

B37055

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

AUDIT REPORT
OF

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

January 1, 2009 to December 31, 2009



FILED
05/27/2010

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Hospital Officials	2
Independent Auditor's Report	3
Management's Discussion and Analysis.....	4-11
Basic Financial Statements:	
Statement of Net Assets.....	12
Statement of Revenues, Expenses, and Changes in Net Assets	13
Statement of Cash Flows	14
Notes to Financial Statements	15-26
Exit Conference.....	27

HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Joseph Stuber	01-01-09 to 12-31-10
Treasurer	Kathy Clayton	01-01-09 to 12-31-10
Chairman of the Hospital Board	John B. Land	01-01-09 to 12-31-10
President of the Board of County Commissioners	Gary Dauby William Amos	01-01-09 to 12-31-09 01-01-10 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Perry County Memorial Hospital (Hospital), as of and for the year ended December 31, 2009, as listed in the Table of Contents. These financial statements are the responsibility of the Hospital's management. 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. 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 includes consideration of internal control over financial reporting as a basis for designing 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 over reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

STATE BOARD OF ACCOUNTS

May 11, 2010



#1 Hospital Road
Tell City, Indiana 47586
(812) 547-7011
www.pchospital.org

Management's Discussion and Analysis Perry County Memorial Hospital

Our discussion and analysis of Perry County Memorial Hospital's (PCMH) financial performance provides an overview of PCMH's financial activities for the fiscal year ended December 31, 2009. Please read it in conjunction with PCMH's financial statements and accompanying notes to the financial statements.

Using This Annual Report

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

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

The "Basic Financial Statement" section of this report includes a series of financial statements that provide information about the activities of PCMH as a whole. The Statement of Net Assets reveals the assets and liabilities of PCMH on December 31, 2009 while the Statement of Revenues, Expenses, and Changes in Net Assets summarize the changes in the assets and liabilities for the year then ended. The Statement of Cash Flows summarizes the change in cash and cash equivalents as a result of the financial activity during the year. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

Financial Highlights

With decreases in volume and decreases in net patient revenues, fiscal year 2009 was not indicative of a normal financial year for Perry County Memorial Hospital (PCMH). The following report represents changes in hospital operations as follows:

- Acute Care Discharges decreased 5.0%
- Net Patient Revenue decreased 7.8%
- Total Margin was 2.75%
- PCMH invested \$2,003,120 for Capital Equipment, Land, and Improvements in 2009
- Maximum Annual Debt Service coverage decreased to 2.54.
- Cash Not Restricted for Debt Service of \$13,820,679 is strong at 234 days cash on hand.
- During the year, PCMH made the following significant Capital Expenditures:
 - Cardiac Echo Ultrasound (\$80,000)

Conveniently located in the center of your life.

- Hematology Analyzer (\$72,150)
- Colonoscope (\$58,740)
- Hospital Portal (\$22,970)
- EMAR Pharmacy System (\$36,250)
- Archiving and Scanning (\$84,813)
- Dalcon Phone System (\$165,600)
- Video Security System (\$22,586)
- RAC Audit Tool (\$27,361)

Utilization

Total Inpatient Services have decreased in volume, and Swing Bed volumes have decreased as well. Acute Care Discharges have decreased 5% from 2008 with an Average Length of Stay at 3.1 days and Acute Care Days have decreased by 5% from 2008.

Respiratory Therapy Treatments have decreased 15%; Home Health Visits have increased 24%; Imaging Procedures increased 7%; Emergency Room Visits increased 6% and EMS volumes decreased 3%. Surgical Operations have decreased by 9% and Outpatient Visits saw an increase of 5%. Laboratory saw an increase of 10% and Physical Therapy and Occupational Therapy saw a decline of 21%.

Sources of Revenue

PCMH receives a significant portion of its revenues from government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs are 59.9% of gross revenues in 2009, up from 58.2% in 2008.

	<u>2009</u>	<u>2008</u>
Medicare	46.0%	47.0%
Medicaid	13.9%	11.2%
Commercial	32.0%	33.9%
Private	8.1%	7.9%

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

Operating Results

PCMH's Financial Operations resulted in a 0.07% Operating Margin. This is a significant decrease from prior year of 10.83%. This was related to a huge negative impact from contractual adjustments and bad debts during the last six months of the fiscal year. PCMH's Net Income was \$823,794 or a Total Margin of 2.75% and Investment Earnings of \$1,055,005 were \$735,920 over prior year of \$319,085. This includes the Foundation Endowment and Memorial Fund Earnings.

