44.8%	46.5%
Medicaid	13.2%	13.3%
Commercial	30.3%	30.5%
Private	11.7%	9.7%

Legislative changes continue to limit or reduce the levels of payments from these programs. The Hospital elected to be designated as a Critical Access Hospital effective July 1, 2004. Under this designation Medicare Services have been reimbursed at 101% of reasonable costs. The Indiana Medicaid Managed Care program has also had an impact on reimbursement and contractual allowance.

Operating Results

PCMH's Financial Operations resulted in a 1.88% Operating Margin. This is an increase from prior year of 1.73%. This was related to receipt of Electronic Health Record reimbursement from both the Medicare and Medicaid programs and an increase in net patient revenue. PCMH's Net Income was \$1,307,897 with a

Total Margin of 3.67%, and Investment Earnings of \$682,311. This includes the Foundation Endowment and Memorial Fund Earnings.

Operating Expenses of \$34,932,995 increased \$2,148,421 or 6.5% while revenues increased by 4.07% from prior year. Salaries and Benefits increased \$771,586 which related to an annual cost of living increase along with staffing adjustments in Home Health, Laboratory, Radiology, Respiratory Therapy and Physician Practices. Medical Fees decreased \$261,672. Medical supply costs decreased \$513,954, Contracted Services in Nursing, Lab, Physical Therapy, Occupational Therapy, Pharmacy, Administration and Physician Practices increased \$641,853, and Other Expenses increased \$187,120.

Balance Sheet

Hospital Operating Cash and Investments decreased \$3,191,508 during the year. This was due to a significant investment in our capital equipment needs and continued investment for a new building project.

Accounts Receivable Days of 78.9 were over prior year of 70.0 days.

Long Term Debt to Capitalization Ratio is extremely favorable at 3.43% compared to the S&P-BBB of 40.20%. This reflects PCMH's strong Balance Sheet.

Cash Flows to Liabilities percentage experienced a change in 2012 to 51.10% compared to prior year of 36.81%. This is favorable when compared to the S&P-BBB of 14.4%.

Cash to Long Term Debt Ratio remains extremely favorable as Cash and Investments exceed Long-Term Debt Ratio is 1,180.12% (S&P-BBB 97.0%).

Capital Assets

At the end of 2012 PCMH had approximately \$13,457,993 invested in Capital Assets. This represents a net increase of \$13,075 that consists of \$1,293,761 in new Capital Purchases; Less: Assets retired for disposal or trade -in, \$90,068, an increase in Accumulated Depreciation by \$1,048,131 and a decrease in CIP in the amount of \$142,487. Capital Assets consist of:

	<u>2012</u>	<u>2011</u>
Land	\$2,945,631	\$2,945,631
Land Improvements	\$1,494,906	\$1,494,906
Buildings	\$10,365,854	\$10,365,854
Equipment	\$15,071,707	\$13,868,014
Total	<u>\$29,878,098</u>	<u>\$28,674,405</u>
Less: Accumulated		
Depreciation	(\$20,120,903)	(\$19,072,772)
Subtotal	<u>\$9,757,195</u>	<u>\$9,601,633</u>
Construction-In-Progress	\$3,700,778	\$3,843,265
Capital Assets	<u><u>\$13,457,973</u></u>	<u><u>\$13,444,898</u></u>

Debt: Loans and Capital Leases outstanding consisted of:

	<u>2012</u>	<u>2011</u>
Capital Leases	\$101,183	\$148,172
Mortgages Payable	\$795,586	\$939,862
Loan Payable	\$739,089	\$1,345,081
Total Debt	<u>\$1,635,858</u>	<u>\$2,433,115</u>

Currently Known Facts, Decisions or Conditions

The following facts, decisions or conditions are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets) in fiscal year 2013 and beyond. The federal government reduced Medicare payments to Perry County Memorial Hospital by 2% effective April 1, 2013. The reduction (sequestration) is expected to continue until such time that a budget is approved by Congress.

