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July 26, 2017

Board of Directors  
Perry County Memorial Hospital  
8885 IN-237,  
Tell City, IN 47586

We have reviewed the audit report prepared by Dean Dorton Allen Ford, PLLC, Independent Public Accountants, for the period January 1, 2016 to December 31, 2016. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Report of Independent Auditors, the financial statements included in the report present fairly the financial condition of the Perry County Memorial Hospital, as of December 31, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

**PERRY COUNTY MEMORIAL  
HOSPITAL**

**Combined Financial Statements**

*Years Ended December 31, 2016 and 2015  
with Report of Independent Auditors*

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## Report of Independent Auditors

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

### Report on the Financial Statements

We have audited the accompanying combined financial statements of Perry County Memorial Hospital (the Hospital, see Note 1), a component unit of Perry County, Indiana, which comprise the combined statements of net position as of December 31, 2016 and 2015, and the related combined statements of operations and changes in net position and cash flows for the years then ended, and the related notes to the combined financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Perry County Memorial Hospital as of December 31, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



**Emphasis of Matter**

As discussed in Note 2 to the combined financial statements, 2015 combined financial statements have been restated to correct misstatements based upon a change in accounting estimate and to correct presentation as required by the regulatory agency. Our opinion is not modified with respect to this matter.

**Other Matters**

*Combining Information*

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information on pages 24 - 29 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

*Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2017 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

*Dean Dotson Allen Ford, PLLC*

July 7, 2017  
Louisville, Kentucky

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PERRY COUNTY MEMORIAL HOSPITAL

Combined Statements of Net Position

December 31, 2016 and 2015

Assets	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 1,410,492	\$ 2,140,330
Investments	5,689,725	5,941,157
Assets limited as to use for current liabilities	587,000	567,000
Patient accounts receivable, net of estimated uncollectibles and contractuals of approximately \$5,066,000 and \$5,103,000, respectively	4,741,462	5,636,778
Other accounts receivable	458,287	606,039
Inventories	1,040,957	1,026,740
Prepaid expenses and other current assets	483,899	624,503
Estimated third-party payor settlements	<u>-</u>	<u>288,988</u>
Total current assets	14,411,822	16,831,535
Assets limited as to use:		
Permanently restricted funds	155,000	155,000
Construction and reserve funds held by trustee	<u>1,820,000</u>	<u>1,820,000</u>
Total assets limited as to use	1,975,000	1,975,000
Less amount required to meet current debt liabilities	<u>(587,000)</u>	<u>(567,000)</u>
	1,388,000	1,408,000
Capital assets, net	51,912,459	54,058,509
Assets available for sale	2,107,590	2,107,590
Other assets	<u>-</u>	<u>25,000</u>
Total assets	<u>69,819,871</u>	<u>74,430,634</u>

Liabilities and Net Position	<u>2016</u>	<u>2015</u>
Current liabilities:		
Accounts payable	2,065,784	1,889,578
Construction payables	50,000	50,000
Accrued payroll	1,310,257	1,518,351
Other accrued expenses	686,926	777,829
Due to related parties	87,212	37,289
Estimated third-party payor settlements	507,313	-
Current portion of long-term debt	<u>587,000</u>	<u>717,075</u>
Total current liabilities	5,294,492	4,990,122
Long-term debt, net of current portion	<u>38,563,000</u>	<u>39,150,000</u>
Total liabilities	43,857,492	44,140,122
Net position:		
Net investment in capital assets	12,712,459	14,166,434
Restricted:		
Nonexpendable	155,000	155,000
Expendable	1,820,000	1,820,000
Unrestricted	<u>11,274,920</u>	<u>14,149,078</u>
Total net position	<u>\$ 25,962,379</u>	<u>\$ 30,290,512</u>

See accompanying notes.



PERRY COUNTY MEMORIAL HOSPITAL

Combined Statements of Operations and Changes in Net Position

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Net patient service revenue, net of provision for bad debts of \$3,705,845 in 2016 and \$4,162,435 in 2015	\$ 35,751,658	\$ 36,290,162
Other revenue	<u>881,497</u>	<u>536,900</u>
Total operating revenues	36,633,155	36,827,062
Operating expenses:		
Salaries and other wage costs	20,106,456	19,590,194
Supplies and other expenses	3,825,808	3,599,102
General and administrative expenses	1,952,853	2,086,668
Professional fees	1,082,874	1,994,944
Contracted services	7,939,856	6,976,258
Depreciation and amortization	2,765,739	2,057,165
Provider tax expense	591,979	654,400
Other expense	<u>1,750,344</u>	<u>1,372,937</u>
Total operating expenses	<u>40,015,909</u>	<u>38,331,668</u>
Operating loss	(3,382,754)	(1,504,606)
Nonoperating revenues (expenses):		
Investment income (loss)	176,641	(22,263)
Interest expense	(1,236,111)	(778,613)
Net unrealized gains (losses) on investments	<u>114,091</u>	<u>(106,870)</u>
Total nonoperating losses	<u>(945,379)</u>	<u>(907,746)</u>
Decrease in net position	(4,328,133)	(2,412,352)
Net position, beginning of year, as previously reported	30,290,512	33,072,848
Restatements ( <i>see Note 2</i> )	<u>-</u>	<u>(369,984)</u>
Net position, beginning of year, as restated	<u>30,290,512</u>	<u>32,702,864</u>
Net position, end of year	<u>\$ 25,962,379</u>	<u>\$ 30,290,512</u>

See accompanying notes.

