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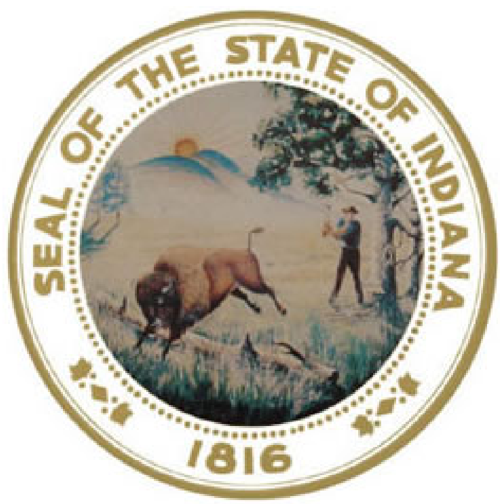
# STATE BOARD OF ACCOUNTS
# 302 West Washington Street
# Room E418
# INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

HARRISON COUNTY HOSPITAL
A COMPONENT UNIT OF
HARRISON COUNTY, INDIANA

January 1, 2012 to December 31, 2012

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SCHEDULE OF OFFICIALS

| Office | Official | Term |
| --- | --- | --- |
| Chief Executive Officer | Steven L. Taylor | 01-01-12 to 12-31-14 |
| Chief Financial Officer | Jeffrey L. Davis | 01-01-12 to 12-31-14 |
| Chairman of the Hospital Board | Paul Martin | 01-01-12 to 12-31-12 |
| | Fred Owen | 01-01-13 to 12-31-14 |
| President of the Board of County Commissioners | James Goldman | 01-01-12 to 12-31-12 |
| | Kenny Saulman | 01-01-13 to 12-31-14 |

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**AN EQUAL OPPORTUNITY EMPLOYER**

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# INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE HARRISON COUNTY HOSPITAL, HARRISON COUNTY, INDIANA

## *Report on the Financial Statements*

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

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Harrison MOB, LLC, which statements reflect total assets constituting 100 percent, of the total assets of the discretely presented component unit at December 31, 2012, and total revenues constituting 100 percent of the discretely presented component unit's total revenues for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Harrison MOB, LLC, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

***Opinions***

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

***Other Matters***

*Required Supplementary Information*

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

*Other Information*

*Hospital's Response to Audit Results and Comments*

The Hospital'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.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

February 26, 2014

# HARRISON COUNTY HOSPITAL

## Management Discussion and Analysis (MD&A)

This section of Harrison County Hospital's (HCH) annual financial statements presents background information and management discussion and analysis of the HCH financial performance for the year ended December 31, 2012. HCH reports results on a fiscal year of January 1 to December 31, and any reference to a year in this MD&A indicates the HCH fiscal years. This MD&A does not include a discussion and analysis of the activities and results of the Harrison County Hospital Foundation or the Harrison MOB LLC.

This MD&A should be read together with the financial statements and accompanying Notes to the Financial Statements included in this report.

### Financial Highlights

- HCH net position decreased by $1,420,196 in 2012, resulting from an operating loss of ($266,358), non-operating expenses of ($811,263) and other gains and losses of ($342,575). The main non-operating item was interest expense of ($1,011,906). Other gains and losses include a loss of ($355,182) on the net book value of real estate adjacent to the hospital's former campus that was donated to the County government in 2012

- Total net patient revenue, net of provision for bad debt, increased by 7.3%, while operating expenses increased by 7.2%.

- Long term debt, including current maturities, is $9,098,725 at December 31, 2012, compared to $9,431,733 payable at the end of 2011. This amount represents outstanding debt related to the new hospital construction completed in 2008. Scheduled payments related to the long term debt in 2012 consisted of principal of $353,100 and interest of $348,654. More information on the long term debt is presented in the Notes to the Financial Statements.

- In 2006 HCH entered into an agreement with several physicians and healthcare providers to establish Harrison MOB, LLC. This entity was formed to invest in and operate a new medical office building to be located on the campus of the new HCH facility. As of the 2012 year-end HCH had a net investment of $833,688, which includes ownership of approximately 61% of the shares of the LLC. Harrison MOB, LLC is a discrete component unit of HCH, and the financial statements of this unit are presented in a separate independent audit report.

- HCH continues to upgrade and expand hospital and physician practice information systems to improve quality of information for clinical and financial management. In December of 2011 the hospital entered into agreements for replacement of hospital and physician information systems. The implementation of the new systems occurred in 2012. The total initial costs of the systems was approximately $3.1 million, and the hospital expects to recover 75-80% of this cost through federal and state electronic health records (EHR) incentives, and to a lesser extent Medicare cost reimbursement for patient services. The enhanced information systems will also allow for operational efficiencies as patient volumes increase, will be vital in conforming to regulatory requirements, and will provide the platform which will allow HCH to qualify for government incentive payments related to EHR and quality initiatives in the future.

- In 2012, the Harrison County Commissioners and the Board of Trustees approved the transfer of certain HCH land and buildings to Harrison County. The property transferred consisted land and improvements, former medical office buildings and EMS facilities, adjacent to the old hospital campus that were not transferred with the rest of the former campus to the County in 2008, because they were still being utilized by the hospital at that time. The properties are now no longer needed by the hospital due to the completion of a new medical office building in 2009, and the completion of new EMS facilities in 2010, both located on the hospital's new campus. The transfer took place on December 3, 2012. The properties carried an original cost of $1,094,642 with total accumulated depreciation of $739,460, leaving a book value of $355,182. The resulting loss on the disposal of the properties has been treated as an extraordinary item in the 2012 financial statements.

- Recruiting and retaining a core group of physicians has been part of the strategic plan of HCH for many years. In recent years HCH has entered into employment arrangements with a growing number of physicians, rather than the physicians maintaining independent practices. The strategy of hospitals employing physicians has become widespread due to changes in the industry which make the arrangement necessary and advantageous in many instances. The long term effect of physician employment will be that an adequate number of primary care and specialty providers will be retained in the community, which in turn will generate patients and revenue streams for HCH. In the short term, salary and benefits costs will increase in total and in relation to net revenue, as it normally will take the physician practices three to five years to build and mature.

## The Financial Statements

The HCH financial statements consist of: a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These statements provide short-term and long-term financial information.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position provide information on the HCH resources and its activities. These two statements report the net position of HCH and its changes. Increases or decreases of the HCH net position are one indicator of whether its financial health is improving or eroding. However, other non-financial factors such as changes in economic conditions, population growth, patient demographic changes, and new or changed government legislation should also be considered.

The Statement of Net Position includes all of the HCH assets and liabilities, and the net position, which can be thought of as the net worth of HCH. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the financial results of the HCH operations and presents revenue earned and expenses incurred. The other primary financial statement is the Statement of Cash Flows. This statement provides information about HCH sources and uses of cash during the year, and the cash flows from operating activities, capital and related financing activities, and investing activities.

