



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B50462

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

July 13, 2018

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

We have reviewed the audit report opined on by BKD, LLP, Independent Public Accountants, for the period January 1, 2017 to December 31, 2017. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of the Perry County Memorial Hospital as of December 31, 2017, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report on page 30. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding. Views of responsible officials and planned corrective action may be found directly following the finding.

In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts.

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
A Component Unit of Perry County, Indiana
Independent Auditor's Report and Financial Statements
December 31, 2017



Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
December 31, 2017

Contents

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis	3
Financial Statements	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position.....	9
Statement of Cash Flows	10
Notes to Financial Statements	11
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards – Independent Auditor’s Report.....	28
Schedule of Findings and Responses	30

Independent Auditor's Report

Board of Trustees
Perry County Memorial Hospital
Tell City, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Perry County Memorial Hospital (Hospital), a component unit of Perry County, Indiana, as of and for the year ended December 31, 2017, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The 2016 financial statements, before they were restated for the matters discussed in Note 17, were audited by other auditors, and their report thereon dated July 7, 2017, expressed an unmodified opinion. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated July 9, 2018, 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 solely 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 effectiveness of the Hospital's 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.

BKD, LLP

Louisville, Kentucky
July 9, 2018

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Management's Discussion and Analysis
Year Ended December 31, 2017

Introduction

This management's discussion and analysis of the financial performance of Perry County Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the year ended December 31, 2017. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash increased in 2017 by \$980,400, or 55%, in 2017 as compared to 2016.
- The Hospital's net position decreased by \$1,898,032, or 7.6%, in 2017 as compared to 2016 from operating and nonoperating results.
- The Hospital reported an operating loss in 2017 of \$1,426,761. The operating loss in 2017 decreased by \$1,080,083, or 43.1%, over the operating loss reported in 2016.
- Net nonoperating expenses decreased by \$2,459,167, or 83.9%, in 2017 compared to 2016.

Using This Annual Report

The Hospital's financial statements consist of three statements — a statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital reports as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

The statement of net position and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and activities for purposes of illustrating the effects of the past year's activity on the financial health of the Hospital. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. As the Hospital uses the accrual basis of accounting, current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Hospital's total net position — the difference between assets and liabilities — is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position is an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Management's Discussion and Analysis
Year Ended December 31, 2017

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. The statement of cash flows illustrates the uses and sources of cash for the year.

The Hospital's Net Position

The Hospital's net position is the difference between assets and liabilities reported in the statement of net position. The Hospital's net position decreased by \$1,898,032 (7.6%) in 2017 over 2016, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2017	2016
Assets		
Patient accounts receivable, net	\$ 4,696,292	\$ 5,105,475
Other current assets	9,694,054	9,764,274
Capital assets, net	50,030,806	51,763,988
Other noncurrent assets	2,195,868	2,301,383
	<u>66,617,020</u>	<u>68,935,120</u>
Total assets	<u>\$ 66,617,020</u>	<u>\$ 68,935,120</u>
Liabilities		
Long-term debt	\$ 37,958,000	\$ 38,563,000
Other current and noncurrent liabilities	5,459,637	5,274,705
	<u>43,417,637</u>	<u>43,837,705</u>
Total liabilities	<u>43,417,637</u>	<u>43,837,705</u>
Net Position		
Net investment in capital assets	11,467,806	12,563,987
Restricted	1,820,000	1,820,000
Unrestricted	9,911,577	10,713,428
	<u>23,199,383</u>	<u>25,097,415</u>
Total net position	<u>23,199,383</u>	<u>25,097,415</u>
Total liabilities and net position	<u>\$ 66,617,020</u>	<u>\$ 68,935,120</u>

A significant change in the Hospital's assets in 2017 is the decrease in patient accounts receivable. Net patient accounts receivable decreased by \$409,183 (8.0%) or 4 days of revenue at December 31, 2017, versus December 31, 2016. The decrease in accounts receivable results primarily from the refinement of the allowance for contractals and bad debts, and improved collection efforts in the current year.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Management's Discussion and Analysis
Year Ended December 31, 2017

Operating Results and Changes in the Hospital's Net Position

In 2017, the Hospital's net position decreased by \$1,898,032 from operating and nonoperating results, or 7.6%, as shown in Table 2. This decrease is made up of several different components.