PERRY COUNTY MEMORIAL HOSPITAL

Combined Statements of Cash Flows

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Receipts from and on behalf of patients	\$ 37,591,027	\$ 34,180,763
Payments to suppliers and contractors	(14,473,798)	(13,516,589)
Payments to or on behalf of employees	(20,411,589)	(19,583,150)
Other receipts and payments, net	<u>(1,460,826)</u>	<u>(1,490,437)</u>
Net cash provided by (used in) operating activities	1,244,814	(409,413)
<b>Cash flows from capital and related financing activities:</b>		
Proceeds from long-term debt	-	6,971,953
Interest paid on long-term debt	(1,229,975)	(768,385)
Principal payments on long-term debt	(717,075)	(409,152)
Purchases of capital assets	<u>(619,689)</u>	<u>(13,600,471)</u>
Net cash used in capital and related financing activities	(2,566,739)	(7,806,055)
<b>Cash flows from investing activities:</b>		
Net realized (gain) loss on investments	(151,862)	118,886
Decrease in investments, net	718,805	3,263,469
Interest and dividend income	(24,779)	(96,623)
Receipts from related parties, net	<u>49,923</u>	<u>37,289</u>
Net cash provided by investing activities	<u>592,087</u>	<u>3,323,021</u>
Net decrease in cash and cash equivalents	(729,838)	(4,892,447)
Cash and cash equivalents, beginning of year	<u>4,115,330</u>	<u>9,007,777</u>
Cash and cash equivalents, end of year	<u>\$ 3,385,492</u>	<u>\$ 4,115,330</u>
<b>Reconciliation of statements of net position to cash and cash equivalents, end of year:</b>		
Cash and cash equivalents	\$ 1,410,492	\$ 2,140,330
Assets limited as to use:		
Permanently restricted funds	155,000	155,000
Construction and reserve funds held by trustee	<u>1,820,000</u>	<u>1,820,000</u>
Cash and cash equivalents, end of year	<u>\$ 3,385,492</u>	<u>\$ 4,115,330</u>

PERRY COUNTY MEMORIAL HOSPITAL

Statements of Cash Flows, continued

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (3,382,754)	\$ (1,504,606)
Adjustments to reconcile operating loss to net cash flows provided by (used in) operating activities:		
Provision for bad debts	3,705,845	4,162,435
Depreciation and amortization	2,765,739	2,057,165
Increase (decrease) in cash due to changes in:		
Accounts receivable	(2,662,777)	(4,401,263)
Inventories	(14,217)	(180,522)
Prepaid expenses and other assets	165,604	30,547
Accounts payable	176,206	1,299,123
Accrued payroll and other accrued expenses	(305,133)	(1,721)
Estimated third party settlements	<u>796,301</u>	<u>(1,870,571)</u>
Net cash provided by (used in) operating activities	\$ <u>1,244,814</u>	\$ <u>(409,413)</u>

See accompanying notes.

# PERRY COUNTY MEMORIAL HOSPITAL

## Notes to the Combined Financial Statements

### 1. Description of the Organization and Reporting Entity

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

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

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

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

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

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 Association has fiscal dependency relationship with the District and therefore is a blended component unit of the District.

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

Complete financial statements for the District, Foundation, Association and Pain Management can be obtained by writing to: Perry County Memorial Hospital c/o Brian Herwig, President/CEO at 8885 State Route 237, Tell City, IN 47586.



# PERRY COUNTY MEMORIAL HOSPITAL

## Notes to the Combined Financial Statements

### 2. Summary of Significant Accounting Policies

#### Basis of Presentation

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

#### Use of Estimates

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

#### Principles of Combination

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

#### Cash and Cash Equivalents

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

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

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

#### Investments

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

## PERRY COUNTY MEMORIAL HOSPITAL

### Notes to the Combined Financial Statements

#### 2. Summary of Significant Accounting Policies, continued

##### Investments, continued

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

##### Patient Accounts Receivable

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

##### Inventories

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

##### Assets Limited as to Use

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

##### Capital Assets

Capital asset acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The Hospital capitalizes all items with a useful life over one year and cost of \$5,000, individually or in the aggregate. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

##### Assets Available for Sale

Due to the completion and move into the new hospital facility, the former facility was vacated and reclassified as an asset available for sale in August 2015. As of December 31, 2016, the asset has not been sold and no gain or loss has been recognized in the Combined Statements of Operations and Changes in Net Position.



## PERRY COUNTY MEMORIAL HOSPITAL

### Notes to the Combined Financial Statements

#### 2. Summary of Significant Accounting Policies, continued

##### Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources. As of December 31, 2016 and 2015, the Hospital had no such resources.

##### Net Position

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

##### Operating Revenues and Expenses

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

##### Grants and Contributions

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

##### Net Patient Service Revenue

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

## PERRY COUNTY MEMORIAL HOSPITAL

### Notes to the Combined Financial Statements

#### 2. Summary of Significant Accounting Policies, continued

##### Risk Management

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

##### Compensated Absences

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

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

##### Charity Care

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

##### Statutory Authorization for Investments

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



PERRY COUNTY MEMORIAL HOSPITAL

Notes to the Combined Financial Statements

2. Summary of Significant Accounting Policies, continued

Income Taxes

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

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through July 7, 2017, the date that the combined financial statements were available to be issued.