In 2013 Perry County Memorial Hospital has been approved by the United States Department of Agriculture (USDA) for a long term loan that will result in the construction of a replacement hospital facility within Perry County Indiana. Consequently, the financial statements will reflect this loan as well as the assets beginning in fiscal year 2013.

Implementation of the Affordable Care Act will begin to take effect on January 1, 2014. The financial implications associated with this implementation are unknown at this time, but may have a significant effect on accounts receivable, net patient revenue and operating expenses.

The Management Discussion and Analysis complies with the provisions of GASB 62 and GASB 63.

PERRY COUNTY MEMORIAL HOSPITAL

Management Discussion and Analysis

Summarized Financial Statement Information related to the hospital activities for the last 2 years

Statement of Revenues, Expenses and Changes in Net Position

	2012	2011	Increase Decrease
PATIENT REVENUES:			
<i>Inpatient Services</i>	\$20,756,793	\$19,353,709	\$1,403,084
<i>Outpatient Services</i>	55,399,747	49,878,966	5,520,781
<i>Total Patient Revenue</i>	<u>76,156,540</u>	<u>69,232,675</u>	<u>6,923,865</u>
DEDUCTIONS FROM REVENUE:			
<i>Contractual Provision</i>	36,830,209	33,448,271	3,381,938
<i>Charity and Uncompensated Care</i>	8,374,517	6,043,141	2,331,376
<i>Net Patient Revenue</i>	<u>30,951,814</u>	<u>29,741,263</u>	<u>1,210,551</u>
<i>Other Operating Revenue</i>	4,649,148	3,409,301	1,239,847
<i>Net Operating Revenue</i>	<u>35,600,962</u>	<u>33,150,564</u>	<u>2,450,398</u>
OPERATING EXPENSES:			
<i>Salaries & benefits</i>	16,734,903	15,963,317	771,586
<i>Medical professional Fees</i>	1,956,292	2,217,964	-261,672
<i>Medical supplies and drugs</i>	2,670,171	3,184,125	-513,954
<i>Insurance</i>	409,253	410,018	-765
<i>Other supplies</i>	962,067	1,056,833	-94,766
<i>IN hospital assessment fee</i>	1,564,371	0	1,564,371
<i>Food</i>	149,291	166,996	-17,705
<i>Utilities</i>	577,077	552,446	24,631
<i>Depreciation and amortization</i>	1,138,090	1,176,543	-38,453
<i>Contracted services</i>	4,427,717	3,785,864	641,853
<i>Service agreements</i>	1,072,846	916,103	156,743
<i>Repair and maintenance</i>	67,406	131,535	-64,129
<i>Other expenses</i>	3,203,511	3,016,391	187,120
<i>Total Expenses</i>	<u>34,932,995</u>	<u>32,578,134</u>	<u>2,354,861</u>
Operating Income	<u>667,967</u>	<u>572,430</u>	<u>95,537</u>
Nonoperating Income (Expenses)			
<i>Investment income</i>	682,311	239,739	442,572
<i>Interest expense</i>	-85,611	-311,114	225,503
<i>Noncapital grants and contributions</i>	104,341	68,240	36,101
<i>Other</i>	-61,111	-42,048	-19,063
<i>Net Nonoperating Income</i>	<u>639,930</u>	<u>-45,183</u>	<u>685,113</u>
Net Income/(Loss) After Investments	<u>\$1,307,897</u>	<u>\$527,247</u>	<u>\$780,650</u>

PERRY COUNTY MEMORIAL HOSPITAL
Management Discussion and Analysis
Summarized Financial Statement Information related to the hospital activities for the last 2 years