A summary of the HCH Statement of Net Position as of December 31, 2012 and 2011 is presented below,
in 000's:

| | 2012 | 2011 | $ Change | % Change |
|---|---|---|---|---|
| **Assets:** | | | | |
| Cash and Investments | $10,459 | $10,429 | $ 30 | .3% |
| Capital Assets | 37,275 | 39,556 | (2,281) | -5.8% |
| Other Assets | 5,696 | 4,860 | 836 | 17.2% |
| Restricted Assets - Cash | 4,526 | 5,154 | (628) | -12.2% |
| Restricted Assets - Receivable | 672 | 672 | -0- | 0.0% |
| **Total Assets** | $58,628 | $60,671 | ($2,043) | -3.4% |
| **Liabilities:** | | | | |
| Long Term Debt Outstanding | $8,732 | $9,079 | ($347) | -3.8% |
| Current and Other Liabilities | 5,872 | 6,148 | (276) | -4.5% |
| **Total Liabilities** | 14,604 | 15,227 | (623) | -4.1% |
| **Net Position:** | | | | |
| Net Investment in Capital Assets | 28,176 | 30,124 | (1,948) | -6.5% |
| Unrestricted | 11,778 | 11,319 | 459 | 4.1% |
| Restricted | 4,070 | 4,001 | 69 | 1.7% |
| **Total Net Position** | 44,024 | 45,444 | (1,420) | -3.1% |
| **Total Liabilities and Net Position** | $58,628 | $60,671 | ($2,043) | -3.4% |

Significant changes in Net Position from 2011 to 2012 were a reduction of restricted cash due to expenditures totaling $1.8 million for the hospital and physician practice information system upgrade project and an increase in Other Assets resulting from the restructuring of the Hospital's interest rate swap, a derivative investment associated with the 2005 financing of the replacement facility, which was restructured in 2011.

Cash generated from operations for 2012 was $4.46 million, which resulted from positive cash flow from patient services provided. More detail on net position and cash flow activity can be found in the accompanying Financial Statements.

A summary of the HCH Statement of Revenues, Expenses, and Changes in Net Position as of December 31, 2012 and 2011 is presented below, in 000's:

| | 2012 | 2011 | $ Change | % Change |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Net Patient Service Revenue, net of provision for Bad Debt: 2012 ($8,234); 2011($6,306) | $43,611 | $40,638 | $2,973 | 7.3% |
| Other | 1,902 | 1,497 | 405 | 27.1% |
| **Total Operating Revenue** | 45,513 | 42,135 | 3,378 | 8.0% |
| **Expenses:** | | | | |
| Salaries and Benefits | 25,395 | 23,992 | 1,403 | 5.8% |
| Medical Supplies and Drugs | 3,890 | 4,160 | (270 | -6.5% |
| Depreciation and Amortization | 4,440 | 4,618 | (178) | -3.9% |
| Other | 12,055 | 9,926 | 2,129 | 21.4% |
| **Total Operating Expenses** | 45,780 | 42,696 | 3,084 | 7.2% |
| **Operating Income** | (267) | (561) | 294 | -52.4% |
| Non-Operating Revenue | 201 | 407 | (206) | -50.6% |
| Non-Operating Expense | (1,012) | (6,327) | 5,315 | 84.0% |
| **Deficiency of Revenue over Expenses** | (1078) | (6,481) | 5,403 | 83.4% |
| Capital Grants and Extraordinary Items | (342) | 0 | (342) | (100.0)% |
| Total Net Position - Beginning of Year | 45,444 | 51,925 | (6,481) | -12.5% |
| **Total Net Position - End of Year** | $44,024 | $45,444 | ($1,420) | -3.1% |

### Sources of Revenue

During 2012 and 2011 HCH derived substantially all of its revenue from patient service and other related programs. Revenue is received from Medicare and Medicaid programs, self pay patients, insurance carriers, preferred provider organizations, and managed care companies. Other revenue includes cash subsidies from Harrison County for the operation of the county ambulance service, totaling $1,047,157 in 2012 and $986,791 in 2011.

The following table presents the percentages of gross revenue for patient services, by payer, for the years ended December 31, 2012 and 2011, respectively.

| **Payer** | **2012** | **2011** |
|---|---|---|
| Medicare | 41.1% | 42.8% |
| Medicaid | 16.9% | 16.8% |
| Anthem | 14.2% | 15.0% |
| Managed Care | 13.8% | 13.0% |
| Commercial Insurance | 3.1% | 2.8% |
| Self Pay | 8.2% | 7.1% |
| Other | 2.7% | 2.5% |
| **Total** | 100.0% | 100.0% |

## Operating and Financial Performance

### Revenue

Net patient service revenue increased 7.3% during 2012 primarily the result of slightly higher outpatient volumes and 5% rate increase that was implemented at the beginning of 2012.

- Inpatient days of service decreased by 8% in 2012, partially due to the trend of primary care physicians discontinuing the practice of inpatient medicine, and practicing solely in outpatient clinic settings. The hospital plans to expand its hospitalist program, which utilizes physicians who practice solely inpatient medicine to address this shift in physician practice patterns.

- The portion of deductions from gross revenue recognized by HCH for uninsured care and charity care in 2012 was $10.7 million, or 9.5% of gross revenue, compared to $9.0 million, or 8.1% of gross revenue in 2011. Uninsured care is included in provision for bad debt expense and represents uncollected charges for services not covered by insurance, and for patients that do not have health insurance. Charity care is recognized as a deduction from gross revenue, and represents charges written off that were incurred in providing care to uninsured low income and indigent patients. HCH has a policy and a commitment to provide emergency care to all patients without regard for their ability to pay for services. Over the past ten years there has been a trend of increasing uninsured care.

- Net settlements totaling $321,625 were received in 2012 under the Indiana Medicaid program, relating to the State of Indiana's fiscal years 2010 and 2011. These payments were made as part of the Disproportionate Share Hospital program, and are recorded as offsets to revenue adjustments in the HCH accounting records. These payments were made from funds that are available to partially cover the hospital's cost of care to Medicaid and uninsured patients.

**Expenses**

Total operating expenses increased by 7.2% in 2012. Factors that had an impact on expenses are discussed below.

- Salaries and benefits for 2012 increased by 5.8%. Nearly one-third of this increase was attributable to a significant increase in the amount of claims paid by the hospital's partially self-funded employee health insurance plan. In addition, salary increases were given to employees during the year for cost of living and market adjustments, in order to remain competitive in the local labor market.

- The hospital made Hospital Assessment Fee payments to the State of Indiana totaling $1.8 million, of which $1.2 million was attributable to 2012. These fees, accounted for 40% of the increase in overall expenses, as 2012 was the first year fees were assessed for this program. The Hospital Assessment Fee Program was established in 2011 by the state legislature to leverage additional federal funds for enhancing Medicaid reimbursement rates and for the Medicaid Disproportionate Share Hospital program. As part of the program, fees are assessed from each hospital in the state based on Medicaid utilization, replacing the intergovernmental transfers that were formerly required by the state as part of the Disproportionate Share Program.

- All other expenses increased moderately due to patient volumes and cost increases, while depreciation expense decreased by 3.9%

**Non-operating Expense**

Non-operating expense includes primarily of interest expense totaling $1.0 million, of which $645,000 was paid pursuant to a SWAP agreement, which is a derivative instrument that was part of the 2005 hospital financing. 2012 SWAP payments were approximately $200,000 less than paid in 2011 due to the partial restructuring of the SWAP in late 2011. Non-operating expense also includes a $78,000 unrealized gain in the value of the SWAP during 2012. Due to the loss of hedge accounting resulting from the refinancing of the hospital's debt, changes in the SWAP's value from year to year are recognized as either gains or losses. This accounting for the derivative will continue until the SWAP agreement is fully terminated, and the valuation with the corresponding gains or losses will fluctuate based on certain market-based interest rate factors.

