

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

AUDIT REPORT
OF

SCOTT MEMORIAL HOSPITAL
A COMPONENT UNIT OF
SCOTT COUNTY, INDIANA

January 1, 2011 to December 31, 2011



FILED
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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Clifford D. Nay	01-01-11 to 12-31-12
Treasurer	Angela G. Doan	01-01-11 to 12-31-12
Chairman of the Hospital Board	Ivan Wells Donna Faris	01-01-11 to 12-31-11 01-01-12 to 12-31-12
President of the Board of County Commissioners	Larry Blevins Mark Hays	01-01-11 to 12-31-11 01-01-12 to 12-31-12



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Scott Memorial Hospital (Hospital) a component unit of Scott County, as of and for the year ended December 31, 2011, which collectively comprise the Hospital's basic financial statements 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 financial reporting. Accordingly, we express no such opinion. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of December 31, 2011, and the respective 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 Hospital has not presented Management's Discussion and Analysis, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements. The Combining Schedules, as listed in the Table of Contents, are presented for purposes of additional analysis and are not required parts of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Schedules are fairly stated in all material respects in relation to the financial statements as a whole.

STATE BOARD OF ACCOUNTS

July 24, 2012

SCOTT MEMORIAL HOSPITAL
STATEMENT OF NET ASSETS
December 31, 2011
(In Thousands)

Assets

Current assets:	
Cash and cash equivalents	\$ 2,334
Patient accounts receivable, net of estimated uncollectibles of \$4,573 (Hospital \$4,289, Scott Physicians Group \$284)	4,254
Short term investments	14
Other	87
Inventories	468
Prepaid expenses	<u>329</u>
Total current assets	<u>7,486</u>
Long-term assets:	
Property and equipment	40,748
Construction in progress	41
Less accumulated depreciation	<u>(19,629)</u>
Total long-term assets	<u>21,160</u>
Total assets	<u><u>\$ 28,646</u></u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 932
Estimated third-party payor settlements	464
Accrued expenses	<u>805</u>
Total liabilities	<u>2,201</u>
Net assets:	
Invested in capital assets	21,160
Unrestricted	<u>5,285</u>
Total net assets	<u>26,445</u>
Total liabilities and net assets	<u><u>\$ 28,646</u></u>

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

SCOTT MEMORIAL HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2011
(In Thousands)

Net patient service revenues (net of provision for bad debt)	\$ 18,243
Other operating revenues	<u>657</u>
Total operating revenues	<u>18,900</u>
Operating expenses:	
Personnel	11,917
Supplies	2,431
Purchased services	4,241
Professional fees	119
Other	1,174
Depreciation	<u>2,427</u>
Total operating expenses	<u>22,309</u>
Loss from operations	(3,409)
Nonoperating revenues (expenses):	
Investment income	<u>2</u>
Deficiency of revenues under expenses before contributions	(3,407)
Contributions	<u>451</u>
Decrease in net assets	(2,956)
Net assets beginning of the year	<u>29,401</u>
Net assets end of the year	<u><u>\$ 26,445</u></u>

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

SCOTT MEMORIAL HOSPITAL
STATEMENT OF CASH FLOWS
Year Ended December 31, 2011
(In Thousands)

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 19,474
Payments to suppliers and contractors	(7,111)
Payments to employees	(11,917)
Other receipts and payments, net	<u>523</u>
Net cash provided by operating activities	<u>969</u>
Cash flows from noncapital financing activities:	
Noncapital contributions	<u>451</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(2,642)</u>
Cash flows from investing activities:	
Investment income	<u>2</u>
Net decrease in cash and cash equivalents	(1,220)
Cash and cash equivalents at beginning of year	<u>3,554</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,334</u></u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	<u><u>\$ 2,334</u></u>
Reconciliation of operating income to net cash used by operating activities:	
Operating loss	\$ (3,409)
Adjustments to reconcile operating income to net cash flows used in operating activities:	
Depreciation	2,427
(Increase) decrease in current assets:	
Patient accounts receivable	1,231
Supplies and other current assets	121
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	733
Estimated third-party payor settlements	<u>(134)</u>
Net cash provided in operating activities	<u><u>\$ 969</u></u>

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

SCOTT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Scott 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 Scott 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 Scott County.