STATEMENT OF NET POSITION

	<u>2012</u>	<u>2011</u>	<i>Increase Decrease</i>
<u>CURRENT ASSETS:</u>			
<i>Cash and cash equivalents</i>	\$8,252,941	\$7,563,670	\$689,271
<i>Investments</i>	5,732,276	6,369,016	-636,740
<i>Patient accounts receivable net of allowance</i>	6,690,154	5,705,720	984,434
<i>Accounts receivable</i>	59,384	59,882	-498
<i>Supplies and other current assets</i>	1,352,423	1,478,328	-125,905
<i>Noncurrent cash and investments</i>	1,002,503	1,001,226	1,277
<i>Other long-term investments</i>	1,596,450	1,055,974	540,476
<i>Capital assets:</i>			
<i>Land and Construction in progress</i>	6,646,409	6,788,896	-142,487
<i>Depreciable capital assets, net of accumulated depreciation</i>	6,811,564	6,656,002	155,562
<i>Other Assets</i>	25,000	25,000	0
TOTAL ASSETS	\$38,169,104	\$36,703,714	\$1,465,390
<u>LIABILITIES & NET POSITION</u>			
<i>Current Portion - LTD</i>	450,795	758,441	-307,646
<i>Accounts payable and accrued expenses</i>	1,141,505	1,173,296	-31,791
<i>Estimated third-party payor settlements</i>	820,000	0	820,000
<i>Other Current Liabilities</i>	1,189,226	1,022,685	166,541
<i>Long-term debt, net of current maturities</i>	1,185,063	1,674,674	-489,611
TOTAL LIABILITIES	4,786,589	4,629,096	157,493
<i>Invested in capital assets, net of related debt</i>	11,847,115	11,036,783	810,332
<i>Unrestricted</i>	21,535,400	21,037,835	497,565
TOTAL NET POSITION	33,382,515	32,074,618	1,307,897
TOTAL LIABILITIES AND NET POSITION	\$38,169,104	\$36,703,714	\$1,465,390

PERRY COUNTY MEMORIAL HOSPITAL
Management Discussion and Analysis
Summary of key Operating Statistics and Ratio Analysis

	OPERATING STATISTICS		Percentage
	2012	2011	Change
<u>DISCHARGES</u>			
Acute Care	1,212	1,292	-6%
Swing Bed	88	80	10%
New Born	76	84	-10%
TOTAL DISCHARGES	1,376	1,456	-5%
<u>PATIENT DAYS:</u>			
Acute Care	3,983	4,231	-6%
Swing Bed	658	703	-6%
New Born	162	164	-1%
TOTAL PATIENT DAYS	4,803	5,098	-6%
<u>% UTILIZATION:</u>			
Medicare	66.5%	67.9%	-2%
Medicaid	9.5%	8.9%	7%
Commercial	20.0%	18.8%	6%
Private Pay	4.0%	4.4%	-9%
<u>AVERAGE LENGTH OF STAY:</u>			
Acute Care	3.3	3.3	0%
Swing Bed	7.5	8.8	-15%
Newborn	2.1	2.0	7%
<u>OTHER OPERATING STATISTICS</u>			
Surgical Operations	1,200	1,242	-3%
Laboratory Tests	113,474	110,350	3%
Physical Therapy/Occ Therapy	27,305	20,982	30%
Imaging Procedures	17,610	17,712	-1%
Respiratory Therapy Treatments	62,049	72,476	-14%
Emergency Room Visits	13,120	13,105	0%
Outpatient Visits	75,720	66,663	14%
Home Health Visits	7,668	4,664	64%
EMS Trips	2,125	2,184	-3%

PERRY COUNTY MEMORIAL HOSPITAL
Management Discussion and Analysis
Summary of key Operating Statistics and Ratio Analysis