**Long Term Debt**

At the fiscal year end 2012, HCH had total notes payable of $8.73 million, which represents the refinanced debt outstanding for the construction of the new hospital facility. The new loan was obtained in June of 2011, and monthly principal and interest payments are scheduled to be made over the 20 year term of the loan. More detailed information on HCH's long term debt is presented in the Notes to the Financial Statements.

## Capital Assets

During 2012 HCH invested $2.27 million in various capital assets. A summary of the capital assets is presented below, in 000's:

| | 2012 | 2011 | $ Change | % Change |
|---|---|---|---|---|
| Land and Land Improvements | $ 6,321 | $6,728 | ($407) | -6.0% |
| Buildings and Fixed Equipment | 36,640 | 36,958 | (318) | -0.9% |
| Equipment | 22,562 | 20,013 | 2,549 | 12.7% |
| **Total Capital Assets** | 65,523 | 63,699 | 1,824 | 2.9% |
| Less Accumulated Depreciation | (28,281) | (24,934) | (3,347) | -13.4% |
| Construction in Progress | 33 | 791 | (758) | -95.8% |
| **Capital Assets - Net** | $37,275 | $39,556 | ($2,281) | -5.8% |

HCH continues to invest in capital equipment in order to meet the needs of the service area population. These capital improvements result in increased service capacity, greater efficiencies, and upgraded technology. With the addition of substantially all new facilities and equipment in 2008, major asset purchases will be minimal for several years, with the exception of information systems. Federal and industry requirements to expand electronic health records systems will necessitate the upgrade of hospital and physician information systems. In 2012 the Hospital implemented a significant information systems project for enhancement of electronic health records.

The table below shows HCH's 2013 capital budget with projected spending of $1.85 million for capital projects. Equipment to be placed in service in 2013 will be purchased from operating cash and cash reserves.

| Capital Budget (in 000's) | 2013 |
|---|---|
| Equipment Replacement & Upgrades | $1,100 |
| Information Systems | 750 |
| **Total Capital Budget** | $1,850 |

More information on HCH's capital assets is presented in the Notes to the Financial Statements.

## Economic and Industry Factors for 2013 Budget

The HCH Board of Trustees and management considered many factors when setting the 2013 budget. Of primary importance in setting the budget was the status of the economy and industry trends, which takes into account market forces and regulatory factors such as the following items:

- Population growth, demographic shifts, and the expanding need for services
- Continuously increasing expectations for quality improvement
- Advances in medical equipment technology and the need to replace obsolete equipment
- Healthcare reform legislation, federal and state financial incentives, and requirements to improve electronic medical records
- Privacy legislation – Health Insurance Portability and Accountability Act (HIPAA)
- Increasing emphasis on the integrity of public financial information
- Growing number of uninsured and underinsured patients
- Increasing costs of labor, medical supplies and drugs, and insurance
- Access to additional capital, and management of cash and debt levels
- Cash and resource requirements needed for the HCH strategic plan

The focus of management is to implement a multi-year plan that will consider expanded services, continuous quality improvement, cost control, capital requirements, and financing in support of net asset improvement.

**Contacting HCH's Financial Manager**

This report is designed to provide our citizens, customers, and creditors with a general overview of HCH's finances and to demonstrate accountability. If you have questions about this report or need additional information, contact the Chief Financial Officer, Jeff Davis at 812-738-4251.

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## FINANCIAL STATEMENTS

The financial statements and accompanying notes were prepared by management of the Hospital. The financial statements and notes are presented as intended by the Hospital.

HARRISON COUNTY HOSPITAL
STATEMENT OF NET POSITION
December 31, 2012

| Assets | Primary Government |
|---|---|
| Current assets: | |
| Cash and cash equivalents | $ 6,441,185 |
| Short-term investments | 4,017,522 |
| Patient accounts receivable, net of estimated uncollectibles of $8,717,945 | 4,474,418 |
| Supplies and other current assets | 2,267,042 |
| Noncurrent cash and investments: | |
| Internally designated | 1,127,523 |
| Held by trustee for interest rate swap | 135,005 |
| Held for interest rate swap | 3,263,535 |
| Due from operating to held for interest rate swap | 671,367 |
| Investment derivative instrument - interest rate swap | (2,114,802) |
| Capital assets: | |
| Land and construction in progress | 3,033,757 |
| Depreciable capital assets, net of accumulated depreciation | 34,241,234 |
| Other assets: | |
| Investment in affiliated companies | 871,515 |
| Other | 198,237 |
| Total assets | $ 58,627,538 |

| Liabilities and Net Position | |
|---|---|
| Current liabilities: | |
| Current maturities of long-term debt | $ 367,010 |
| Accounts payable and accrued expenses | 3,484,665 |
| Estimated third-party payor settlements | 543,607 |
| Other current liabilities | 805,260 |
| Due to restricted cash reserve for interest rate swap | 671,367 |
| Long-term debt, net of current maturities | 8,731,715 |
| Total liabilities | 14,603,624 |
| Net position: | |
| Net investment in capital assets | 28,176,266 |
| Restricted: | |
| For interest rate swap | 4,069,907 |
| Unrestricted | 11,777,741 |
| Total net position | 44,023,914 |
| Total liabilities and net position | $ 58,627,538 |

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

HARRISON COUNTY HOSPITAL
BALANCE SHEET
December 31, 2012

| Assets | Discrete Component Unit |
|---|---|
| Current assets: | |
| Cash | $ 126,125 |
| Receivables: | |
| Tenants - rent | 463 |
| Tenants - suite improvements | 505 |
| Net receivables | 968 |
| Prepaid expenses | 12,208 |
| Total current assets | 139,301 |
| Other asset: | |
| Unamortized loan costs (net of amortization of $86,871) | 80,511 |
| Property: | |
| Tenant improvements | 2,805,444 |
| Building | 4,712,880 |
| Total property | 7,518,324 |
| Less accumulated depreciation | 1,002,714 |
| Net property | 6,515,610 |
| Total assets | $ 6,735,422 |
| Liabilities and Members' Deficit | |
| Current liabilities: | |
| Current installments of long-term debt | $ 365,526 |
| Accounts payable | 22,166 |
| Accounts payable - related party | 15,759 |
| Deferred revenue | 22,699 |
| Total current liabilities | 426,150 |
| Long-term liabilities: | |
| Long-term debt, less current installments | 5,293,879 |
| Interest rate swap | 1,212,940 |
| Total long-term liabilities | 6,506,819 |
| Members' deficit: | |
| Contributed capital | 1,336,015 |
| Deficit | (355,570) |
| Accumulated other comprehensive loss | (1,177,992) |
| Total members' deficit | (197,547) |
| Total liabilities and members' deficit | $ 6,735,422 |