Reclassifications

Certain amounts in the 2015 combined financial statements have been reclassified to conform to the 2016 presentation with no impact on total assets, liabilities, net position or change in net position.

Restatements

During fiscal 2016, the Hospital changed the method it used to calculate the contractual adjustment allowance. The fiscal 2014 and 2015 contractual adjustment allowance was restated to conform to the fiscal 2016 method of accounting for the allowance. The 2014 restatement decreased assets and unrestricted net assets by \$496,115. The 2015 restatement decreased assets and unrestricted net assets by \$1,015,649.

During fiscal 2016, the Hospital changed its method of presenting the leased SNF (Note 13) in order to conform to Indiana state requirements. The fiscal 2014 change in presentation of the SNF was restated to conform to the fiscal 2016 presentation of the SNF. The 2014 restatement increased assets by \$39,618, decreased liabilities by \$133,989 and increased unrestricted net assets by \$173,607. This resulted in a restated 2015 beginning net position of \$47,476 for the SNF. This was eliminated at the combined level to conform to fiscal 2016 presentation of the SNF.

	<u>2015</u>	<u>2014</u>
Combined net position, end of year, as originally issued	\$ 31,306,161	\$ 33,072,848
SNF adjustments	-	173,607
Contractual allowance and bad debt adjustment	(1,015,649)	(496,115)
Elimination of SNF net position, beginning of year	<u>-</u>	<u>(47,476)</u>
Combined net position, end of year, as restated	<u>\$ 30,290,512</u>	<u>\$ 32,702,864</u>

As a result of these restatements, the 2015 decrease in net position of \$1,766,687 was increased by \$645,665 to \$2,412,352.

PERRY COUNTY MEMORIAL HOSPITAL

Notes to the Combined Financial Statements

3. Investments

Investments, stated at fair value, at December 31, 2016 and 2015, include:

	<u>2016</u>	<u>2015</u>
Certificates of deposit	\$ 569,822	\$ 569,822
Mutual funds	5,038,903	5,320,335
Equity interest in joint venture	<u>81,000</u>	<u>51,000</u>
	<u>\$ 5,689,725</u>	<u>\$ 5,941,157</u>

Investment income and gains for assets limited as to use and cash equivalents are comprised of the following for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Investment income:		
Interest and dividends	\$ 24,779	\$ 96,623
Net realized and unrealized gains (losses) on sales	151,862	(118,886)
Net unrealized gains (losses)	<u>114,091</u>	<u>(106,870)</u>
	<u>\$ 290,732</u>	<u>\$ (129,133)</u>

4. Fair Value Measurements

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

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

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

There have been no changes in the valuation methodologies used at December 31, 2016.

PERRY COUNTY MEMORIAL HOSPITAL

Notes to the Combined Financial Statements

4. Fair Value Measurements, continued

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

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

<u>2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ <u>5,038,903</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,038,903</u>
Total investments	\$ <u>5,038,903</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,038,903</u>
<u>2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ <u>5,320,335</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,320,335</u>
Total investments	\$ <u>5,320,335</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,320,335</u>

PERRY COUNTY MEMORIAL HOSPITAL

Notes to the Combined Financial Statements

5. Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2016 and 2015, were as follows:

	<u>Balance Dec. 31, 2015</u>	<u>Additions</u>	<u>Retirements/ Write Downs</u>	<u>Transfers</u>	<u>Balance Dec. 31, 2016</u>
Land and improvements	\$ 2,581,499	\$ -	\$ -	\$ -	\$ 2,581,499
Buildings and improvements	43,808,262	1,399	(136,399)	-	43,673,262
Machinery and equipment	23,931,323	659,392	(2,441,763)	-	22,148,952
Leasehold improvements	1,494,906	2,725	-	-	1,497,631
Construction in progress	<u>-</u>	<u>31,210</u>	<u>-</u>	<u>-</u>	<u>31,210</u>
	71,815,990	694,726	(2,578,162)	-	69,932,554
Less accumulated depreciation	<u>17,757,481</u>	<u>2,765,739</u>	<u>(2,503,125)</u>	<u>-</u>	<u>18,020,095</u>
Capital assets, net	<u>\$ 54,058,509</u>	<u>\$ (2,071,013)</u>	<u>\$ (75,037)</u>	<u>\$ -</u>	<u>\$ 51,912,459</u>
	<u>Balance Dec. 31, 2014</u>	<u>Additions</u>	<u>Retirements/ Write Downs</u>	<u>Transfers</u>	<u>Balance Dec. 31, 2015</u>
Land and improvements	\$ 2,945,631	\$ -	\$ (1,424,132)	\$ 1,060,000	\$ 2,581,499
Buildings and improvements	10,365,854	-	(6,958,082)	40,400,490	43,808,262
Machinery and equipment	15,862,797	595,085	(139,840)	7,613,281	23,931,323
Leasehold improvements	1,494,906	-	-	-	1,494,906
Construction in progress	<u>39,976,152</u>	<u>9,097,619</u>	<u>-</u>	<u>(49,073,771)</u>	<u>-</u>
	70,645,340	9,692,704	(8,522,054)	-	71,815,990
Less accumulated depreciation	<u>22,114,780</u>	<u>2,057,165</u>	<u>(6,414,464)</u>	<u>-</u>	<u>17,757,481</u>
Capital assets, net	<u>\$ 48,530,560</u>	<u>\$ 7,635,539</u>	<u>\$ (2,107,590)</u>	<u>\$ -</u>	<u>\$ 54,058,509</u>