Operating Expenses of \$30.0 million increased \$1.2 million or 4.2% while revenues increased by 6.9% from prior year. Salaries and Benefits increased \$519,487 which related to an annual cost of living increase and wage adjustments to market. Medical Fees increased \$71,272 for an increase in Physician services provided under arrangement. A Cardiologist continues seeing patients on a seven day a week schedule. Supply costs increased \$349,833, Contracted Services increased \$804,811, and Other Expenses decreased \$555,994.

Balance Sheet

Hospital Operating Cash and Investments decreased \$1,140,353 during the year. This was due to an increase in our bad debts and contractual adjustments as well as investments into Non-current Cash and Investments. Non-current Cash and Investments increased \$568,586 due to increased earnings in the Equity Markets and investments in Long-Term CD's.

Accounts Receivable Days of 61.4 were over prior year at 58.1 days.

Long Term Debt to Capitalization Ratio is extremely favorable at 9.69% compared to the S&P-BBB of 42.70%. This reflects PCMH's strong Balance Sheet.

Cash Flows to Liabilities percentage experienced a change in 2009 to 32.94% compared to prior year of 43.63%. This is very favorable when compared to the S&P-BBB of 16.6%.

Cash to Long Term Debt Ratio remains extremely favorable as Cash and Investments exceed Long-Term Debt Ratio is 364.46% (S&P-BBB 82.0%).

Capital Assets

At the end of 2009 PCMH had approximately \$12,505,346 invested in Capital Assets. This represents a net increase of \$540,060 that consists of \$2,003,121 in new Capital Purchases; Less: Assets retired for disposal or trade -in, \$410,025, a decrease in Accumulated Depreciation by \$1,053,036, and CIP in the amount of \$1,501,687. Capital Assets consist of:

	<u>2009</u>	<u>2008</u>
Land	\$2,895,311	\$2,895,311
Land Improvements	\$1,394,559	\$1,382,865
Buildings	\$10,329,023	\$10,260,912
Equipment	\$13,247,122	\$12,994,501
Total	<u>\$27,866,015</u>	<u>\$27,533,589</u>
Less: Accumulated		
Depreciation	(\$16,862,356)	(\$15,809,320)
Subtotal	<u>\$11,003,659</u>	<u>\$11,724,269</u>
Construction-In-Progress	\$1,501,687	\$241,017
Capital Assets	<u>\$12,505,346</u>	<u>\$11,965,286</u>

Debt: Loans and Capital Leases outstanding consisted of:

	<u>2009</u>	<u>2008</u>
Capital Leases	\$0	\$41,974
Mortgages Payable	\$1,217,370	\$1,347,756
Loan Payable	\$2,655,499	\$3,268,442
Total Debt	<u>\$3,872,869</u>	<u>\$4,658,172</u>

PERRY COUNTY MEMORIAL HOSPITAL

Management Discussion and Analysis

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

	CHANGES IN NET ASSETS		Increase
	2009	2008	Decrease
PATIENT REVENUES:			
<i>Inpatient Services</i>	\$18,700,077	\$19,049,552	(\$349,475)
<i>Outpatient Services</i>	41,970,938	37,718,991	4,251,947
<i>Total Patient Revenue</i>	60,671,015	56,768,543	3,902,472
DEDUCTIONS FROM REVENUE:			
<i>Contractual Provision</i>	29,101,879	24,044,325	5,057,554
<i>Charity and Uncompensated Care</i>	5,092,854	4,009,389	1,083,465
<i>Net Patient Revenue</i>	26,476,282	28,714,829	(2,238,547)
<i>Other Operating Revenue</i>	3,533,908	3,603,591	(69,683)
<i>Net Operating Revenue</i>	30,010,190	32,318,420	(2,308,230)
OPERATING EXPENSES:			
<i>Salaries & benefits</i>	14,506,295	13,986,808	519,487
<i>Medical professional Fees</i>	1,739,869	1,668,597	71,272
<i>Supplies, food, and drugs</i>	3,956,427	3,606,594	349,833
<i>Depreciation and amortization</i>	1,451,182	1,427,342	23,840
<i>Contracted services</i>	3,819,305	3,014,494	804,811
<i>Other expenses</i>	4,559,064	5,115,058	(555,994)
<i>Total Expenses</i>	30,032,142	28,818,893	1,213,249
Operating Income	(21,952)	3,499,527	(3,521,479)
Nonoperating Income (Expenses)			
<i>Investment income</i>	1,055,005	319,085	735,920
<i>Interest expense</i>	(185,276)	(177,110)	(8,166)
<i>Noncapital grants and contributions</i>	73,482	259,301	(185,819)
<i>Other</i>	(97,465)	(1,873,371)	1,775,906
<i>Net Nonoperating Income</i>	845,746	(1,472,095)	2,317,841
Net Income/(Loss) After Investments	\$823,794	\$2,027,432	(\$1,203,638)