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

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

| | Primary Government |
|---|---|
| Operating revenues: | |
| Net patient service revenue (net of provision for bad debt) | $ 43,611,167 |
| Other | 1,902,049 |
| Total operating revenues | 45,513,216 |
| Operating expenses: | |
| Salaries and benefits | 25,394,573 |
| Professional fees and purchased services | 6,519,448 |
| Medical supplies and drugs | 3,890,444 |
| Insurance | 537,557 |
| Other supplies | 3,153,773 |
| Depreciation and amortization | 4,440,076 |
| Other | 1,843,703 |
| Total operating expenses | 45,779,574 |
| Operating loss | (266,358) |
| Nonoperating revenues (expenses): | |
| Investment income | 98,110 |
| Interest expense | (1,011,906) |
| Noncapital grants and contributions | 55,174 |
| Gain on sale of equipment | 3,688 |
| Loss on investment in affiliated companies | (33,878) |
| Gain on interest rate swap | 77,549 |
| Total nonoperating expenses | (811,263) |
| Deficency of revenues under expenses before capital grants and contributions and special and extraordinary items | (1,077,621) |
| Capital grants and contributions | 12,607 |
| Special and extraordinary items | (355,182) |
| Decrease in net position | (1,420,196) |
| Net position beginning of the year | 45,444,110 |
| Net position end of the year | $ 44,023,914 |

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

HARRISON COUNTY HOSPITAL
STATEMENT OF INCOME, COMPREHENSIVE INCOME, AND MEMBERS CAPITAL
Year Ended December 31, 2012

| | Discrete Component Unit |
|---|---|
| Rental income | $ 871,258 |
| Operating expenses: | |
| Utilities | 94,324 |
| Rent | 66,865 |
| Repairs and maintenance | 18,878 |
| Insurance | 9,068 |
| Depreciation | 267,635 |
| Amortization | 17,207 |
| Professional fees | 9,750 |
| Investment derivative instrument - interest rate swap | 10,355 |
| Security | 8,513 |
| Miscellaneous | 4,501 |
| Total other expenses | 507,096 |
| Operating income | 364,162 |
| Other income (expense): | |
| Interest expense | (418,733) |
| Gain on interest rate swap | 3,056 |
| Total other expenses | (415,677) |
| Net loss | (51,515) |
| Other comprehensive income | 102,701 |
| Return of capital distributions | (84,000) |
| Members' capital beginning of the year | (164,733) |
| Members' capital end of the year | $ (197,547) |

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

HARRISON COUNTY HOSPITAL
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2012

| | |
|---|---|
| Cash flows from operating activities: | |
| Receipts from and on behalf of patients | $ 44,508,652 |
| Payments to suppliers and contractors | (13,244,274) |
| Payments to employees | (25,333,638) |
| Other receipts and payments, net | (1,475,284) |
| Net cash provided by operating activities | 4,455,456 |
| Cash flows from noncapital financing activities: | |
| Noncapital grants and contributions | 55,174 |
| Cash flows from capital and related financing activities: | |
| Principal paid on long-term debt | (353,023) |
| Interest paid on long-term debt | (969,620) |
| Proceeds from sale of assets | 8,800 |
| Acquisition and construction of capital assets | (2,271,155) |
| Net cash used by capital and related financing activities | (3,584,998) |
| Cash flows from investing activities: | |
| Interest and dividends on investments | 131,788 |
| Purchase of investments | (7,263,535) |
| Purchase of derivative instrument | (1,737,000) |
| Net cash used by investing activities | (8,868,747) |
| Net decrease in cash and cash equivalents | (7,943,115) |
| Cash and cash equivalents at beginning of year | 15,511,823 |
| Cash and cash equivalents at end of year | $ 7,568,708 |
| Reconciliation of cash and cash equivalents to the Statement of Net Position: | |
| Cash and cash equivalents in current assets | $ 6,441,185 |
| Internally designated | 1,127,523 |
| Total cash and cash equivalents | $ 7,568,708 |
| Reconciliation of operating loss to net cash provided by operating activities: | |
| Operating loss | $ (266,358) |
| Adjustments to reconcile operating loss to net cash flows used in operating activities: | |
| Depreciation and amortization | 4,440,076 |
| Provision for bad debts | 8,234,247 |
| (Increase) decrease in current assets: | |
| Patient accounts receivable | (7,336,762) |
| Supplies and other current assets | (24,368) |
| Increase (decrease) in current liabilities: | |
| Accounts payable and accrued expenses | 961,549 |
| Other current liabilities | (68,096) |
| Estimated third-party payor settlements | (1,484,832) |
| Net cash provided in operating activities | $ 4,455,456 |

Noncash investing, capital, and financing activities:

Equipment acquired by reimbursement from Harrison County for EMS totaling $169,457.

Equipment acquired by reimbursement from Harrison County Hospital Foundation totaling $12,607.

The Hospital held investment derivative instruments at December 31, 2012, with a fair value of ($2,114,802). During 2012 the net increase in the fair value of this investment was $77,549.

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

The Board of County Commissioners of Harrison 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 Harrison County.

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

Discretely Presented Component Unit

The Harrison MOB, LLC, was organized in September 2006, and is a significant discretely presented component unit of the Hospital. The discrete component unit is fiscally dependent on the primary government. The discrete component unit is a partnership that reports its financial results according to Accounting Standards Codification 820 (formerly Statement of Financial Accounting Standards No. 157). No modifications have been made to the discrete component unit's financial information in the Hospital's financial reporting entity for these differences; however, significant note disclosures to the discrete component unit's financial statements have been incorporated into the Hospital's notes to the financial statements.

The financial statements of the individual component unit may be obtained from its respective office as follows:

Harrison County Hospital
1141 Hospital Drive NW
Corydon, IN 47112

A separate audit report is prepared for the individual component unit.

B. Enterprise Fund Accounting

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

During the year 2010, the Hospital adopted GASB Statement No. 53, *"Accounting and Financial Reporting for Derivative Instruments."*

C. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

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

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

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

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

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

Open-end mutual funds are reported at fair value.

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

Investments in affiliated companies are reported using the equity method of accounting, or at cost, as applicable.

Other investments are generally reported at fair value.

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

2. Use of Estimates

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

3. Investment Derivative Instrument – Interest Rate Swap

The Hospital uses an interest rate swap agreement to manage financial risks related to interest rate movements and the effects on its cash flows. The Hospital is accounting for the interest rate swap agreement as an investment derivative instrument. As a result, the agreement is recorded at its fair value in the Statement of Net Position. The net cash payments or receipts under the interest rate swap agreement are recorded as an increase or decrease to interest expense.

4. Capital Assets

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

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

| Primary Government | Capitalization Threshold | Depreciation Method | Estimated Useful Life |
|---|---|---|---|
| Land | $ 5,000 | Not applicable | Not applicable |
| Land improvements | 5,000 | Straight-line | AHA guide |
| Buildings and fixed equipment | 5,000 | Straight-line | AHA guide |
| Equipment | 5,000 | Straight-line | AHA guide |

| Discrete Component Unit | Capitalization Threshold | Depreciation Method | Estimated Useful Life |
|---|---|---|---|
| Tenant improvements | Unknown | Straight-line | 20 years |
| Building | Unknown | Straight-line | 40 years |

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Hospital during the current year was $1,011,906. Of the amount, $0 was included as part of the cost of capital assets under construction in connection with new medical facilities and various other renovation projects. The total interest expense incurred by the discrete component unit during the current year was $418,733. Of the amount, $0 was included as part of the cost of building and tenant improvements.