PERRY COUNTY MEMORIAL HOSPITAL

Notes to the Combined Financial Statements

6. Long-Term Debt

A schedule of changes in the Hospital's long-term debt during 2016 and 2015 follows:

	Balance Dec. 31, 2015	Additions	Reductions	Balance Dec. 31, 2016	Amounts Due Within One Year
USDA construction loan payable	\$ 39,717,000	\$ -	\$ 567,000	\$ 39,150,000	\$ 587,000
Bank note payable	11,725	-	11,725	-	-
Mortgage note payable	<u>31,485</u>	<u>-</u>	<u>31,485</u>	<u>-</u>	<u>-</u>
Total bonds and notes payable	39,760,210	-	610,210	39,150,000	587,000
Equipment financing arrangements	<u>106,865</u>	<u>-</u>	<u>106,865</u>	<u>-</u>	<u>-</u>
Long-term debt	<u>\$ 39,867,075</u>	<u>\$ -</u>	<u>\$ 717,075</u>	<u>\$ 39,150,000</u>	<u>\$ 587,000</u>

  

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

PERRY COUNTY MEMORIAL HOSPITAL

Notes to the Combined Financial Statements

6. Long-Term Debt, continued

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at December 31, 2016 and 2015 are as follows:

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

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

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

<u>Year ending December 31:</u>	<u>Long-term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 587,000	\$ 1,219,005
2018	605,000	1,200,522
2019	624,000	1,181,461
2020	641,000	1,164,976
2021	665,000	1,141,620
2022 to 2026	2,872,000	5,383,633
2027 to 2031	4,128,000	4,771,985
2032 to 2036	4,823,000	4,059,320
2037 to 2041	5,633,000	3,222,089
2042 to 2046	6,578,000	2,247,043
2047 to 2051	7,682,000	1,108,668
2052 to 2053	<u>4,312,000</u>	<u>82,892</u>
Total	\$ <u>39,150,000</u>	\$ <u>26,783,214</u>

PERRY COUNTY MEMORIAL HOSPITAL

Notes to the Combined Financial Statements

6. Long-Term Debt, continued

A summary of interest cost and investment income on borrowed funds held by the trustee under the USDA loan during the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Interest cost:		
Capitalized	\$ -	\$ 564,719
Charged to operations	<u>1,236,111</u>	<u>778,613</u>
	<u>\$ 1,236,111</u>	<u>\$ 1,343,332</u>

7. Net Patient Service Revenue

The Hospital has agreements with federal, state and third-party payers that provide for payments at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates and amounts reimbursed by third-party payers. The Hospital participates in the Medicare and Medicaid programs. Approximately 43% and 18%, respectively, of the Hospital's 2016 net patient service revenue was derived from services to patients covered by these programs. Comparable percentages for 2015 were 46% and 18%, respectively. Changes in the Medicare and/or Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. A summary of the payment arrangements with major third-party payers follows:

Hospital

*Medicare*

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

*Medicaid*

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

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

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



PERRY COUNTY MEMORIAL HOSPITAL

Notes to the Combined Financial Statements

7. Net Patient Service Revenue, continued

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

	<u>2016</u>	<u>2015</u>
Gross patient service revenue	\$ 84,153,806	\$ 82,116,228
Less provisions for:		
Contractual adjustments under third-party reimbursement programs	44,031,781	40,651,276
Charity care	493,782	805,741
Provision for bad debts	3,705,845	4,162,435
Administrative, personnel and other adjustments	<u>170,740</u>	<u>206,614</u>
	<u>48,402,148</u>	<u>45,826,066</u>
Net patient service revenue	<u>\$ 35,751,658</u>	<u>\$ 36,290,162</u>

8. Charity Care

The amounts of indirect and direct costs incurred by the Hospital for services and supplies furnished under the Hospital's charity care policy were approximately \$182,400 and \$297,700 for the years ended December 31, 2016 and 2015, respectively. These costs were estimated by management using a ratio of cost to gross charges.

9. Retirement Plan

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

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

The Hospital Board of Trustees approved discretionary contribution to the 403(b) retirement accounts of eligible employees of three percent of the annual covered salary plus an optional three percent matching contribution. Employer contributions to the plan were \$514,142 and \$537,299, respectively.

PERRY COUNTY MEMORIAL HOSPITAL

Notes to the Combined Financial Statements

10. Employee Health Claims

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

11. Concentration of Credit Risk

Patient Accounts Receivable

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

	<u>2016</u>	<u>2015</u>
Medicare	37 %	36 %
Medicaid	11	14
Commercial	14	16
All other	<u>38</u>	<u>34</u>
	<u>100 %</u>	<u>100 %</u>

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

12. Provider Tax

The Indiana General Assembly enacted legislation which established a Hospital Assessment Fee for the purpose of funding the Medicaid program and providing the state share of the disproportionate share hospital (DSH) payments. The Hospital Assessment Fee and increases in funding levels are to continue through June 30, 2015 based on recently passed legislation. The calculation of the assessment fee is based on the hospital's cost report information. Due to the Hospital Assessment Fee, inpatient and outpatient Medicaid payment rates were increased by certain published adjustment factors, for both fee-for-service and managed care programs. DSH funds were paid to the Hospital based on its respective hospital specific limit. For the years ended December 31, 2016 and 2015, provider taxes amounted to \$591,979 and \$654,400, respectively. For the years ended December 31, 2016 and 2015, DSH funds paid to the Hospital were \$828,780 and \$610,712, respectively.