	S & P BBB	2012	2011
<i>Operating Margin % (Operating Income/Net Operating Revenue)</i>	2.20%	1.88%	1.73%
<i>Total Margin % (Net Income/Net Operating Revenue)</i>	2.80%	3.67%	1.59%
<i>Total EBIDA Margin % (Net Income + Interest + Depreciation / Net Revenue)</i>	10.20%	7.11%	6.08%
<i>Days of Cash on Hand (Cash / (Operating Expense-Depreciation)/365)</i>	133	179	193
<i>Days in Accounts Receivable (Net A/R / Net Average Daily Revenue)</i>	45.1	78.9	58.9
<i>Labor Costs to Net Revenue % (Salaries + Benefits) / Net Operating Revenue</i>	51.00%	47.01%	48.15%
<i>Supply Costs to Net Revenue % (Supplies / Net Operating Revenue)</i>	N/A	7.50%	9.61%
<i>Long Term Debt to Capitalization (Long Term Debt / (Fund Balance + Long Term Debt))</i>	39.00%	3.43%	4.96%
<i>Maxium Annual Debt Service Cov (Net Income + Interest + Depreciation + Amortization) / Debt Service</i>	2.90	4.46	1.83
<i>Cash Flows to Liabilities % (Net Income + Depreciation + Amortization) / Total Liabilities</i>	14.60%	51.10%	36.81%
<i>Cash to Debt (Cash / Long Term Debt)</i>	75.90%	696.41%	451.65%
<i>Average Age of Plant (Years) (Accumulated Depreciation / Depreciation)</i>	11.00	17.68	16.21

PERRY COUNTY MEMORIAL HOSPITAL
STATEMENT OF NET POSITION
December 31, 2012

Assets

Current assets:	
Cash and cash equivalents	\$ 8,252,941
Short-term investments	5,732,276
Patient accounts receivable, net of estimated uncollectibles of \$3,500,148	6,690,154
Accounts receivable	59,384
Supplies and other current assets	1,352,423
Noncurrent cash and investments:	
Internally designated - cash	847,503
Internally designated - investment	155,000
Other long-term investments	1,596,450
Capital assets:	
Land and construction work in progress	6,646,409
Depreciable capital assets, net of accumulated depreciation	6,811,564
Other assets	<u>25,000</u>
Total assets	<u>\$ 38,169,104</u>

Liabilities and Net Position

Current liabilities:	
Current maturities of long-term debt	\$ 450,795
Accounts payable and accrued expenses	1,141,505
Estimated third-party payor settlements	820,000
Other current liabilities	1,189,226
Long-term debt, net of current maturities	<u>1,185,063</u>
Total liabilities	<u>4,786,589</u>
Net position:	
Net investment in capital assets	11,847,115
Unrestricted	<u>21,535,400</u>
Total net position	<u>33,382,515</u>
Total liabilities and net position	<u>\$ 38,169,104</u>

The accompanying notes are an integral part of the financial statements.

PERRY COUNTY MEMORIAL HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended December 31, 2012

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 30,951,814
Other	<u>4,649,148</u>
Total operating revenues	<u>35,600,962</u>
Operating expenses:	
Salaries and benefits	16,734,903
Medical professional fees	1,956,292
Medical supplies and drugs	2,670,171
Insurance	409,253
Other supplies	962,067
IN Hospital assessment fee	1,564,371
Food	149,291
Utilities	577,077
Depreciation and amortization	1,138,090
Contracted services	4,427,717
Service agreements	1,072,846
Repair and maintenance	67,406
Other expenses	<u>3,203,511</u>
Total operating expenses	<u>34,932,995</u>
Operating income	<u>667,967</u>
Nonoperating revenues (expenses):	
Investment income	682,311
Interest expense	(85,611)
Noncapital grants and contributions	104,341
Other	<u>(61,111)</u>
Total nonoperating expenses	<u>639,930</u>
Increase in net position	1,307,897
Net position beginning of the year	<u>32,074,618</u>
Net position end of the year	<u>\$ 33,382,515</u>

The accompanying notes are an integral part of the financial statements.

PERRY COUNTY MEMORIAL HOSPITAL
STATEMENT OF CASH FLOWS
Year Ended December 31, 2012