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

Blended Component Unit

Scott Physicians Group (SPG) is a significant blended component unit of the Hospital. The primary government appoints a voting majority of the SPG's board and is able to impose its will. Although it is legally separate from the Hospital, SPG is reported as if it were a part of the Hospital because SPG benefits the Hospital exclusively by providing services indirectly. A separate audit report is not 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. 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. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Hospital has elected to apply subsequent private-sector guidance.

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 ninety 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.

SCOTT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 non-operating revenues in the statement of revenues, expenses, and changes in net assets.

2. Use of Estimates

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

3. Capital Assets

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 1,000	Straight-line	3 to 50 years
Improvements other than buildings	1,000	Straight-line	5 to 25 years
Fixed equipment	1,000	Straight-line	5 to 25 years
Major movable equipment	1,000	Straight-line	5 to 12 years

SCOTT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

4. Net Assets

Net assets of the Hospital are classified in two components.

Net assets invested in capital assets consists of capital assets net of accumulated depreciation.

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

D. Grants and Contributions

From time to time, the Hospital receives grants from Scott 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. 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 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. Non-exchange 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.

SCOTT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

I. Supplies

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

J. Compensated Absences

1. Paid Time Off

The Paid Time Off (PTO) plan includes an accrual of hours to be used for vacation, holidays, personal days, and short-term personal illnesses of two days or less. Hospital employees earn PTO hours at the rate of 144 to 240 hours per year based on status and years of service. The maximum accrual of PTO is limited to 1 ½ times an employee's current accrual rate. Active employees may request cash payments for unused PTO which is paid at a rate of 75% of the employee's hourly pay rate at the time of the request. Upon termination, an employee is paid for unused PTO at 100% of their current hourly pay rate.

2. Extended Illness Benefit

Extended Illness Benefits (EIB) are paid to employees for sick absences in excess of two consecutive days. EIB is accrued for full-time employees at a rate of 55.9 hours per year. Accrued EIB may be carried over from year to year. Depending upon status, employees may accrue EIB to a maximum of 432 to 480 hours. Accrued EIB is not paid to employees upon termination.

PTO is accrued when incurred and reported as a liability.

No liability is recorded for EIB.

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:

Cash and Cash Equivalents

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

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.

SCOTT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 deposit policy for custodial credit risk. At December 31, 2011, the Hospital had deposit balances in the amount of \$2,334,000.

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

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.

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:

SCOTT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Patient Accounts Receivable</u>	<u>(In Thousands)</u>
Receivable from patients and their insurance carriers	\$ 7,175
Receivable from Medicare	743
Receivable from Medicaid	487
Scott Physicians' Group*	<u>422</u>
Total patient accounts receivable	\$ 8,827
Less allowance for uncollectible amounts	<u>4,573</u>
Patient accounts receivable, net	<u><u>\$ 4,254</u></u>

*Source of receivable information not available.

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 805
Payable to suppliers	<u>932</u>
Total accounts payable and accrued expenses	<u><u>\$ 1,737</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 241	\$ -	\$ -	\$ 241
Construction in progress	<u>221</u>	<u>-</u>	<u>180</u>	<u>41</u>
Total capital assets, not being depreciated	<u>462</u>	<u>-</u>	<u>180</u>	<u>282</u>
Capital assets, being depreciated:				
Buildings	22,197	638	27	22,808
Improvements other than buildings	515	6	-	521
Fixed equipment	2,367	43	-	2,410
Major movable equipment	<u>12,714</u>	<u>2,143</u>	<u>89</u>	<u>14,768</u>
Total assets being depreciated	<u>37,793</u>	<u>2,830</u>	<u>116</u>	<u>40,507</u>