## PERRY COUNTY MEMORIAL HOSPITAL

### Notes to the Combined Financial Statements

#### 13. Commitments

##### Long-Term Care Operating Lease

The Hospital entered into an agreement to lease the facilities and equipment for the operation of a skilled nursing facility (SNF). The SNF is considered to be a component unit of the District and, as such, the revenues and expenses (and related assets and liabilities) resulting from the operations of the SNF are included in the District's financial statements.

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

The agreements call for various rental, management, incentive, royalty and other fees. Fees paid to the Manager in 2016 and 2015 were \$176,273 and \$140,264, respectively. As of December 31, 2016, there were no amounts due to the Manager by the Hospital and, as of December 31, 2015, amounts due to the Manager by the Hospital were \$77,569.

##### Management Contract

The Hospital has contracted with Alliant Management Services (Alliant) to operate, manage and supervise day-to-day activities of the Hospital. Under the terms of the contract, the management fee is approximately \$706,000 and adjusted annually by an agreed-upon inflationary adjustment. Total management and consulting fees paid to Alliant during the years ended December 31, 2016 and 2015 were \$896,415 and \$743,648, respectively.

Blue & Co., LLC, an accounting firm related to Alliant, was paid \$546,815 and \$286,280 during 2016 and 2015, respectively, for various consulting services.

#### 14. Risk Management and Contingent Liabilities

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



## PERRY COUNTY MEMORIAL HOSPITAL

### Notes to the Combined Financial Statements

#### 15. Healthcare Reform

##### Patient Protection and Affordable Care Act

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

- 1) *Conduct a community health needs assessment.* Hospitals must conduct a community health needs assessment once every three years and then adopt and implement a strategy addressing the needs associated with the assessment.
- 2) *Establish written financial assistance and emergency care policies.*
- 3) *Limit billed charge amounts for emergency or other medically necessary care to patients eligible for financial assistance.*
- 4) *Prohibit the use of "extraordinary" collection efforts on patients who qualify for financial assistance.*

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

The Hospital believes it is in compliance with the Act.

##### The Recovery Act

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

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

The Hospital did not receive any HIT funds during the fiscal years ended December 31, 2016 and 2015. The Hospital intends to apply for additional funds in the coming years. The funds received and any funds from future applications are dependent upon reaching certain metrics and various states of "meaningful use" as defined by the Recovery Act.

PERRY COUNTY MEMORIAL HOSPITAL

Combining Statement of Net Position

December 31, 2016

Assets	District	Association	Foundation	Skilled Nursing Facility	Eliminations	Combined
Current assets:						
Cash and cash equivalents	\$ 951,729	\$ 60,658	\$ 43,443	\$ 354,662	\$ -	\$ 1,410,492
Investments	3,608,395	-	2,081,330	-	-	5,689,725
Assets limited as to use for current liabilities	-	587,000	-	-	-	587,000
Patient accounts receivable, net	4,846,656	-	-	258,819	(364,013)	4,741,462
Other accounts receivable	458,287	-	-	-	-	458,287
Inventories	1,040,957	-	-	-	-	1,040,957
Prepaid expenses and other current assets	483,899	-	-	-	-	483,899
Total current assets	11,389,923	647,658	2,124,773	613,481	(364,013)	14,411,822
Assets limited as to use:						
Permanently restricted funds	155,000	-	-	-	-	155,000
Construction and reserve funds held by trustee	1,820,000	-	-	-	-	1,820,000
Total assets limited as to use	1,975,000	-	-	-	-	1,975,000
Less amount required to meet current debt liabilities	-	(587,000)	-	-	-	(587,000)
	1,975,000	(587,000)	-	-	-	1,388,000
Capital assets, net	5,929,111	45,924,739	-	58,609	-	51,912,459
Assets available for sale	2,107,590	-	-	-	-	2,107,590
Total assets	21,401,624	45,985,397	2,124,773	672,090	(364,013)	69,819,871

PERRY COUNTY MEMORIAL HOSPITAL

Combining Statement of Net Position, continued

December 31, 2016

Liabilities and Net Position	District	Association	Foundation	Skilled Nursing Facility	Eliminations	Combined
Current liabilities:						
Accounts payable	1,805,232	-	-	260,552	-	2,065,784
Construction payables	-	50,000	-	-	-	50,000
Accrued payroll	1,310,257	-	-	-	-	1,310,257
Other accrued expenses	402,482	581,083	8,765	(305,404)	-	686,926
Due to related parties	(265,717)	-	-	352,929	-	87,212
Estimated third-party payor settlements	507,313	-	-	-	-	507,313
Current portion of long-term debt	-	587,000	-	-	-	587,000
Total current liabilities	3,759,567	1,218,083	8,765	308,077	-	5,294,492
Long-term due to related party	(11,361,466)	11,361,466	-	-	-	-
Long-term debt, net of current portion	-	38,563,000	-	-	-	38,563,000
Total liabilities	(7,601,899)	51,142,549	8,765	308,077	-	43,857,492
Net position (deficit):						
Net investment in capital assets	17,290,577	(4,636,727)	-	58,609	-	12,712,459
Restricted:						
Nonexpendable	155,000	-	-	-	-	155,000
Expendable	1,820,000	-	-	-	-	1,820,000
Unrestricted	9,737,946	(520,425)	2,116,008	305,404	(364,013)	11,274,920
Total net position (deficit)	\$ 29,003,523	\$ (5,157,152)	\$ 2,116,008	\$ 364,013	\$ (364,013)	\$ 25,962,379

See Report of Independent Auditors.