Table 2: Operating Results and Changes in Net Position

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Net patient service revenue	\$ 35,950,724	\$ 35,930,538
Other operating revenues	<u>2,382,208</u>	<u>2,391,167</u>
Total operating revenues	<u>38,332,932</u>	<u>38,321,705</u>
Operating Expenses		
Salaries and wages and employee benefits	20,232,062	20,001,434
Purchased services and professional fees	8,185,122	9,519,632
Depreciation and amortization	2,747,481	2,765,739
Provider tax expenses	1,113,593	591,979
Other operating expenses	<u>7,481,435</u>	<u>7,949,765</u>
Total operating expenses	<u>39,759,693</u>	<u>40,828,549</u>
Operating Loss	<u>(1,426,761)</u>	<u>(2,506,844)</u>
Nonoperating Revenues (Expenses)		
Investment income	754,727	290,732
Interest expense	(1,195,254)	(1,236,111)
Gain on investment in equity investee	54,485	86,003
Loss on disposal of capital assets	<u>(85,229)</u>	<u>(2,071,062)</u>
	<u>(471,271)</u>	<u>(2,930,438)</u>
Change in Net Position	<u>\$ (1,898,032)</u>	<u>\$ (5,437,282)</u>

Operating Losses

The first component of the overall change in the Hospital's net position is its operating income or loss, identified as the difference between net patient service and other operating revenues and the expenses incurred to perform those services. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Perry County, Indiana and the surrounding area. In 2017 and 2016, the Hospital has reported an operating loss.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Management's Discussion and Analysis
Year Ended December 31, 2017

The operating loss for 2017 decreased by \$1,080,083, or 43.1%, as compared to 2016. The primary components of change in operating results are:

- An increase in net patient service revenue of \$20,186, or 0.13%.
- An increase in salaries and wages and employee benefits of \$230,628, or 1.2%.
- A decrease in purchased services and professional fees of \$1,334,510, or 14.0%.
- An increase in provider tax expense of \$521,614, or 88.1%.
- A decrease in other operating expenses of \$468,330, or 5.9%.

Net patient service revenue remained relatively constant as patient volumes were consistent in 2017 as compared to 2016.

Salaries and wages and employee benefits increased in 2017 as compared to 2016 due to additional health insurance costs. Purchased services and professional fees decreased due to less contracted nursing employees that were hired and included in salaries and benefits expense in 2017 as compared to 2016. The increase in the provider tax was a result of additional provider taxes due related to changes in the state participation in the Medicaid program. The decrease in other expenses was a result of a decrease in supplies expenses from 2016 to 2017.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with the changes in operating losses and nonoperating revenues and expenses for 2017 compared to 2016, with the following exceptions. Cash provided by operating activities increased in 2017 (\$2,870,214) as compared to 2016 (\$1,244,814) due to receipt of both 2016 and 2017 Disproportionate Share Hospital (DSH) payments in 2017.

Capital Asset and Debt Administration

Capital Assets

At the end of 2017, the Hospital had \$50,030,806 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2017, the Hospital purchased capital assets costing \$1,099,528.

Debt

At December 31, 2017, the Hospital had \$38,563,000 in lease revenue bonds. The Hospital issued no new debt in 2017.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Management's Discussion and Analysis
Year Ended December 31, 2017

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the chief financial officer by telephoning 814.547.0170.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Statement of Net Position
December 31, 2017

Assets

Current Assets

Cash	\$ 2,762,637
Short-term investments	5,342,736
Patient accounts receivable, net of allowance of \$1,475,000	4,696,292
Other receivables	179,163
Supplies	634,989
Prepaid expenses and other current assets	419,030
Estimated amounts due from third-party payers	<u>355,499</u>

Total current assets 14,390,346

Noncurrent Cash and Investments

Held by trustee for debt service	<u>1,820,000</u>
----------------------------------	------------------