PERRY COUNTY MEMORIAL HOSPITAL

Management Discussion and Analysis

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

STATEMENT OF NET ASSETS

	2009	2008	Increase Decrease
<u>CURRENT ASSETS:</u>			
<i>Cash and cash equivalents</i>	\$11,347,562	\$13,332,955	(\$1,985,393)
<i>Investments</i>	2,473,117	1,628,077	845,040
<i>Patient accounts receivable net of allowance</i>	5,146,169	5,474,377	(328,208)
<i>Accounts receivable</i>	83,163	189,981	(106,818)
<i>Supplies and other current assets</i>	1,119,895	1,037,910	81,985
<i>Noncurrent cash and investments</i>	2,481,632	1,913,046	568,586
<i>Other long-term investments</i>	729,303	534,339	194,964
<i>Capital assets:</i>			
<i>Land and Construction in progress</i>	4,396,998	3,136,328	1,260,670
<i>Depreciable capital assets, net of accumulated depreciation</i>	8,108,348	8,828,958	(720,610)
<i>Other Assets</i>	25,000	25,000	0
TOTAL ASSETS	\$35,911,187	\$36,100,971	(\$189,784)
<u>LIABILITIES & NET ASSETS</u>			
<i>Current Portion - LTD</i>	759,300	773,300	(14,000)
<i>Accounts payable and accrued expenses</i>	986,312	1,296,610	(310,298)
<i>Estimated third-party payor settlements</i>	1,031,414	1,000,000	31,414
<i>Other Current Liabilities</i>	1,015,010	964,401	50,609
<i>Long-term debt, net of current maturities</i>	3,113,569	3,884,872	(771,303)
TOTAL LIABILITIES	6,905,605	7,919,183	(1,013,578)
<i>Invested in capital assets, net of related debt</i>	8,657,477	7,332,113	1,325,364
<i>Unrestricted</i>	20,348,105	20,849,675	(501,570)
TOTAL NET ASSETS	29,005,582	28,181,788	823,794
TOTAL LIABILITIES AND NET ASSETS	\$35,911,187	\$36,100,971	(\$189,784)

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

	OPERATING STATISTICS		Percentage Change
	2009	2008	
<u>DISCHARGES</u>			
<i>Acute Care</i>	1,425	1,506	-5%
<i>Swing Bed</i>	87	87	0%
<i>New Born</i>	88	85	4%
TOTAL DISCHARGES	1,600	1,678	-5%
<u>PATIENT DAYS:</u>			
<i>Acute Care</i>	4,408	4,645	-5%
<i>Swing Bed</i>	586	654	-10%
<i>New Born</i>	203	199	2%
TOTAL PATIENT DAYS	5,197	5,498	-5%
<u>% UTILIZATION:</u>			
<i>Medicare</i>	71.0%	70.3%	0.7%
<i>Medicaid</i>	9.9%	8.1%	1.8%
<i>Commercial</i>	15.5%	18.6%	-3.1%
<i>Private Pay</i>	3.6%	3.0%	0.6%
<u>AVERAGE LENGTH OF STAY:</u>			
<i>Acute Care</i>	3.1	3.1	
<i>Swing Bed</i>	6.7	7.5	
<i>Newborn</i>	2.3	2.3	
<u>OTHER OPERATING STATISTICS</u>			
<i>Surgical Operations</i>	1,203	1,315	-9%
<i>Laboratory Tests</i>	108,223	98,401	10%
<i>Physical Therapy/Occ Therapy Tr</i>	15,548	19,799	-21%
<i>Imaging Procedures</i>	21,738	20,322	7%
<i>Respiratory Therapy Treatments</i>	66,486	78,000	-15%
<i>Emergency Room Visits</i>	11,821	11,118	6%
<i>Outpatient Visits</i>	63,347	60,492	5%
<i>Home Health Visits</i>	3,718	3,010	24%
<i>EMS Trips</i>	1,573	1,622	-3%