5. Other Assets

Other assets consist of investment in affiliated companies, and deferred financing costs. The investment in affiliated companies is further described in Note III E. Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

6. Deferred Loss on Refunding

Deferred loss on refunding, which is included in long-term debt, net of current maturities on the Statement of Net Position, represents losses incurred in connection with the refunding of long-term debt. Such losses are being amortized over the shorter of the term of the respective original debt or the term of the new debt using the straight-line method.

7. Net Position and Members' Deficit

   Net position of the Hospital is classified in three 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, contributors, or enabling legislation external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note II G.

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

   Members' deficit of the discrete component unit is classified in three components.

   Contributed capital consists of purchases of shares of units net of any return of capital distributions.

   Deficit is the accumulated net income (loss).

   Accumulated other comprehensive loss consists of the gain or loss on the effective portion of the change in the fair value of the derivative financial instrument.

D. Grants and Contributions

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

From time to time, the discrete component unit receives grants from the Hospital, 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 other income. Amounts restricted to capital acquisitions are reported after other income and expenses.

E. 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.

F. Operating Revenues and Expenses

The Hospital's Statement of Revenues, Expenses, and Changes in Net Position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

G. Net Patient Service Revenue

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

H. Charity Care

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

I. Supplies

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

J. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, personal leave, and holidays) allows full-time employees and regular part-time employees to accrue paid days off, to a maximum of 60 days.

Paid days off are accrued when incurred and reported as a liability.

K. Fair Value of Financial Instruments

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

<u>Cash and Cash Equivalents</u>

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

<u>Short-Term Investments</u>

The carrying amount reported in the Statement of Net Position approximates the investment's fair value.

Investments

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

Investment Derivative Instrument - Interest Rate Swap

Carrying amounts are based on mathematical approximations of market values derived from proprietary models as of the close of business on December 31, 2012, should the interest rate swap agreement be unwound. These valuations are calculated on a mid-market basis and do not include bid/offer spread that would be reflected in an actual price quotation. Valuations based on other models or assumptions may yield different results.

Other Assets

The investment in affiliated companies is accounted for by the equity method of accounting.

Accounts Payable and Accrued Expenses

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

Estimated Third-Party Payor Settlements

The carrying amount reported in the Statement of Net Position for estimated third-party payor settlements approximates its fair value.

Long-Term Debt

Fair values of the Hospital's revenue notes are based on current traded value. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

The discrete component unit adopted the provisions of ASC 820, *Fair Value Measurements*, for financial assets and financial liabilities. The discrete component unit has no nonfinancial assets and nonfinancial liabilities determined at fair value.

ASC 820 defines fair value as 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. ASC 820 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

1. Inputs to the valuation methodology are quoted prices, unadjusted for identical assets or liabilities in active markets. A quoted market price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

2. Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

3. Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The discrete component unit's interest rate swap liability is measured on a recurring basis. As of December 31, 2012, the balance of the interest rate swap was a liability in the amount of $1,212,940, using level 2 above.

*Interest Rate Swap*. The interest rate swap is reported at fair value on a recurring basis using Level 2 inputs. The fair value is based on expected cash flows over the life of the contract. The expected cash flows are determined by evaluating transactions with a pricing model using a specific market environment. The value of the interest rate swap was estimated using the closing mid-market rate/price environment of December 31, 2012. While management believes the discrete component unit's valuation methodologies are appropriate and consistent, the use of different methodologies or assumptions to determine fair value could result in a different estimate of fair value at the reporting date.

Derivative Financial Instrument

The discrete component unit has designated a fixed rate interest rate swap as a cash flow hedge of the variability of cash flows to be paid on long-term debt. The gain or loss on the effective portion of the hedge (i.e., change in the fair value) is initially recorded as a component of other comprehensive income. The remaining gain or loss, if any, representing the ineffective portion is recognized currently in earnings. Amounts in accumulated other comprehensive income are reclassified into earnings in the same period in which the hedged forecasted transaction affects earnings (when interest expense is recognized in earnings).

The discrete component unit documents the relationship between its hedging instruments and hedged liabilities. This process includes linking all derivatives that are designated as cash flow hedges to specific forecasted interest payments for long-term debt.

The discrete component unit assesses both at the cash flow hedge's inception and on an ongoing basis, whether the derivative instruments that are used in hedging transactions have been highly effective in offsetting changes in cash flows, and whether they are expected to continue to be highly effective in future periods. When it is determined that a derivative has ceased to be highly effective as a cash flow hedge, the discrete component unit discontinues hedge accounting prospectively.

The discrete component unit discontinues cash flow hedge accounting prospectively when (1) it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) the derivative is de-designated as a hedge instrument, because it is unlikely that the forecasted transaction (cash flows) will occur; or (4) management determines that designation of the derivative as a hedge instrument is no longer appropriate. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the net derivative gain or loss that was accumulated in other comprehensive income will be recognized immediately in earnings. In all other situations in which cash flow hedge accounting is discontinued, the net derivative gain or loss related to the discontinued cash flow hedge remains in accumulated other comprehensive income and is reclassified into earnings in the same period or periods during which the hedged forecasted transaction offsets earnings.

L. Net Position Restricted by Enabling Legislation

The Statement of Net Position reports $4,069,907 of restricted net position, of which $0 is restricted by enabling legislation.

II. Detailed Notes

A. Deposits, Investments, and Investment Derivative Instrument – Interest Rate Swap

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-16 allows a Hospital Governing Board to deposit public funds in a financial institution. The Hospital does not have a formal policy regarding custodial credit risk for deposits. At December 31, 2012, the Hospital had deposit balances in the amount of $15,344,233.

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.

Harrison MOB, LLC, maintains its cash at financial institutions. At times, the balances may be in excess of federally insured limits.

2. Investments

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

| Investment Type | Primary Government Market Value |
|---|---|
| U.S. treasuries and securities | $ 135,005 |

Statutory Authorization for Investments

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

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

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

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

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

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

Investment Custodial Credit Risk

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy for interest rate risk for investments. The Hospital's investments did not have interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Hospital does not have a formal investment policy for credit risk for investments. The Hospital's investments did not have credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Hospital does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement. The Hospital's investments did not have concentration of credit risk.

Foreign Currency Risk

The Hospital does not have a formal policy in regards to foreign currency risk. The Hospital's investments did not have foreign currency risk.

3. Investment Derivative Instrument – Interest Rate Swap

In June 2011, the Hospital defeased the 2005 Hospital construction revenue bonds with proceeds from the issuance of the 2011 economic development refunding bonds, a contribution from Harrison County and current cash. The pay-fixed, receive-variable interest rate swap agreement (swap agreement) associated with the 2005 Hospital construction revenue bonds was not terminated as part of the defeasance. The Hospital determined that the swap did not meet the criteria for effectiveness with the 2011 economic development refunding bonds and discontinued hedge accounting; therefore, the derivative instrument has been reclassified from a hedging derivative instrument to an investment derivative instrument. The changes in fair value of the swap agreement of $77,549 are shown as adjustments to the carrying amount of the investment derivative instrument – interest rate swap on the Statement of Net Position.