Capital Assets, Net

50,030,806

Other Assets

375,868

Total assets \$ 66,617,020

Liabilities and Net Position

Current Liabilities

Current portion of long-term debt	\$ 605,000
Accounts payable	1,389,979
Payable to employees (including payroll taxes and benefits)	1,293,779
Accrued expenses	<u>2,170,879</u>

Total current liabilities 5,459,637

Long-Term Debt

37,958,000

Total liabilities 43,417,637

Net Position

Net investment in capital assets	11,467,806
Restricted-expendable for	
Debt service and capital improvements	1,820,000
Unrestricted	<u>9,911,577</u>

Total net position 23,199,383

Total liabilities and net position \$ 66,617,020

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2017

Operating Revenues

Net patient service revenue, net of provision for uncollectible accounts of \$3,460,374	\$ 35,950,724
Other	<u>2,382,208</u>
Total operating revenues	<u>38,332,932</u>

Operating Expenses

Salaries and benefits	20,232,062
Purchased services and professional fees	8,185,122
Supplies	4,196,878
Provider tax expense	1,113,593
Depreciation and amortization	2,747,481
Other expenses	<u>3,284,557</u>
Total operating expenses	<u>39,759,693</u>

Operating Loss (1,426,761)

Nonoperating Revenues (Expenses)

Investment income	754,727
Interest expense	(1,195,254)
Gain on investment in equity investee	54,485
Loss on disposal of capital assets	<u>(85,229)</u>
Total nonoperating revenues (expenses)	<u>(471,271)</u>

Decrease in Net Position (1,898,032)

Net Position, Beginning of Year, as Previously Reported 25,962,379

Restatement of Beginning Balance (Note 17) (864,964)

Net Position, Beginning of Year, as Restated 25,097,415

Net Position, End of Year \$ 23,199,383

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Statement of Cash Flows
Year Ended December 31, 2017

Operating Activities

Receipts from and on behalf of patients	\$ 36,758,591
Payments to suppliers and contractors	(16,097,155)
Payments to employees	(20,248,540)
Other receipts, net	<u>2,457,318</u>

Net cash provided by operating activities 2,870,214

Capital and Related Financing Activities

Principal payments on long-term debt	(587,000)
Interest paid on long-term debt	(1,224,002)
Purchase of capital assets	<u>(1,099,528)</u>

Net cash used in capital and related financing activities (2,910,530)

Investing Activities

Proceeds from disposition of investments	3,799,232
Purchase of investments	(2,897,141)
Interest and dividend income	<u>118,625</u>

Net cash provided by investing activities 1,020,716

Increase in Cash 980,400

Cash, Beginning of Year 1,782,237

Cash, End of Year \$ 2,762,637

Reconciliation of Operating Loss to Net Cash

Provided by Operating Activities

Operating loss	\$ (1,426,761)
Depreciation and amortization	2,747,481
Provision for uncollectible accounts	3,460,374
Changes in operating assets and liabilities	
Patient accounts receivable	(3,051,191)
Estimated amounts due to/from third-party payers	398,684
Accounts payable and accrued expenses	195,685
Prepaid assets, supplies and other assets	<u>545,942</u>

Net cash provided by operating activities \$ 2,870,214

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2017

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

Nature of Operations and Reporting Entity

Perry County Memorial Hospital (Hospital) is an acute care hospital located in Tell City, Indiana. The Hospital is a component unit of Perry County (County) and the Board of County Commissioners appoints members to the board of trustees of the Hospital under the provisions of Indiana Code 16-22-2-2. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Perry County and surrounding areas.

The financial statements of the Hospital include blended component units of Perry County Memorial Hospital Association (Association) and Perry County Memorial Hospital Foundation (Foundation).

The Foundation is a 501(c)3 nonprofit health organization established in order to promote and support the Hospital in the provision of health care. The Foundation is a separate legal entity but is financially integrated with the Hospital and is reported as a blended component unit of the Hospital and does not issue separate financial statements.

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.