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 29,967,380
Payments to suppliers and contractors	(12,941,879)
Payments to employees	(16,734,903)
Other receipts and payments, net	<u>1,612,177</u>
Net cash provided by operating activities	<u>1,902,775</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	104,341
Principal paid on long-term debt	(797,256)
Interest paid on long-term debt	(85,611)
Purchase of capital assets	<u>(1,151,165)</u>
Net cash used by capital and related financing activities	<u>(1,929,691)</u>
Cash flows from investing activities:	
Interest and dividends on investments	621,200
Net proceeds from investing activities	<u>96,264</u>
Net cash provided by investing activities	<u>717,464</u>
Net decrease in cash and cash equivalents	690,548
Cash and cash equivalents at beginning of year	<u>8,409,896</u>
Cash and cash equivalents at end of year	<u>\$ 9,100,444</u>
Reconciliation of cash and cash equivalents to the Statement of Net Position:	
Cash and cash equivalents in current assets	\$ 8,252,941
Internally designated cash and cash equivalents	<u>847,503</u>
Total cash and cash equivalents	<u>\$ 9,100,444</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 667,967
Adjustments to reconcile operating income to net cash flows used in operating activities:	
Depreciation and amortization	1,138,090
Provision for bad debts	5,312,005
(Increase) decrease in current assets:	
Patient accounts receivable	(6,296,439)
Accounts receivable	498
Supplies and other current assets	125,905
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	(31,791)
Estimated third-party payor settlements	820,000
Other liabilities related to operating activities	<u>166,540</u>
Net cash provided in operating activities	<u>\$ 1,902,775</u>

The accompanying notes are an integral part of the financial statements.

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Perry County Memorial Hospital (Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Perry County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Perry County.

On September 7, 1971, the Board of County Commissioners of Perry County, upon written request of the Hospital Board of Trustees created the Perry County Memorial Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component units. The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Blended component units, although legally separate entities, are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government. 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 basic financial statements to emphasize that it is legally separate from the Hospital.

Blended Component Units

The Perry County Memorial Foundation is a significant blended component unit of the Hospital. The primary government appoints a voting majority of the Foundation's board. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

Short-term investments are investments with remaining maturities of up to 90 days.

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the Statement of Revenues, Expenses, and Changes in Net Position.

2. Use of Estimates

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

3. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 5,000	Straight-line	AHA guide
Buildings and improvements	5,000	Straight-line	AHA guide
Equipment	5,000	Straight-line	AHA guide

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

The total interest expense incurred by the Hospital during the current year was \$ 85,611. Of this amount none was included as part of the cost of capital assets under construction in connection with new medical facilities and various other renovation projects.

4. Net Position

Net position of the Hospital is classified in two components.

Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Unrestricted net position is remaining net position that do not meet the definition of net investment in capital assets or restricted.

D. Grants and Contributions

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

E. Operating Revenues and Expenses

The Hospital's 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. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

F. Net Patient Service Revenue

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

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

G. Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the agency does not expect payment, estimated charges for charity are not included in revenue.

H. Supplies

Inventories of drugs and other supplies are stated at the lower of cost (first-in, first-first-out) or market.

I. Compensated Absences

1. Sick Leave

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

2. Vacation Leave

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

Vacation leave is accrued when incurred and reported as a liability.

No liability is reported for sick leave.

J. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

The carrying amount reported in the Statement of Net Position for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the Statement of Net Position is the investment's fair value on the day it becomes a short-term investment.

Investments

Fair values, which are the amounts reported in the Statement of Net Position, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

PERRY COUNTY MEMORIAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Accounts Payable and Accrued Expenses

The carrying amount reported in the Statement of Net Position for accounts payable and accrued expenses approximates its fair value.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

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

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2012, the Hospital and the Foundation had the following investments:

Investment Type	Primary Government Market Value
Certificates of Deposit	\$ 1,569,822
Mutual Funds	<u>4,162,454</u>
Total	<u><u>\$ 5,732,276</u></u>

Investment Type	Hospital Foundation Market Value
Certificates of Deposit	\$ 298,346
Mutual Funds	<u>1,298,104</u>
Total	<u><u>\$ 1,596,450</u></u>

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Statutory Authorization for Investments

Indiana Code 16-22-3-20 authorizes the Hospital to invest in:

Any interest bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

Repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States of America or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective.

Mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

Securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Hospital does not have a formal investment policy for custodial credit risk for investments.

The Hospital Foundation has not adopted an investment policy for custodial credit risk for investments.