Under the swap agreement, the Hospital pays the counterparty, U.S. Bancorp Piper Jaffray Financial Products Inc., a fixed payment of 3.81 percent and receives a variable payment computed as 70 percent of the London Interbank Offered rate (LIBOR). The swap is highly sensitive to interest rate changes. The swap's notional value declined by $716,000 in 2012. The swap agreement matures on October 1, 2032.

As of December 31, 2012, the swap had a negative fair value of $2,114,802. The swap's fair value represented the Hospital's credit exposure to the counterparty at the reporting date. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Hospital has a maximum possible loss equivalent to the swap's fair value at that date. As of December 31, 2012, the Hospital was not exposed to credit risk in the amount of the derivative's fair value, because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Hospital would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty is currently rated A- by Standard & Poor's, Baa1 by Moody's Investors Service, and A by Fitch Ratings.

Summary of activity during the reporting period and balances at year end are as follows:

| Primary Government | Beginning Balance | Additions | Reductions | Ending Balance | Notional Amount |
|---|---|---|---|---|---|
| Noncurrent cash and investments: | | | | | |
| Investment derivative instrument - interest rate swap | $ (3,929,351) | $ - | $ (1,814,549) | $ (2,114,802) | $ 17,116,000 |

B. Accounts Receivable and Payable

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

| Patient Accounts Receivable | |
|---|---|
| Receivable from patients and their insurance carriers | $ 9,218,625 |
| Receivable from Medicare | 3,009,558 |
| Receivable from Medicaid | 964,180 |
| Total patient accounts receivable | 13,192,363 |
| Less allowance for uncollectible amounts | 8,717,945 |
| Patient accounts receivable, net | $ 4,474,418 |

| Accounts Payable and Accrued Expenses | |
|---|---|
| Payable to employees | $ 897,020 |
| Payable to suppliers | 2,544,867 |
| Payable to others | 42,778 |
| Total accounts payable and accrued expenses | $ 3,484,665 |

C. Capital Assets

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

| Primary Government | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 3,179,945 | $ - | $ 178,807 | $ 3,001,138 |
| Construction in progress | 791,625 | 1,994,440 | 2,753,446 | 32,619 |
| Total capital assets, not being depreciated | 3,971,570 | 1,994,440 | 2,932,253 | 3,033,757 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 3,547,739 | 42,537 | 270,434 | 3,319,842 |
| Buildings and fixed equipment | 36,958,500 | 326,595 | 645,401 | 36,639,694 |
| Equipment | 20,012,712 | 3,806,414 | 1,256,738 | 22,562,388 |
| Totals | 60,518,951 | 4,175,546 | 2,172,573 | 62,521,924 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 1,228,819 | 243,759 | 265,660 | 1,206,918 |
| Buildings and fixed equipment | 8,415,392 | 2,077,573 | 473,800 | 10,019,165 |
| Equipment | 15,289,933 | 2,098,370 | 333,696 | 17,054,607 |
| Totals | 24,934,144 | 4,419,702 | 1,073,156 | 28,280,690 |
| Total capital assets, being depreciated, net | 35,584,807 | (244,156) | 1,099,417 | 34,241,234 |
| Total primary government capital assets, net | $ 39,556,377 | $ 1,750,284 | $ 4,031,670 | $ 37,274,991 |
| **Discretely Presented Component Unit** | | | | |
| Capital assets, being depreciated: | | | | |
| Tenant improvements | $ 2,628,951 | $ 176,493 | $ - | $ 2,805,444 |
| Building | 4,712,880 | - | - | 4,712,880 |
| Totals | 7,341,831 | 176,493 | - | 7,518,324 |
| Less accumulated depreciation | 735,079 | 267,635 | - | 1,002,714 |
| Total discretely presented component unit capital assets, net | $ 6,606,752 | $ (91,142) | $ - | $ 6,515,610 |

D. Construction Commitments

Construction work in progress is composed of the following:

| Project | Expended to December 31, 2012 | Committed |
|---|---|---|
| Hospital information systems | $ 8,717 | $ 730,214 |
| Land improvements | 11,276 | 25,549 |
| Office renovation projects | 12,626 | 12,626 |
| Totals | $ 32,619 | $ 768,389 |

E. Leases

Operating Leases

The Hospital has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for office space. Rental expenditures for these leases were $768,178. The following is a schedule by years of future minimum rental payments as of year end:

| | |
|---|---|
| 2013 | $ 866,949 |
| 2014 | 871,806 |
| 2015 | 871,806 |
| 2016 | 749,968 |
| 2017 | 749,968 |
| 2018 to 2019 | 1,014,312 |
| Total | $ 5,124,809 |

F. Long-Term Liabilities

1. Economic Development Revenue Refunding Bonds, 2011

In June 2011, the Hospital participated in the issuance of $10,000,000 economic development revenue refunding bonds, Series 2011 (2011 bonds), issued through Harrison County. The proceeds were used for the refunding of the Hospital's 2005 Hospital construction revenue bonds (2005 bonds). However, the interest rate swap agreement (swap agreement) associated with the 2005 bonds was not terminated as part of the defeasance (Note II.A.3). The bonds are to be paid over 20 years by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

| Purpose | Interest Rates | Balance at December 31 | Less: Deferral of Loss on Refunding | Amount |
|---|---|---|---|---|
| Economic Development Revenue Refunding Bonds, 2011 | 3.55% | $ 9,467,333 | $ 368,608 | $ 9,098,725 |

Revenue bonds debt service requirements to maturity are as follows:

| Year Ended December 31 | Principal | Interest |
|---|---|---|
| 2013 | $ 367,010 | $ 334,723 |
| 2014 | 380,440 | 321,294 |
| 2015 | 394,361 | 307,372 |
| 2016 | 407,955 | 293,778 |
| 2017 | 423,720 | 278,013 |
| 2018-2022 | 2,362,132 | 1,146,536 |
| 2023-2027 | 2,827,325 | 681,343 |
| 2028-2031 | 2,304,390 | 151,814 |
| Totals | $ 9,467,333 | $ 3,514,873 |

2. Harrison MOB, LLC, Note Payable

Long-term debt at December 31, 2012, was as follows:

| Purpose | Interest Rates | Amount |
|---|---|---|
| Note payable to Harrison County Hospital in monthly installments of interest only, principal due April 2012 | 7.50% | $ 250,000 |
| Mortgage note payable in monthly installments of principal and interest at one month LIBOR plus 1.25% (1.46% at December 31, 2012) maturing July 2017 | Variable | 5,087,421 |
| Mortgage note payable in monthly installments of $2,103 including interest, maturing September 2017 | 5.00% | 321,984 |
| Total | | $ 5,659,405 |

Following is a schedule by years of maturity requirements on long-term debt as of December 31, 2012:

| | |
|---|---|
| 2013 | $ 365,526 |
| 2014 | 123,930 |
| 2015 | 132,949 |
| 2016 | 142,630 |
| 2017 | 423,269 |
| Later years | 4,471,101 |
| Total | $ 5,659,405 |

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Harrison MOB, LLC, entered into an interest rate swap agreement to hedge the variability in the forecasted interest payments for the variable rate term note described above. The agreement provides for the Harrison MOB, LLC, to receive interest from the counterparty at one month LIBOR and to pay interest to the counterparty at a fixed rate of 5.97 percent on the outstanding notional amount which amortizes based on the expected amortization of the variable rate term note. Under the agreement, the Harrison MOB, LLC, will pay or receive the net interest amount monthly to coincide with the payment of interest on the variable rate term note. At December 31, 2012, the fair value of the interest rate swap agreement was a liability in the amount of $1,212,940.