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

	S & P BBB	2009	2008
Operating Margin % (Operating Income/Net Operating Revenue)	2.00%	0.07%	10.83%
Total Margin % (Net Income/Net Operating Revenue)	4.01%	2.75%	6.27%
Total EBIDA Margin % (Net Income + Interest + Depreciation / Net Revenue)	10.80%	8.20%	11.24%
Days of Cash on Hand (Cash / (Operating Expense-Depreciation)/365)	122	234	253
Days in Accounts Receivable (Net AVR / Net Average Daily Revenue)	51.00	61.40	58.10
Labor Costs to Net Revenue % (Salaries + Benefits) / Net Operating Revenue	50.30%	48.34%	43.28%
Supply Costs to Net Revenue % (Supplies / Net Operating Revenue)	N/A	13.18%	11.16%
Long Term Debt to Capitalization % (Long Term Debt / (Fund Balance + Long Term Debt))	42.70%	9.69%	12.29%
Maxium Annual Debt Service Cove (Net Income + Interest + Depreciation + Amortization) / Debt Service	3.10	2.54	4.37
Cash Flows to Liabilities % (Net Income + Depreciation + Amortization) / Total Liabilities	16.60%	32.94%	43.63%
Cash to Debt (Cash / Long Term Debt)	82.00%	364.46%	343.20%
Average Age of Plant (Years) (Accumulated Depreciation / Depreciation)	9.60	11.62	11.08

PERRY COUNTY MEMORIAL HOSPITAL
STATEMENT OF NET ASSETS
December 31, 2009

Assets

Current assets:	
Cash and cash equivalents	\$ 11,347,562
Short-term investments	2,473,117
Patient accounts receivable, net of estimated uncollectibles of \$3,045,674	5,146,169
Accounts receivable	83,163
Supplies and other current assets	1,119,895
Noncurrent cash and investments:	
Internally designated	2,481,632
Other long-term investments	729,303
Capital assets:	
Land and construction work in progress	4,396,998
Depreciable capital assets, net of accumulated depreciation	8,108,348
Other assets	<u>25,000</u>
Total assets	<u>\$ 35,911,187</u>

Liabilities and Net Assets

Current liabilities:	
Current maturities of long-term debt	\$ 759,300
Accounts payable and accrued expenses	986,312
Estimated third-party payor settlements	1,031,414
Other current liabilities	1,015,010
Long-term debt, net of current maturities	<u>3,113,569</u>
Total liabilities	<u>6,905,605</u>
Net assets:	
Invested in capital assets, net of related debt	8,657,477
Unrestricted	<u>20,348,105</u>
Total net assets	<u>29,005,582</u>
Total liabilities and net assets	<u>\$ 35,911,187</u>

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

PERRY COUNTY MEMORIAL HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2009

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 26,476,282
Other	<u>3,533,908</u>
Total operating revenues	<u>30,010,190</u>
Operating expenses:	
Salaries and benefits	14,506,295
Medical professional fees	1,739,869
Medical supplies and drugs	2,685,357
Insurance	343,782
Other supplies	1,116,445
Food	154,625
Utilities	562,849
Depreciation and amortization	1,451,182
Contracted services	3,819,305
Service agreements	734,183
Repair and maintenance	68,268
Other expenses	<u>2,849,982</u>
Total operating expenses	<u>30,032,142</u>
Operating loss	<u>(21,952)</u>
Nonoperating revenues (expenses):	
Investment income	1,055,005
Interest expense	(185,276)
Noncapital grants and contributions	73,482
Other	<u>(97,465)</u>
Total nonoperating revenues	<u>845,746</u>
Increase in net assets	823,794
Net assets beginning of the year	<u>28,181,788</u>
Net assets end of the year	<u>\$ 29,005,582</u>

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

PERRY COUNTY MEMORIAL HOSPITAL
STATEMENT OF CASH FLOWS
Year Ended December 31, 2009