PERRY COUNTY MEMORIAL HOSPITAL

Combining Statement of Operations and Changes in Net Position

Year ended December 31, 2016

	District	Association	Foundation	Skilled Nursing Facility	Eliminations	Combined
Operating revenues:						
Net patient service revenue	\$ 33,860,108	\$ -	\$ -	\$ 2,067,823	\$ (176,273)	\$ 35,751,658
Other revenue (loss)	<u>863,982</u>	<u>-</u>	<u>172,304</u>	<u>(154,789)</u>	<u>-</u>	<u>881,497</u>
Total operating revenues	34,724,090	-	172,304	1,913,034	(176,273)	36,633,155
Operating expenses:						
Salaries and other wage costs	18,464,862	-	-	1,641,594	-	20,106,456
Supplies and other expenses	3,768,657	-	-	57,151	-	3,825,808
General and administrative expenses	1,940,767	-	-	12,086	-	1,952,853
Professional fees	1,082,874	-	-	-	-	1,082,874
Contracted services	7,921,980	-	-	17,876	-	7,939,856
Depreciation and amortization	776,877	1,988,862	-	-	-	2,765,739
Provider tax expense	591,979	-	-	-	-	591,979
Other expense	<u>1,541,265</u>	<u>-</u>	<u>201,025</u>	<u>8,054</u>	<u>-</u>	<u>1,750,344</u>
Total operating expenses	<u>36,089,261</u>	<u>1,988,862</u>	<u>201,025</u>	<u>1,736,761</u>	<u>-</u>	<u>40,015,909</u>
Operating income (loss)	(1,365,171)	(1,988,862)	(28,721)	176,273	(176,273)	(3,382,754)
Nonoperating revenues (expenses):						
Investment income	151,862	-	24,779	-	-	176,641
Interest expense	(1,743)	(1,234,368)	-	-	-	(1,236,111)
Net unrealized gains on investments	<u>-</u>	<u>-</u>	<u>114,091</u>	<u>-</u>	<u>-</u>	<u>114,091</u>
Total nonoperating revenues (losses)	<u>150,119</u>	<u>(1,234,368)</u>	<u>138,870</u>	<u>-</u>	<u>-</u>	<u>(945,379)</u>
Increase (decrease) in net position	(1,215,052)	(3,223,230)	110,149	176,273	(176,273)	(4,328,133)
Net position (deficit), beginning of year	<u>30,218,575</u>	<u>(1,933,922)</u>	<u>2,005,859</u>	<u>187,740</u>	<u>(187,740)</u>	<u>30,290,512</u>
Net position (deficit), end of year	<u>\$ 29,003,523</u>	<u>\$ (5,157,152)</u>	<u>\$ 2,116,008</u>	<u>\$ 364,013</u>	<u>\$ (364,013)</u>	<u>\$ 25,962,379</u>

See Report of Independent Auditors.

PERRY COUNTY MEMORIAL HOSPITAL

Combining Statement of Net Position

December 31, 2015

Assets	District	Association	Foundation	Skilled Nursing Facility	Eliminations	Combined
Current assets:						
Cash and cash equivalents	\$ 1,681,541	\$ 2,815	\$ -	\$ 455,974	\$ -	\$ 2,140,330
Investments	3,926,533	-	2,014,624	-	-	5,941,157
Assets limited as to use for current liabilities	567,000	-	-	-	-	567,000
Patient accounts receivable, net	5,360,897	-	-	463,621	(187,740)	5,636,778
Other accounts receivable	606,039	-	-	-	-	606,039
Inventories	1,026,740	-	-	-	-	1,026,740
Prepaid expenses and other current assets	624,503	-	-	-	-	624,503
Estimated third-party settlements	288,988	-	-	-	-	288,988
Total current assets	14,082,241	2,815	2,014,624	919,595	(187,740)	16,831,535
Assets limited as to use:						
Permanently restricted funds	155,000	-	-	-	-	155,000
Construction and reserve funds held by trustee	1,820,000	-	-	-	-	1,820,000
Total assets limited as to use	1,975,000	-	-	-	-	1,975,000
Less amount required to meet current debt liabilities	(567,000)	-	-	-	-	(567,000)
	1,408,000	-	-	-	-	1,408,000
Capital assets, net	6,086,299	47,913,601	-	58,609	-	54,058,509
Assets available for sale	2,107,590	-	-	-	-	2,107,590
Other assets	25,000	-	-	-	-	25,000
Total assets	23,709,130	47,916,416	2,014,624	978,204	(187,740)	74,430,634