The investments held by the Hospital and the Foundation are not exposed to custodial credit risk because they are in the Hospital's or Foundation's name.

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

Patient Accounts Receivable	
Receivable from patients and their insurance carriers	\$ 5,609,330
Receivable from Medicare	3,574,121
Receivable from Medicaid	<u>1,006,851</u>
Total patient accounts receivable	10,190,302
Less allowance for uncollectible amounts	<u>3,500,148</u>
Patient accounts receivable, net	<u><u>\$ 6,690,154</u></u>
Accounts Payable and Accrued Expenses	
Payable to employees (including payroll taxes)	\$ 1,189,226
Payable to suppliers	<u>1,141,505</u>
Total accounts payable and accrued expenses	<u><u>\$ 2,330,731</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,945,631	\$ -	\$ -	\$ 2,945,631
Construction in progress	<u>3,843,265</u>	<u>1,072,820</u>	<u>1,215,307</u>	<u>3,700,778</u>
Total capital assets, not being depreciated	<u>6,788,896</u>	<u>1,072,820</u>	<u>1,215,307</u>	<u>6,646,409</u>
Capital assets, being depreciated:				
Land improvements	1,494,906	-	-	1,494,906
Buildings and improvements	10,365,854	-	-	10,365,854
Equipment	<u>13,868,014</u>	<u>1,293,761</u>	<u>90,068</u>	<u>15,071,707</u>
Totals	<u>25,728,774</u>	<u>1,293,761</u>	<u>90,068</u>	<u>26,932,467</u>

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Land improvements	1,202,824	46,962	-	1,249,786
Buildings and improvements	6,062,225	338,957	-	6,401,182
Equipment	11,807,723	752,171	89,959	12,469,935
Totals	19,072,772	1,138,090	89,959	20,120,903
Total capital assets, being depreciated, net	6,656,002	155,671	109	6,811,564
Total primary government capital assets, net	<u>\$ 13,444,898</u>	<u>\$ 1,228,491</u>	<u>\$ 1,215,416</u>	<u>\$ 13,457,973</u>

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31, 2012	Committed
Master planning	\$ 3,689,844	\$ 3,689,844
Electronic health records	10,934	10,934
Totals	<u>\$ 3,700,778</u>	<u>\$ 3,700,778</u>

E. Leases

1. Operating Leases

The Hospital has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for pharmacy equipment. Rental expenditures for this lease were \$63,653. The following is a schedule by years of future minimum rental payments as of year end:

2013	\$ 68,131
2014	63,653
2015	63,653
2016	63,653
2017	63,653
2018	<u>10,609</u>
Total	<u>\$ 333,352</u>

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Capital Leases

The Hospital has entered into a capital lease for equipment. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of year end, are as follows:

2013	\$	49,703
2014		49,703
2015		<u>4,142</u>
Total minimum lease payments		103,548
Less amount representing interest		<u>2,364</u>
Present value of net minimum lease payments		<u>\$ 101,184</u>

Assets acquired through capital leases still in effect are as follows:

Machinery and equipment	\$	235,471
Accumulated depreciation		<u>(117,736)</u>
Total	\$	<u>117,735</u>

F. Long-Term Liabilities

1. Mortgages and Loans Payable

The Hospital has entered into various mortgages and loans. Annual debt service requirements to maturity including interest of \$128,198, are as follows:

Year Ended <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 402,790	\$ 57,413
2014	428,234	37,553
2015	303,511	19,691
2016	147,849	10,646
2017	215,032	2,895
2018-2022	<u>37,258</u>	<u>-</u>
Totals	<u>\$ 1,534,674</u>	<u>\$ 128,198</u>

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

Primary Government	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	\$ 148,171	\$ -	\$ 46,987	\$ 101,184	\$ 48,005
Mortgage payable	939,862	-	144,277	795,585	107,169
Loans payable	1,345,081	-	605,992	739,089	295,621
Total long-term liabilities	<u>\$ 2,433,114</u>	<u>\$ -</u>	<u>\$ 797,256</u>	<u>\$ 1,635,858</u>	<u>\$ 450,795</u>

G. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

1. Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, such as provided by critical assess hospitals, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Home Health and ambulance services are not included in this cost reimbursement.

2. Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed using a predetermined fee schedule.

Revenue from the Medicare and Medicaid programs accounted for approximately 44.8 percent and 13.2 percent, respectively, of the Hospital's net patient revenue for the year ended 2012. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

H. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$2,143,877 for 2012.

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

I. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

1. Funded Depreciation – Amounts transferred from the Operating Fund by the Hospital 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 Indiana Code 16-22-3-13.
2. Designated Funds – Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Internally designated:	
Funded depreciation:	
Cash and cash equivalents	<u>\$ 304,235</u>
Board designation:	
Cash and cash equivalents	331,268
NEG Loan Pledge	212,000
Scholarship Fund	55,000
Endowment Fund	<u>100,000</u>
Total board designation	<u>698,268</u>
Total internally designated	<u><u>\$ 1,002,503</u></u>

III. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees, and Dependents (Excluding Postemployment Benefits)

The Hospital has contracted with a Third Party to administer the Perry County Memorial Hospital Employee Benefit Trust, an account created to service employee health benefit claims and administrative costs of the program. This is a pay as you go system and claims are expensed as incurred.

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

An excess policy through commercial insurance covers individual claims in excess of \$37,500 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund that accounts for employee payroll. The total charge allocated to each of the funds is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

B. Subsequent Events – New hospital project

Perry County Memorial Hospital has begun construction on a 25 bed critical access acute care replacement facility. This facility is located on State Road 237. The building is being financed by a \$40 million dollar loan from the USDA. The terms are 40 years, fixed at 3.125 percent.

C. Contingent Liabilities

Litigation

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 or results from operations.

D. Fair Value Measurements

The Hospital has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

Investments recorded in the statement of net position are categorized based on the inputs to valuation techniques as follows:

Level 1 – These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Hospital has the ability to access. Investments include mutual funds.

Level 2 – These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of corporate and municipal bonds that trade infrequently and certificates of deposit.

Level 3 – These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments.

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Based upon the levels as defined the investments as of December 31, 2012, are classified as follows:

Hospital Investment Type	December 31, 2012	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets For Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 1,569,822	\$ 1,569,822	\$ -	\$ -
Mutual funds	4,162,454	4,162,454	-	-
Totals	\$ 5,732,276	\$ 5,732,276	\$ -	\$ -

Foundation Investment Type	December 31, 2012	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets For Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 298,346	\$ 298,346	\$ -	\$ -
Mutual funds	1,298,104	1,298,104	-	-
Totals	\$ 1,596,450	\$ 1,596,450	\$ -	\$ -

E. Pension Plan

Defined Contribution Pension Plan

Plan Description

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

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

Funding Policy and Annual Pension Cost

The Perry County Memorial Hospital Board of Trustees approved a Discretionary Contribution to the 403(b) retirement accounts of eligible employees of 3 percent of the annual covered salary plus an optional 3 percent matching contribution. Employer and employee contributions to the plan were \$472,622 and \$382,678, respectively.

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Ambulance Service Subsidy

Perry County Memorial Hospital provides ambulance service for Perry County residents, including the cities of Cannelton and Tell City, through an agreement dated July 1986. The agreement provides that Perry County is to reimburse the Hospital, on monthly basis, for the amount that expenses exceeded revenues for the period. During 2012, there were no excess expenses for the County to reimburse the Hospital.

When there are excess expenses, the amount is included in the financial statement in other operating revenue.

PERRY COUNTY MEMORIAL HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on June 26, 2013, with Joseph Stuber, Chief Executive Officer, and Earl Wolff, Interim Treasurer. Our audit disclosed no material items that warrant comment at this time.

Separate telephone exit conferences were held with John B. Land, Chairman of the Hospital Board; and the following Board members: Dr. Joe LeClere, Grant Taylor, Tim Harding, and Rita Mahoney.