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 26,804,490
Payments to suppliers and contractors	(11,478,734)
Payments to employees	(14,506,295)
Other receipts and payments, net	<u>734,535</u>
Net cash provided by operating activities	<u>1,553,996</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	73,482
Principal paid on long-term debt	(785,303)
Interest paid on long-term debt	(185,276)
Purchase of capital assets	<u>(1,991,242)</u>
Net cash used by capital and related financing activities	<u>(2,888,339)</u>
Cash flows from investing activities:	
Interest and dividends on investments	957,540
Net proceeds from investing activities	<u>(1,390,819)</u>
Net cash used by investing activities	<u>(433,279)</u>
Net decrease in cash and cash equivalents	(1,767,622)
Cash and cash equivalents at beginning of year	<u>13,957,251</u>
Cash and cash equivalents at end of year	<u>\$ 12,189,629</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 11,347,562
Restricted cash and cash equivalents	<u>842,067</u>
Total cash and cash equivalents	<u>\$ 12,189,629</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (21,952)
Adjustments to reconcile operating income to net cash flows used in operating activities:	
Depreciation and amortization	1,451,182
Provision for bad debts	3,722,749
(Increase) decrease in current assets:	
Patient accounts receivable	(3,394,541)
Accounts receivable	106,818
Supplies and other current assets	(81,985)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	(310,298)
Estimated third-party payor settlements	31,414
Other liabilities related to operating activities	<u>50,609</u>
Net cash provided in operating activities	<u>\$ 1,553,996</u>

Noncash investing, capital, and financing activities:

The Hospital held investments at December 31, 2009, with a fair value of \$4,086,380. During 2009 the net increase in the fair value of these investments was \$905,385.

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

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

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

Blended Component Units

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

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

Open-end mutual funds are reported at fair value.

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

Other investments are generally reported at fair value.

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

2. Use of Estimates

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

3. Capital Assets

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

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

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

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.

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

4. Net Assets

Net assets of the Hospital are classified in two components.

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

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

D. Grants and Contributions

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

E. Operating Revenues and Expenses

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

F. 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.

G. Supplies

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

H. Compensated Absences

1. Sick Leave

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

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Vacation Leave

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

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

No liability is reported for sick leave.

I. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

The carrying amount reported in the statement of net assets for cash and cash equivalents approximates its fair value.

Short-Term Investments

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

Investments

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

Accounts Payable and Accrued Expenses

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

Estimated Third-Party Payor Settlements

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

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-16 allows a Hospital Governing Board to deposit public funds in a financial institution. The Hospital does not have a formal policy

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

regarding custodial credit risk for deposits. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

As of December 31, 2009, the Hospital had the following investments:

<u>Investment Type</u>	<u>Market Value</u>
Mutual funds	<u>\$ 4,086,380</u>

Statutory Authorization for Investments

Indiana Code 16-22-3-20 authorizes the Hospital to invest in: 1) 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; 2) 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; 3) mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana; 4) 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; or 5) pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Hospital does not have a formal policy for custodial credit risk for investments. At December 31, 2009, the Hospital did not hold investments with 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.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a Hospital'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 held the following investments that were exposed to concentration of credit risk:

Issuer	December 31, 2009
T. Rowe Price Funds	\$ 729,303
Mutual Funds held at Edward Jones	1,681,191
Mutual Funds held at Old National Securities	1,675,886
Total	\$ 4,086,380

Foreign Currency Risk

The Hospital does not have a formal policy in regards to foreign currency risk.

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	\$ 4,420,069
Receivable from Medicare	2,737,767
Receivable from Medicaid	1,034,007

Total patient accounts receivable	8,191,843
-----------------------------------	-----------

Less allowance for uncollectible amounts	3,045,674
--	-----------

Patient accounts receivable, net	\$ 5,146,169
----------------------------------	--------------

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 1,015,010
Payable to suppliers	986,312
Other	1,031,414

Total accounts payable and accrued expenses	\$ 3,032,736
---	--------------

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,895,311	\$ -	\$ -	\$ 2,895,311
Construction in progress	241,017	1,723,255	462,585	1,501,687
 Total capital assets, not being depreciated	 3,136,328	 1,723,255	 462,585	 4,396,998
Capital assets, being depreciated:				
Land improvements	1,382,865	11,694	-	1,394,559
Buildings and improvements	10,260,912	68,111	-	10,329,023
Equipment	12,994,501	662,646	410,025	13,247,122
 Totals	 24,638,278	 742,451	 410,025	 24,970,704
Less accumulated depreciation for:				
Land improvements	1,100,194	32,238	-	1,132,432
Buildings and improvements	5,016,223	356,316	-	5,372,539
Equipment	9,692,903	1,062,628	398,146	10,357,385
 Totals	 15,809,320	 1,451,182	 398,146	 16,862,356
 Total capital assets, being depreciated, net	 8,828,958	 (708,731)	 11,879	 8,108,348
 Total primary government capital assets, net	 \$ 11,965,286	 \$ 1,014,524	 \$ 474,464	 \$ 12,505,346