Summary information with respect to the interest rate swap agreement at December 31, 2012, was as follows:

| | Fair Value | Notional Amount |
|---|---|---|
| Portion designated as a hedge | $ 1,178,285 | $ 5,087,429 |
| Portion not designated as a hedge | 34,655 | 160,000 |
| Total interest rate swap | $ 1,212,940 | $ 5,247,429 |

3. Current Refunding

In June 2011, the Hospital defeased the 2005 bonds with proceeds from the issuance of the 2011 bonds, a contribution from Harrison County and current cash. However, the swap agreement associated with the 2005 bonds was not terminated as part of the defeasance. The 2011 bonds require that the Hospital establish and maintain a separate deposit account (cash reserve), so long as the swap agreement is in full force and effect. The Hospital shall maintain a cash reserve in an amount equal to any payment that may be due by the Hospital under the swap master agreement due to the termination of the swap agreement. The amount of the cash reserve shall be determined as of the date of the 2011 bond agreement and upon the receipt from time to time of the Hospital's annual financial statements as though the swap agreement was terminated as of such date. The purchaser of the 2011 bonds may consent to release funds from the cash reserve in the event the amount of funds then on deposit in the cash reserve exceeds the termination payment on such date. The Hospital has no rights in or claims to moneys on deposit in the cash reserve.

The following proceeds, at December 31, 2012, were set aside in restricted cash and investment accounts:

| Primary Government | Amount |
|---|---|
| Noncurrent cash and investments: | |
| Held for interest rate swap | $ 3,263,535 |
| Due from operating for held for interest rate swap | 671,367 |
| Total held for interest rate swap | $ 3,934,902 |

4. Changes in Long-Term Liabilities

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

| Primary Government | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable: | | | | | |
| Revenue: | | | | | |
| Economic development revenue refunding bonds, 2011 | $ 9,820,356 | $ - | $ 353,023 | $ 9,467,333 | $ 367,010 |
| Less deferred loss on refunding | (388,623) | - | (20,015) | (368,608) | (20,015) |
| Total long-term liabilities | $ 9,431,733 | $ - | $ 333,008 | $ 9,098,725 | $ 346,995 |
| Discretely Presented Component Unit | | | | | |
| General long-term debt | $ 5,444,694 | $ 318,618 | $ 103,907 | $ 5,659,405 | $ 365,526 |

5. Net Revenue Available for Debt Service

The following disclosures concerning net revenue available for debt service applicable to the years ended December 31, 2012, are required by terms of the financing agreement between the Hospital and Community Trust Bank, purchaser of the 2011 bonds:

| | |
|---|---|
| Revenue from operations | $ 45,513,216 |
| Investment income | 98,110 |
| Add/(Less): | |
| Net gain on disposal of assets | 3,688 |
| Expenses (excluding depreciation, amortization and interest on funded debt) | (41,339,498) |
| Total net revenue available for debt service | $ 4,275,516 |
| Funded debt service for year | $ 1,364,929 |
| Historical debt service coverage ratio | 3.13 : 1 |

G. Restricted Net Position

Hospital restricted, expendable net position are available for the following purposes:

| | 2012 |
|---|---|
| Expendable for interest rate swap: | |
| General | $ 135,005 |
| Specified by creditors | 3,934,902 |
| Total expendable, restricted net position | $ 4,069,907 |

H. Net Patient Service Revenue

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

1. Medicare

   Inpatient acute care services and most outpatient services rendered to Medicare program beneficiaries are paid at 101 percent of allowable costs as reported on an annual Medicare Cost Report. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

2. Medicaid

   Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under bundled payments and fee for service payments, at amounts determined by the state. The Hospital is reimbursed at these rates on an interim basis, with subsequent lump sum payments made that are based on formulas which factor in the amount and types of services to uninsured and Medicaid patients.

Revenue from the Medicare and Medicaid programs accounted for approximately 35.02 percent and 13.33 percent, respectively, of the Hospital's net patient revenue for the year ended 2012. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2012 net patient service revenue increased approximately $1,022,431 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

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

I. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were $2,490,576 (4.80 percent) for 2012.

J. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

Funded Depreciation – Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by Indiana Code 16-22-3-13.

| | |
|---|---|
| Internally designated: | |
| Funded depreciation: | |
| Cash and cash equivalents | $ 1,127,523 |

III. Other Information

A. Risk Management

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

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

Medical Benefits to Employees and Dependents

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents. The risk financing fund is accounted for in the Operating Fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of $50,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all departments and are available to pay claims, claim reserves, and administrative costs of the program. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors.

However, claim liabilities cannot be reasonably estimated.

B. Contingent Liabilities

Litigation

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

C. Fair Value Measurements

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

Investments recorded in the Statement of Net Position are categorized based on the inputs to valuation techniques as follows:

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

Level 2 – These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of privately held securities.

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

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

| | | Fair Value Measurements at Reporting Date Using: | | |
|---|---|---|---|---|
| Hospital Investment Type | December 31, 2012 | Quoted Prices in Active Markets For Identical (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| U.S. government securities | $ 135,005 | $ - | $ 135,005 | $ - |

D. Investment in Affiliated Companies

Harrison-Floyd Health Services, LLC

In 2004, the Hospital entered into an agreement with Floyd Memorial Hospital and Health Services to establish and operate a limited liability company, Harrison-Floyd Health Services, LLC. In accordance with this agreement, each hospital invested $150,000 for 50 percent equity interest in the Harrison-Floyd Health Services, LLC. The investment was made in the fiscal years 2004 and 2005. The Harrison-Floyd Health Services, LLC, began operation in 2004. The investment is recorded on the equity method. The Hospital's investment in affiliated company is included in the Other assets category of the Statement of Net Position.

Summarized financial information as of December 31, 2012, and for the year then ended from the unaudited financial statements of the affiliated company follows:

| | | |
|---|---|---|
| Current assets | $ | 51,138 |
| Noncurrent assets | | 26,833 |
| Current liabilities | | 22,706 |
| Net position | | 55,265 |
| Revenues | | 91,349 |
| Expenses | | 96,305 |
| Net loss | | (4,956) |

The Harrison-Floyd Health Services, LLC, ceased operations on December 31, 2012, and was dissolved on February 20, 2013. The Harrison-Floyd Health Services, LLC's fixed assets were subsequently acquired by the Hospital for $22,060. On April 30, 2013, each Hospital received $31,889 as a return of their initial equity contribution.