The Hospital also operates a long-term care facility through a lease and management agreement. The facility provides inpatient and therapy services throughout its geographic area and supports the Hospital's mission to provide quality care and services to the patients of the facility. The facility is managed by a third party under a management agreement. The revenues from operations are the property of the Hospital and the Hospital is responsible for the associated expenses and working capital requirements.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2017

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

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

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments generally include money market accounts, mutual funds and certificates of deposit. The investments in equity investees are reported on the equity method of accounting. Certificates of deposit are carried at cost, plus accrued interest, which approximates fair value. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Noncurrent cash and investments include assets held by trustees under debt agreements and designated assets set aside by the board of trustees for specific operating activities, 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.

Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2017

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method (FIFO), or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10–25 years
Buildings and leasehold improvements	10–40 years
Equipment	3–15 years

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2017

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods, as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As essential government functions of the County, the Hospital and Association are generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code (IRC) and Section 501(c) and a similar provision of state law. However, the Hospital and Association are subject to federal income tax on any unrelated business taxable income.

The Foundation has been recognized as exempt from income taxes under Section 501 of the IRC and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files tax returns in the U.S. federal jurisdiction.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology.

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2017

The Hospital participates in a state specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$1,114,000 of fees related to the program in 2017, which is recorded as an operating expense. The provider assessment fee program is subject to retroactive rate setting by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital. There is no assurance this program will continue to be implemented in the future.

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

Approximately 55% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended December 31, 2017. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital is responsible for funding the IGT for the long-term care operations. Revenue associated with the UPL program is recorded net of IGT payments made to the program and are included in net patient service revenue. The Hospital recognized approximately \$407,000 related to this supplemental payment program for the year ended December 31, 2017.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposit may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Deposits with financial institutions in the state of Indiana at year-end were entirely insured by the Federal Deposit Insurance Corporation (FDIC) or by the Indiana Public Deposit Insurance Fund (IPDIF). This includes any deposit accounts issued or offered by a qualifying financial institution. Accordingly, all deposits in excess of FDIC levels are covered by the IPDIF and considered collateralized.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2017

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury, U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds, equity securities, money market mutual funds, mutual funds and certificates of deposit. At December 31, 2017, the Hospital had the following investments and maturities:

Type	2017				
	Fair Value	Maturities in Years			
		Less Than One	One to Five	Six to 10	More Than 10
Money market mutual funds	\$ 68,408	\$ 68,408	\$ -	\$ -	\$ -
	68,408	\$ 68,408	\$ -	\$ -	\$ -
Mutal funds	4,580,012				
	<u>\$ 4,648,420</u>				

Interest Rate Risk – Interest rate risk is the risk of fair value losses arising from rising interest rates. The Hospital does not have a formal policy to limit its interest rate risk. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital’s policy to limit its investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSRO). At December 31, 2017, the Hospital held no investments in corporate bonds.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At December 31, 2017, the Hospital held no investments in the possession of an outside party.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. At December 31, 2017, the Hospital held no investments in any one issuer.

Foreign Currency Risk – This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Hospital had no investments denominated in foreign currency at December 31, 2017.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2017

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statements of net position at December 31, 2017, as follows:

Carrying value	
Deposits	\$ 5,276,953
Investments	<u>4,648,420</u>
	<u>\$ 9,925,373</u>

Included in the following statement of net position captions:

Cash and cash equivalents	\$ 2,762,637
Short-term investments	5,342,736
Noncurrent cash and investments	<u>1,820,000</u>
	<u>\$ 9,925,373</u>

Investment Income

Investment income for the year ended December 31, 2017, consisted of:

Interest and dividend income	\$ 118,625
Net unrealized gains on investments	255,743
Net realized gains on investments	<u>380,359</u>
	<u>\$ 754,727</u>

At December 31, 2017, the Hospital had \$2,514,316 of non-negotiable certificates of deposit included in deposits.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2017

Note 4: Concentration of Credit Risk

Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. The mix of patient accounts receivable from patients and third-party payers at December 31, 2017, was:

Medicare	\$ 1,710,236
Medicaid	1,003,580
Commercial	1,510,737
Patients	1,946,419
	<u>6,170,972</u>
Less allowance for uncollectible accounts	<u>1,474,680</u>
	<u><u>\$ 4,696,292</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2017, was:

	2017				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land and improvements	\$ 3,815,753	\$ -	\$ -	\$ -	\$ 3,815,753
Buildings and leasehold improvements	43,936,639	-	(22,146)	-	43,914,493
Equipment	17,865,371	904,060	(92,008)	-	18,677,423
Construction in progress	36,019	195,468	-	-	231,487
Total capital assets	<u>65,653,782</u>	<u>1,099,528</u>	<u>(114,154)</u>	<u>-</u>	<u>66,639,156</u>
Less accumulated depreciation					
Land improvements	(199,064)	(7,857)	-	-	(206,921)
Buildings and leasehold improvements	(3,778,830)	(1,185,006)	19,917	-	(4,943,919)
Equipment	(9,911,900)	(1,554,618)	9,008	-	(11,457,510)
Total accumulated depreciation	<u>(13,889,794)</u>	<u>(2,747,481)</u>	<u>28,925</u>	<u>-</u>	<u>(16,608,350)</u>
Capital assets, net	<u>\$ 51,763,988</u>	<u>\$ (1,647,953)</u>	<u>\$ (85,229)</u>	<u>\$ -</u>	<u>\$ 50,030,806</u>

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2017

Note 6: Investment in Joint Venture

The Hospital participates in a joint venture, Perry County Pain Management, LLC (Pain Management). The Hospital has a 51% ownership in Pain Management; however, the Hospital does not control Pain Management based upon the provisions of the operating agreement. The investment in Pain Management is accounted for under the equity method of accounting. The equity method investment was \$350,868 at December 31, 2017, and was included in other assets in the statement of net position. There was payable to Pain Management of \$601,949 at December 31, 2017, which is included in accrued expenses in the statement of net position.

Note 7: Medical Malpractice Claims

Malpractice insurance coverage is provided on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently would be uninsured. However, the *Indiana Malpractice Act* limits professional liability for claims prior to July 1, 2017, to a maximum recovery of \$1,250,000 per occurrence, \$250,000 of which would be paid through medical insurance coverage, while the remaining balance would be paid by the State of Indiana Patient Compensation Fund (Fund). For claims on or after July 1, 2017, the maximum recovery is \$1,650,000 per occurrence, \$400,000 of which would be paid through insurance coverage, with the remainder due from the Fund. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: 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 annual aggregate amount of \$65,000. 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 consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is possible that the Hospital's estimate will change by a material amount in the near term.

Balance, beginning of year	\$ 265,000
Current year claims incurred and changes in estimates for claims incurred in prior years	3,847,354
Claims and expenses paid	<u>(3,615,611)</u>
Balance, end of year	<u><u>\$ 496,743</u></u>

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2017

Note 9: Long-Term Obligations

The following is a summary of long-term debt transactions for the Hospital for the year ended December 31, 2017:

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
USDA lease revenue bonds 2013 (A)	\$ 39,150,000	\$ -	\$ 587,000	\$ 38,563,000	\$ 605,000
Total long-term debt obligations	<u>\$ 39,150,000</u>	<u>\$ -</u>	<u>\$ 587,000</u>	<u>\$ 38,563,000</u>	<u>\$ 605,000</u>

(A) United States Department of Agriculture lease revenue bonds 2013 (2013 Bonds) in the amount of \$40,000,000. The bonds were issued to build and equip the new hospital. Semi-annual principal payments including interest at 3.125% are due through January 2053. The 2013 Bonds are secured by substantially all the capital assets of the Hospital. Under the terms of the 2013 Bonds, the Hospital is required to maintain certain deposits with a trustee, which are included in noncurrent cash and investments in the statement of net position. The 2013 Bonds also places limits on the incurrence of additional borrowings as long as the bonds are outstanding.