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2009	Committed	Required Future Funding
Master planning	\$ 1,471,957	\$ 1,471,957	\$ -	\$ -
HMS Clinical View	23,365	23,365	-	-
HMS Java System	6,365	6,365	-	-
 Totals	 \$ 1,501,687	 \$ 1,501,687	 \$ -	 \$ -

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Leases

Operating Leases

The Hospital has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for Pharmacy equipment. Rental expenditures for this lease were \$45,262. The following is a schedule by years of future minimum rental payments as of year end:

2010	\$ 45,262
2011	45,262
2012	45,262
2013	<u>30,174</u>
 Total	 <u>\$ 165,960</u>

F. Long-Term Liabilities

1. Mortgages and Loans Payable

The Hospital has entered into various mortgages and loans. Annual debt service requirements to maturity including interest of \$487,310 are as follows:

2010	\$ 911,369
2011	920,573
2012	827,661
2013	497,492
2014	465,787
2015-2019	<u>737,297</u>
 Total	 <u>\$ 4,360,179</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital leases	\$ 41,974	\$ -	\$ 41,974	\$ -	\$ -
Mortgage payable	1,347,756	-	130,386	1,217,370	118,605
Loans payable	<u>3,268,442</u>	<u>-</u>	<u>612,943</u>	<u>2,655,499</u>	<u>640,695</u>
 Total long-term liabilities	 <u>\$ 4,658,172</u>	 <u>\$ -</u>	 <u>\$ 785,303</u>	 <u>\$ 3,872,869</u>	 <u>\$ 759,300</u>

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

G. Net Patient Service Revenue

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

1. Medicare

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

2. Medicaid

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

Revenue from the Medicare and Medicaid programs accounted for approximately 46% and 14%, respectively, of the Hospital's net patient revenue for the year ended 2009. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

H. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$1,370,105 for 2009.

I. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

1. Funded Depreciation – Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing, or making additions to the Hospital buildings as authorized by Indiana Code 16-22-3-13.
2. Designated Funds – Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Internally designated:	
Funded depreciation:	
Cash and cash equivalents	\$ 301,633
Investments	<u>1,484,565</u>
Total funded depreciation	<u>1,786,198</u>
Board designation:	
Cash and cash equivalents	328,434
NEG Loan Pledge	212,000
Scholarship Fund	55,000
Endowment Fund	<u>100,000</u>
Total board designation	<u>695,434</u>
Total internally designated	<u><u>\$ 2,481,632</u></u>

IV. Other Information

A. Risk Management

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

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

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

The Hospital has contracted with a Third Party to administer the Perry County Memorial Hospital Employee Benefit Trust, an account created to service employee health benefit claims and administrative costs of the program. This is a pay as you go system and claims are expensed as incurred. An excess policy through commercial insurance covers individual claims in excess of \$37,500 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund that accounts for employee payroll. This total charge is calculated using trends in actual claims experience.

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 assets 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 that the Hospital has the ability to access. Investments include mutual funds.

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

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

Based upon the levels as defined the Hospital's investments as of December 31, 2009, are classified as follows:

<u>Investment Type</u>	<u>12-31-09</u>	<u>Fair Value Measurements at Reporting Date Using:</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Mutual funds	\$ 4,086,380	\$ 4,086,380	\$ -	\$ -

PERRY COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Pension Plan

Defined Contribution Pension Plan

Plan Description

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

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are required to contribute 3% of the annual covered salary plus an optional 3% matching contribution. Employer and employee contributions to the plan were \$473,446 and \$364,704, respectively.

E. Ambulance Service Subsidy

Perry County Memorial Hospital provides ambulance service for Perry County residents, including the cities of Cannelton and Tell City, through an agreement dated July 1986. The agreement provides that Perry County is to reimburse the Hospital, on monthly basis, for the amount that expenses exceeded revenues for the period. During 2009, the County reimbursed the Hospital \$102,700 for ambulance services.

This amount is included in the financial statements in other operating revenue.

PERRY COUNTY MEMORIAL HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on May 11, 2010, with Joseph Stuber, Executive Director; and Kathy Clayton, Treasurer. Our audit disclosed no material items that warrant comment at this time.

Separate telephone exit conferences were held with Board members: Dr. Joe LeClere, Grant Taylor, Don Etienne, John B. Land, Tim Harding, and Rita Mahoney.