Harrison MOB, LLC

On July 26, 2006, the Hospital entered into an agreement with several physicians and physician groups to establish and operate a medical office building to be located on the Hospital's campus in Corydon, Indiana, known as Harrison MOB, LLC. In accordance with this agreement, 68 Class A units and 37 Class B units were sold for $10,000 each, for an aggregate proceeds of $1,050,000. Each unit represents an equity interest of approximately .952 percent in the company. The Hospital purchased 64 units for an investment of $640,000 representing approximately 61.0 percent equity interest in the company. The medical office building was operational as of February 2009. The Hospital committed to lease available finished square footage in the building up to a 90 percent occupancy level for the first five years and up to 85 percent occupancy level for the next 5 years. The investment is recorded on the equity method. The Hospital's investment in affiliated company is included in the Other assets category of the Statement of Net Position.

In July 2007, the Harrison MOB, LLC, entered into a credit agreement in the principal amount of $5,440,000 to finance the construction of a medical office building on the campus of Harrison County Hospital. In February 2009, the building was deemed substantially complete and the Harrison MOB, LLC, began making principal payments to amortize the balance of the loan of $5,440,000 over 25 years. The note payable is secured by all the Harrison MOB, LLC's assets, assignments of rents.

Summarized financial information as of December 31, 2012, and for the year then ended from the audited financial statements of the affiliated company follows:

| | |
|---|---|
| Current assets | $ 139,301 |
| Other assets | 80,511 |
| Capital assets, net | 6,515,610 |
| Current liabilities | 426,150 |
| Noncurrent liabilities | 6,506,819 |
| Members' deficit | (197,547) |
| Revenues | 874,314 |
| Expenses | 925,829 |
| Net loss | (51,515) |

Equity distributions were received by Harrison County Hospital from the Harrison MOB, LLC, in 2012 in the amount of $51,200.

E. Revenues Pledged

Revenues Pledged in Connection with Discrete Component Unit Debt

The Hospital has entered into a 10 year master lease agreement with Harrison MOB, LLC, which requires the Hospital to rent enough space to maintain a 90 percent occupancy level during the first five years starting February 2009. During the remaining five years of the agreement the requirement drops to 85 percent. For the year ended December 31, 2012, the Hospital's leases totaled $704,270.

F. Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by MetLife 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:

MetLife
c/o FasCare LLC
P.O. Box 173768
Denver, Colorado 80217-3768
Ph. (800) 543-2520

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are voluntary and are established by written authorization for payroll deduction into an annuity savings account. The Hospital is required to contribute at an actuarially determined rate. The current rate is 5 percent of annual covered payroll. Employer and employee contributions to the plan were $751,633 and $640,137, respectively.

G. Ambulance Service Subsidy

The Hospital provides ambulance service for Harrison County residents, through an agreement dated December 19, 1977. The agreement provides that Harrison County is to reimburse the Hospital, on a monthly basis, for the amount that expenses exceed revenues for the period. During the year 2012, Harrison County reimbursed the Hospital $1,047,157 for ambulance services. At December 31, 2012, Harrison County owed the Hospital an additional $282,148.

***INTERNAL CONTROLS***

For the 2012 audit, several deficiencies in internal controls were identified that were considered to be either material weaknesses or significant deficiencies. The follow deficiencies in internal controls were considered to be material weaknesses:

- Reconcilements of cash and cash equivalents to depository balances - Cash reconcilements were not being completed in a timely manner and contained unidentified reconciling items.

- Recording and accounting for inventory (included in supplies and other current assets) - Perpetual inventory counts contained errors that were not timely corrected.

- Recording and accounting for capital assets, accumulated depreciation, and depreciation expense - A detail of capital assets is not being reconciled to the general ledger in a timely manner.

The following deficiencies in internal controls were considered to be significant deficiencies:

- Reviewing and processing payroll - Pay rate errors are not being caught prior to the processing of payroll.

- Monitoring and processing accounts payable and accrued expenses - Untimely payment of some invoices occurred due to problems identifying open invoices in the system.

- Software input controls over billing - System edits did not catch input errors when quantities were not entered.

- Software internal processing over summary reports - System edits did not catch summary total errors on some payroll reports where amounts should have agreed, but didn't.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

The computerized accounting system must provide input edits and controls to assure that information entered into the system is accurate, that all appropriate information is entered into the system, that information is entered into the system only once, and that all information entered into the system is authorized by management. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 2)

During the course of a regularly scheduled audit, written verification procedures and actual verification results must be provided to the Field Examiners which document the verification of accurate calculating, summarizing, categorizing, and updating of accounting information on a periodic basis and after the modification of accounting system computer programs. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 2)

HARRISON COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on April 26, 2014, with Fred Owen, Chairman of the Hospital Board; Donn Blank, member of the Hospital Board; Steven L. Taylor, Chief Executive Officer; Jeffrey L. Davis, Chief Financial Officer; and Keith Lieber, Controller. The Official Response has been made a part of this report and may be found on page 44.

# OFFICIAL RESPONSE

## HARRISON COUNTY HOSPITAL 2012 AUDIT REPORT

INTERNAL CONTROLS

On December 3, 2012 the Hospital implemented a major computer system conversion involving clinical, physician, and financial systems. The systems conversion was driven by the federal government's initiatives to expand electronic health records. It is common in the healthcare industry for total system conversions such as this to have a period after the conversion date of 12-18 months of intense activity in order to bring the new system up to a routine level of operation. During this post-conversion time, many internal controls must be revised or re-established as the systems functionality must be matched with the operational workflow. Many audit procedures performed during the 2012 audit focused on the time period in December just after the system conversions. Most of the items noted as material weaknesses or deficiencies in internal controls occurred during the month of December, 2012 and these controls were in place for the first eleven months of 2012 before the conversions.

The following addresses specific items noted in the Audit Results and Comments:

Cash reconcilements were performed, but not all items were finally resolved in 2012. The cash reconcilements are extremely complex due to various healthcare payment methodologies. Also, cash reconcilements were made more complex by the computer systems conversions, as accounts receivable is being maintained on multiple systems (the old and new computer systems) for an interim period of time. The cash position of the Hospital is accurately stated on the audited year-end financial statements in this report.

Methods for inventory accounting had to be revised after the system conversion, and it took considerable time and effort to work through the changes. However, inventory adjustments for 2012 were minimal.

The recording and accounting for capital assets had to be accomplished in a more manual method during the conversion and post-conversion, and there was difficulty in converting to the new fixed asset ledger. There were minimal adjustments to fixed assets for 2012.

There were several pay rate errors noted during an audit sampling of the December 2012 payroll. These errors involved minimal pay amounts, with the exception of one which had been subsequently detected and corrected by the Hospital prior to the audit. All employee time is reviewed and approved by managers for each payroll. There is a multi-level approval process in place for all rates of pay entered in the system. Hospital employee pay is complex for some disciplines due to the 24 hour 7 day per week staffing requirements. A hospital's pay practices involve differing rates of pay and a number of types of pay (including routine, overtime, weekend, shift differentials, on call, and call back). There are times when pay is corrected after the payroll is processed.

There was a period of time where there was difficulty in processing some invoices in the new system. The monitoring of these liabilities was done on a manual basis during this time, and liabilities were accurately stated at December 31, 2012.

System software edits for certain inputs were not functioning very well post-conversion, and manual edits and reviews were put in place to identify and correct discrepancies.

Many new reports are utilized in the new systems, and all summary reports needed for payroll have been identified during post-conversion and do present the correct totals as needed.