The debt service requirements as of December 31, 2017, were as follows:

Year Ending December 31	Total to be Paid	Principal	Interest
2018	\$ 1,805,484	\$ 605,000	\$ 1,200,484
2019	1,805,422	624,000	1,181,422
2020	1,802,766	641,000	1,161,766
2021	1,806,578	665,000	1,141,578
2022	1,806,625	686,000	1,120,625
2023–2027	9,026,265	3,761,000	5,265,265
2028–2032	9,025,891	4,391,000	4,634,891
2033–2037	9,030,938	5,133,000	3,897,938
2038–2042	9,033,031	5,996,000	3,037,031
2043–2047	9,028,719	6,997,000	2,031,719
2048–2052	9,032,859	8,175,000	857,859
2053	902,891	889,000	13,891
	<u>\$ 64,107,469</u>	<u>\$ 38,563,000</u>	<u>\$ 25,544,469</u>

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2017

Note 10: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Money market mutual funds	\$ 4,580,012	\$ 4,580,012	\$ -	\$ -
Mutual funds	68,408	68,408	-	-
	<u>\$ 4,648,420</u>	<u>\$ 4,648,420</u>	<u>\$ -</u>	<u>\$ -</u>

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2017

Note 11: Defined Contribution Plan

The Hospital maintains a defined-contribution retirement plan for the benefit of substantially all of its employees. The plan is administered by the board of trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Employee contributions are allowed up to the maximum allowable by law. The Hospital's discretionary contribution is 3% of eligible salaries plus an optional 3% matching contribution. For the year ended December 31, 2017, the Hospital made \$459,246 of contributions to the plan.

Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 7.

Incurred, But Not Reported, Employee Health Insurance Claims

Estimates of incurred, but not reported, health insurance claims are described in Note 8.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2017

Note 13: Risk, Uncertainties and Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance discussed elsewhere in these notes; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 14: Commitments

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 fee is adjusted annually by an agreed-upon inflationary adjustment. Total management and consulting fees paid to Alliant during the year ended December 31, 2017, were approximately \$725,000.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2017

Note 15: Condensed Combining Information

The following table includes condensed combining statement of net position information for the Hospital and its blended component units as of December 31, 2017:

	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Assets					
Current Assets					
Cash	\$ 2,669,318	\$ 10,658	\$ 82,661	\$ -	\$ 2,762,637
Short-term investments	2,901,255	-	2,441,481	-	5,342,736
Patient accounts receivable, net of allowance	4,696,292	-	-	-	4,696,292
Other receivables	179,163	-	-	-	179,163
Supplies	634,989	-	-	-	634,989
Prepaid expenses and other current assets	419,030	-	-	-	419,030
Estimated amounts due from third-party payers	355,499	-	-	-	355,499
Total current assets	<u>11,855,546</u>	<u>10,658</u>	<u>2,524,142</u>	<u>-</u>	<u>14,390,346</u>
Noncurrent Cash and Investments					
Held by trustee for debt service	1,820,000	-	-	-	1,820,000
Capital Assets, Net					
	<u>6,190,705</u>	<u>43,840,101</u>	<u>-</u>	<u>-</u>	<u>50,030,806</u>
Other Assets					
	<u>375,868</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>375,868</u>
Total assets	<u>\$ 20,242,119</u>	<u>\$ 43,850,759</u>	<u>\$ 2,524,142</u>	<u>\$ -</u>	<u>\$ 66,617,020</u>
Liabilities and Net Position					
Current Liabilities					
Current portion of long-term debt	\$ -	\$ 605,000	\$ -	\$ -	\$ 605,000
Accounts payable	1,389,979	-	-	-	1,389,979
Payable to employees (including payroll taxes and benefits)	1,293,779	-	-	-	1,293,779
Accrued expenses	1,618,544	552,335	-	-	2,170,879
Total current liabilities	<u>4,302,302</u>	<u>1,157,335</u>	<u>-</u>	<u>-</u>	<u>5,459,637</u>
Long-Term Debt					
	<u>-</u>	<u>37,958,000</u>	<u>-</u>	<u>-</u>	<u>37,958,000</u>
Total liabilities	<u>4,302,302</u>	<u>39,115,335</u>	<u>-</u>	<u>-</u>	<u>43,417,637</u>
Net Position					
Net investment in capital assets	6,190,705	5,277,101	-	-	11,467,806
Restricted-expendable for debt service and capital improvements	1,820,000	-	-	-	1,820,000
Unrestricted	7,929,112	(541,677)	2,524,142	-	9,911,577
Total net position	<u>15,939,817</u>	<u>4,735,424</u>	<u>2,524,142</u>	<u>-</u>	<u>23,199,383</u>
Total liabilities and net position	<u>\$ 20,242,119</u>	<u>\$ 43,850,759</u>	<u>\$ 2,524,142</u>	<u>\$ -</u>	<u>\$ 66,617,020</u>