PERRY COUNTY MEMORIAL HOSPITAL

Combining Statement of Net Position, continued

December 31, 2015

Liabilities and Net Position	District	Association	Foundation	Skilled Nursing Facility	Eliminations	Combined
Current liabilities:						
Accounts payable	1,346,656	-	-	542,922	-	1,889,578
Construction payables	-	50,000	-	-	-	50,000
Accrued payroll	1,518,351	-	-	-	-	1,518,351
Other accrued expenses	323,247	574,947	8,765	(129,130)	-	777,829
Due to related parties	(339,383)	-	-	376,672	-	37,289
Current portion of long-term debt	<u>150,075</u>	<u>567,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>717,075</u>
Total current liabilities	2,998,946	1,191,947	8,765	790,464	-	4,990,122
Long-term due to related party, net	(9,508,391)	9,508,391	-	-	-	-
Long-term debt, net of current portion	<u>-</u>	<u>39,150,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,150,000</u>
Total liabilities	(6,509,445)	49,850,338	8,765	790,464	-	44,140,122
Net position (deficit):						
Net investment in capital assets	15,469,615	(1,361,790)	-	58,609	-	14,166,434
Restricted:						
Nonexpendable	155,000	-	-	-	-	155,000
Expendable	1,820,000	-	-	-	-	1,820,000
Unrestricted	<u>12,773,960</u>	<u>(572,132)</u>	<u>2,005,859</u>	<u>129,131</u>	<u>(187,740)</u>	<u>14,149,078</u>
Total net position (deficit)	<u>\$ 30,218,575</u>	<u>\$ (1,933,922)</u>	<u>\$ 2,005,859</u>	<u>\$ 187,740</u>	<u>\$ (187,740)</u>	<u>\$ 30,290,512</u>

See Report of Independent Auditors.



PERRY COUNTY MEMORIAL HOSPITAL

Combining Statement of Operations and Changes in Net Position

Year ended December 31, 2015

	District	Association	Foundation	Skilled Nursing Facility	Eliminations	Combined
Operating revenues:						
Net patient service revenue	\$ 34,446,474	\$ -	\$ -	\$ 1,983,952	\$ (140,264)	\$ 36,290,162
Other revenue (loss)	<u>520,534</u>	<u>-</u>	<u>88,160</u>	<u>(71,794)</u>	<u>-</u>	<u>536,900</u>
Total operating revenues	34,967,008	-	88,160	1,912,158	(140,264)	36,827,062
Operating expenses:						
Salaries and other wage costs	17,925,311	-	-	1,664,883	-	19,590,194
Supplies and other expenses	3,536,557	-	-	62,545	-	3,599,102
General and administrative expenses	2,063,705	-	-	22,963	-	2,086,668
Professional fees	1,994,944	-	-	-	-	1,994,944
Contracted services	6,964,236	-	-	12,022	-	6,976,258
Depreciation and amortization	896,995	1,160,170	-	-	-	2,057,165
Provider tax expense	654,400	-	-	-	-	654,400
Other expense	<u>1,335,217</u>	<u>-</u>	<u>28,239</u>	<u>9,481</u>	<u>-</u>	<u>1,372,937</u>
Total operating expenses	<u>35,371,365</u>	<u>1,160,170</u>	<u>28,239</u>	<u>1,771,894</u>	<u>-</u>	<u>38,331,668</u>
Operating income (loss)	(404,357)	(1,160,170)	59,921	140,264	(140,264)	(1,504,606)
Nonoperating revenue (expenses):						
Investment (loss) income	(118,886)	-	96,623	-	-	(22,263)
Interest expense	(4,861)	(773,752)	-	-	-	(778,613)
Net unrealized losses on investments	<u>-</u>	<u>-</u>	<u>(106,870)</u>	<u>-</u>	<u>-</u>	<u>(106,870)</u>
Total nonoperating losses	<u>(123,747)</u>	<u>(773,752)</u>	<u>(10,247)</u>	<u>-</u>	<u>-</u>	<u>(907,746)</u>
Increase (decrease) in net position	(528,104)	(1,933,922)	49,674	140,264	(140,264)	(2,412,352)
Net position, beginning of year, as previously reported	31,242,794	-	1,956,185	(126,131)	-	33,072,848
Restatements (see Note 2)	<u>(496,115)</u>	<u>-</u>	<u>-</u>	<u>173,607</u>	<u>(47,476)</u>	<u>(369,984)</u>
Net position, beginning of year, as restated	<u>30,746,679</u>	<u>-</u>	<u>1,956,185</u>	<u>47,476</u>	<u>(47,476)</u>	<u>32,702,864</u>
Net position (deficit), end of year, as restated	<u>\$ 30,218,575</u>	<u>\$ (1,933,922)</u>	<u>\$ 2,005,859</u>	<u>\$ 187,740</u>	<u>\$ (187,740)</u>	<u>\$ 30,290,512</u>

See Report of Independent Auditors.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Perry County Memorial Hospital (the Hospital), which comprise the combined statement of net position as of December 31, 2016, and the related combined statements of operations and changes in net position for the year ended December 31, 2016, and the related notes to the combined financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated July 7, 2017.

**Internal Control Over Financial Reporting**

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

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

Our consideration of the 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be significant deficiencies. 2016-001, 2016-002, 2016-003 and 2016-004.

### Compliance and Other Matters

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

### Purpose of this Report

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

*Dean Dotson Allen Ford, PLLC*

July 7, 2017  
Lexington, Kentucky



**Perry County Memorial Hospital**

Schedule of Findings and Responses

Year ended December 31, 2016

**Finding 2016-001:**

**Criteria and Condition:**

During our audit, we noted substantial errors in reports and spreadsheets that were produced by management. Based upon internal control over financial reporting best practices, all reports and spreadsheets should be reconciled to the general ledger as part of the year-end closing process.

**Context:**

We reviewed spreadsheets which calculated the contractual and bad debt reserves, the Association trial balance, and SNF trial balance which all contained various errors varying in magnitude.

**Effect:**

The effect of these errors were that bad debt and contractual reserves were incorrect, the Association's depreciation and interest expenses were overstated, and the SNF's trial balance was incorrectly recorded which caused multiple adjusting entries. Based upon all of the entries recorded after initial receipt of the trial balance (including audit adjustments and client prepared entries), the decrease in net position increased by \$1,792,659.