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2017

The following table includes condensed combining statement of revenues, expenses and change in net position information for the Hospital and its blended component units as of December 31, 2017:

	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts	\$ 35,950,724	\$ -	\$ -	\$ -	\$ 35,950,724
Other	2,260,000	-	122,208	-	2,382,208
Total operating revenues	<u>38,210,724</u>	<u>-</u>	<u>122,208</u>	<u>-</u>	<u>38,332,932</u>
Operating Expenses					
Salaries and benefits	20,232,062	-	-	-	20,232,062
Purchased services and professional fees	8,185,122	-	-	-	8,185,122
Supplies	4,196,878	-	-	-	4,196,878
Provider tax expense	1,113,593	-	-	-	1,113,593
Depreciation and amortization	662,848	2,084,633	-	-	2,747,481
Other expenses	3,189,616	-	94,941	-	3,284,557
Total operating expenses	<u>37,580,119</u>	<u>2,084,633</u>	<u>94,941</u>	<u>-</u>	<u>39,759,693</u>
Operating Income (Loss)	<u>630,605</u>	<u>(2,084,633)</u>	<u>27,267</u>	<u>-</u>	<u>(1,426,761)</u>
Nonoperating Revenues (Expenses)					
Investment income	373,860	-	380,867	-	754,727
Interest expense	-	(1,195,254)	-	-	(1,195,254)
Gain on investment in equity investee	54,485	-	-	-	54,485
Loss on disposal of capital assets	(85,229)	-	-	-	(85,229)
Total nonoperating revenues (expenses)	<u>343,116</u>	<u>(1,195,254)</u>	<u>380,867</u>	<u>-</u>	<u>(471,271)</u>
Excess (Deficiency) of Revenues Over Expenses Before Transfers	973,721	(3,279,887)	408,134	-	(1,898,032)
Transfers	<u>(1,810,997)</u>	<u>1,810,997</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>(837,276)</u>	<u>(1,468,890)</u>	<u>408,134</u>	<u>-</u>	<u>(1,898,032)</u>
Net Position, Beginning of Year, as Previously Reported	17,642,057	6,204,314	2,116,008	-	25,962,379
Restatement of Beginning Balance (Note 17)	<u>(864,964)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(864,964)</u>
Net Position, Beginning of Year, as Restated	<u>16,777,093</u>	<u>6,204,314</u>	<u>2,116,008</u>	<u>-</u>	<u>25,097,415</u>
Net Position, End of Year	<u>\$ 15,939,817</u>	<u>\$ 4,735,424</u>	<u>\$ 2,524,142</u>	<u>\$ -</u>	<u>\$ 23,199,383</u>

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2017

The following table includes condensed combining statement of cash flow information for the Hospital and its blended component units as of December 31, 2017:

	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Operating Activities					
Receipts from and on behalf of patients	\$ 36,758,591	\$ -	\$ -	\$ -	\$ 36,758,591
Payments to suppliers and contractors	(15,943,454)	(49,995)	(103,706)	-	(16,097,155)
Payments to employees	(20,248,540)	-	-	-	(20,248,540)
Other receipts, net	2,335,110	-	122,208	-	2,457,318
Net cash provided by (used in) operating activities	2,901,707	(49,995)	18,502	-	2,870,214
Capital and Related Financing Activities					
Principal payments on long-term debt	-	(587,000)	-	-	(587,000)
Interest paid on long-term debt	-	(1,224,002)	-	-	(1,224,002)
Purchase of capital assets	(1,099,528)	-	-	-	(1,099,528)
Net cash used in capital and related financing activities	(1,099,528)	(1,811,002)	-	-	(2,910,530)
Investing Activities					
Proceeds from disposition of investments	2,869,196	-	930,036	-	3,799,232
Purchase of investments	(1,930,355)	-	(966,786)	-	(2,897,141)
Interest and dividend on investments	61,159	-	57,466	-	118,625
Transfer (to) from affiliates	(1,810,997)	1,810,997	-	-	-
Net cash provided by (used in) investing activities	(810,997)	1,810,997	20,716	-	1,020,716
Increase (Decrease) in Cash and Cash Equivalents	991,182	(50,000)	39,218	-	980,400
Cash, Beginning of Year	1,678,136	60,658	43,443	-	1,782,237
Cash, End of Year	\$ 2,669,318	\$ 10,658	\$ 82,661	\$ -	\$ 2,762,637
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities					
Operating income (loss)	\$ 630,605	\$ (2,084,633)	\$ 27,267	\$ -	\$ (1,426,761)
Depreciation and amortization	662,848	2,084,633	-	-	2,747,481
Provision for uncollectible accounts	3,460,374	-	-	-	3,460,374
Changes in operating assets and liabilities					
Patient accounts receivable	(3,051,191)	-	-	-	(3,051,191)
Estimated amounts due to/from third-party payers	398,684	-	-	-	398,684
Accounts payable and accrued expenses	254,445	(49,995)	(8,765)	-	195,685
Prepaid assets, supplies and other assets	545,942	-	-	-	545,942
Net cash provided by (used in) operating activities	\$ 2,901,707	\$ (49,995)	\$ 18,502	\$ -	\$ 2,870,214

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2017

Note 16: Future Change in Accounting Principle

The Governmental Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The new standard is effective for annual periods beginning after December 15, 2019. The Hospital is evaluating the impact the standard will have on the financial statements; however, the standard may have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Note 17: Restatement of Prior Year's Financial Statements

The beginning balance of net position as of January 1, 2017, has been restated to properly record the impairment of the old hospital building in the previous year of \$2,071,062, increase cash by \$371,745, increase the receivable for the state of Indiana Disproportionate Share payments by \$1,261,463, decrease noncurrent cash and investments by \$155,000 and a decrease in net position related to the investment and liabilities related to Pain Management by \$272,143. The Hospital's net position as of January 1, 2017, was decreased by \$864,964.

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

Independent Auditor's Report

Board of Trustees
Perry County Memorial Hospital
Tell City, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Perry County Memorial Hospital (Hospital), a component unit of Perry County, Indiana, which comprise the statement of net position as of December 31, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated July 9, 2018, which contained an emphasis of matter paragraph regarding the restatement of the Hospital's net position as of January 1, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-001 that we consider to be a material weakness.

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*.

Management's Response to Findings

Management's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of This Report

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

BKD, LLP

Louisville, Kentucky
July 9, 2018

**Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Schedule of Findings and Responses
Year Ended December 31, 2017**

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2017-001	<p>Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition: There were errors identified in the previously issued 2016 financial statements for the accounting for assets held for sale related to the old hospital building, cash, Indiana DSH funding receivable, noncurrent cash and investments and the investment in a joint venture. Assets held for sale related to the old hospital building were written off in the 2016 financial statements. There was a reconciling item to reduce cash in the bank reconciliation that was corrected in the 2016 financial statements to increase the cash balance. The Indiana DSH funding was being accounted for on the cash basis and was corrected to accrual accounting in the 2016 financial statements. There was an investment related to a donation to a community foundation that was corrected to decrease the noncurrent cash and investments. The investment in Pain Management was being accounted for as part of the Hospital and was corrected to account for the investment as an equity method investment in the 2016 financial statements.</p> <p>Context: Management is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.</p> <p>Effect: Potential material misstatement in the financial statements and disclosures.</p> <p>Cause: The Hospital's internal controls did not ensure proper accounting for the items noted above.</p> <p>Recommendation: We recommend management review its financial statements to ensure transactions are properly accounted for in the financial statements.</p> <p>Views of responsible officials and planned corrective actions: Management agrees with the recommendation and will review the financial statements to ensure similar transactions are properly accounted for in the financial statements.</p>