**Cause:**

Discussions with accounting personnel have led us to believe that this is due to ineffective training and inefficient use of spreadsheet files.

**Recommendation:**

We recommend that this situation be corrected as soon as possible with improved training for all accounting department employees on the use of such software. We also recommend that the personnel be trained upon and follow all policies and procedures over financial reporting.

**Views of Responsible Officials:**

All spreadsheets will be reviewed and corrected. Also, additional training will be provided to accounting staff.



**Perry County Memorial Hospital**

Schedule of Findings and Responses, continued

Year ended December 31, 2016

**Finding 2016-002 (Repeat of 2015-001):**

**Criteria and Condition:**

During our testing of bank reconciliations, we noted a number of reconciling items which were up to a year old. Based upon accounting practices, old reconciling items should be resolved in a timely manner.

**Context:**

We reviewed bank reconciliations for all of the Hospital's bank accounts as of December 31, 2016 and noted reconciling items relating to patient charges that had not been credited to the proper patient accounts. Bank deposits were credited to a clearing account until such deposits have been reconciled to the proper patient account.

**Effect:**

The effect of these items is that patient accounts and cash could be misstated or items could be written off incorrectly. The net impact of these old reconciling items was overall immaterial to the financial statements, however, represents a failure of internal controls.

**Cause:**

Discussions with accounting personnel have led us to believe that this is due to staffing shortages which do not provide the proper time to research and reconcile these items on a timely basis.

**Recommendation:**

We recommend that bank accounts be reconciled and all differences between book and bank balances be investigated on a timely basis by appropriate accounting personnel so that errors and adjustments can be quickly identified and corrected.

**Views of Responsible Officials:**

Reconciling items will be investigated and resolved timely with adjustments made to the appropriate accounts.

**Perry County Memorial Hospital**

Schedule of Findings and Responses, continued

Year ended December 31, 2016

**Finding 2016-003 (Repeat of 2015-002)**

**Criteria and Condition:**

During our audit, we noted that management was unable to provide a listing of accounts receivable, by patient, for the clinics as of December 31, 2016. We also noted that the detail provided by management, which was by financial class, included accounts that had been sent to collections, which were not included in the allowance for doubtful accounts or written off. Due to the audit being performed as of December 31, 2016, an accounts receivable sub-ledger that reconciles to the general ledger should be provided as of year-end for accuracy in financial reporting and audit testing.

**Context:**

We tested the clinic patient accounts receivable balance and through discussions with management and accounting personnel, identified the balance that had been sent to collection agencies.

**Effect:**

The effect of management's failure to provide a patient level accounts receivable detail as of year-end was that we had to perform our patient accounts receivable testing as of the date of fieldwork, instead of at year-end. As a result of management of including those accounts that had been sent to collections bad debt, and contractual reserves were incorrectly reported. An entry was recorded to adjust these balances at year-end which increased the allowances by \$200,179.

**Cause:**

Discussions with management and accounting personnel have led us to believe that these errors are due to the disconnect between the patient accounts receivable processes at the clinics from those at the Hospital and a lack of oversight from Hospital management over accounts receivable accounting at the clinics.

**Recommendation:**

We recommend that a more detailed analysis of the clinic patient accounts receivable be developed and allowances be established for accounts determined to be uncollectible. We further recommend that management retains a patient level detail of accounts receivable as of year-end, which will allow for more accurate reporting and analysis. We also recommend that management develop and adhere to a written financial close process manual that includes applicable internal controls over financial reporting.

**Views of Responsible Officials:**

Patient level detail of clinic accounts receivable will be prepared on a monthly basis.

**Perry County Memorial Hospital**

Schedule of Findings and Responses, continued

Year ended December 31, 2016

**Finding 2016-004:**

**Criteria and Condition:**

During our audit, we encountered delays in receiving information and accounting records, primarily related to the contractual and bad debt allowance, pain management clinic, and the SNF. We also noted that the general ledgers for the Association, the Foundation and SNF are maintained in Excel. It is expected that management conforms to the agreed upon timeline of the audit in order to allow for audit efficiency and effectiveness and that management has a formal financial statement closing process.

**Context:**

Maintaining accounting records in Excel, versus maintaining them in the Hospital's accounting software, is inefficient and increases the likelihood of errors and misstatements.

**Effect:**

As a result of these errors, our audit was inefficient and time spent on audit questions and requests by Hospital management and staff was significantly increased. Based upon all of the entries recorded as part of the audit, the decrease in net position increased by \$1,792,659.

**Cause:**

Discussions with management and accounting personnel have led us to believe that this is due to a lack of training regarding the financial statement close process and budgetary constraints regarding purchases of additional accounting software.

**Recommendation:**

We recommend that all entities that are combined into the Hospital's financial statements be included in a formal financial statement closing process and that the Hospital implement a system that allows for the segregation or tracking of these transactions.

**Views of Responsible Officials:**

We will prepare and have the referenced accounts included in our monthly closing process.

Perry County Memorial Hospital

Schedule of Prior Year Findings

Year ended December 31, 2016

**Finding 2015-001:**

**Condition, Effect, and Recommendation:**

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

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

**Current Year Status:**

See finding 2016-002

**Finding 2015-002:**

**Condition, Effect, and Recommendation:**

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

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

**Current Year Status:**

See finding 2016-003