SCOTT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	(6,802)	(933)	27	(7,708)
Improvements other than buildings	(432)	(25)	-	(457)
Fixed equipment	(1,821)	(122)	-	(1,943)
Major movable equipment	(8,254)	(1,347)	80	(9,521)
Totals	(17,309)	(2,427)	107	(19,629)
Total capital assets, being depreciated, net	20,484	403	223	20,878
Total primary government capital assets, net	<u>\$ 20,946</u>	<u>\$ 403</u>	<u>\$ 742</u>	<u>\$ 21,160</u>

D. Operating Lease

On September 15, 2008, the Hospital signed a five year operating lease agreement with the Veterans Administration (VA). The VA leased a building from the Hospital. Under terms of the agreement, the annual lease cost is recomputed each Federal fiscal year. Payments are monthly. The agreed-upon annual lease cost for the Federal fiscal year ending September 30, 2011, was \$253,467.

E. 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 non-acute services 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.

2. Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 39 percent and 22 percent, respectively, of the Hospital's net patient revenue for the year ended 2011, and 39 percent and 18 percent, respectively, of the Hospital's net patient revenue for the year ended 2010. Laws

SCOTT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

F. Disproportionate Share Hospital Payments

Disproportionate Share Hospital (DSH) adjustment payments provide additional funds to hospitals that serve a significantly disproportionate number of low-income patients. States receive an annual DSH allotment from the Federal government to cover the costs of qualifying hospitals that provide care to low-income patients not covered by other payers. The Hospital qualified as a DSH and received \$1,352,000 in 2011. The revenue from the program is included in net patient service revenue.

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; 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.

B. Management Agreement and Related Fees

In 1991, the Hospital entered into an agreement with MedGroup Management, Inc. (MedGroup), an affiliate of Jewish Hospital & St. Mary's HealthCare, Inc., whereby MedGroup would supervise, manage, and operate the Hospital. A procedure was established whereby a management fee was to be paid by the Hospital based on operating income. In 2011, no management fee was paid due to the Hospital incurring an operating loss. This agreement expired on December 31, 2011.

C. Contingent Liabilities

Litigation

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

SCOTT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Pension Plan

Defined Contribution Pension Plan

Scott County Memorial Hospital 403 (B) Plan

Plan Description

The Hospital has a defined contribution pension plan administered by American United Life Insurance Company (Plan Administrator) authorized by IC 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established and can be amended by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established and can be amended by the written agreement between the Hospital Board of Trustees and the Plan Administrator in accordance with the Internal Revenue Code. Each employee has a separate account. Employees contribute to their accounts through salary reduction contributions subject to Internal Revenue Code restrictions. The Hospital contributes a matching amount to each employee's account of 4 percent of salary. The total contributed by the Hospital during 2011 was \$286,142. Account statements are sent to the employees. The Hospital does not receive statements for the employees' accounts.

E. Subsequent Event

On May 8, 2012, the Hospital Board approved a Letter of Intent (a non-binding agreement) with Norton Healthcare, Inc., and LifePoint Acquisition Corp. for the proposed lease and operation, with the option to acquire and own, the Scott County Memorial Hospital. Based on the letter of intent, Norton Health Care, Inc., and LifePoint Acquisition Corp. propose to form a joint venture, and the joint venture will in turn create a subsidiary limited liability company (NewCo) for the proposed lease, operation and possible acquisition of the hospital. The initial term of the proposed lease will be for a term of 10 years with an option to renew for an additional term of 10 years. The proposal includes the option for NewCo to purchase the leased assets any time during the first five (5) years of the initial lease term.

SCOTT MEMORIAL HOSPITAL
COMBINING STATEMENT OF NET ASSETS
December 31, 2011
(In Thousands)

<u>Assets</u>	<u>Hospital</u>	<u>Scott Physicians Group (SPG)</u>	<u>Eliminations</u>	<u>Total Primary Government</u>
Current assets:				
Cash and cash equivalents	\$ 2,304	\$ 30	-	\$ 2,334
Patient accounts receivable, net of estimated uncollectibles of \$4,573 (Hospital \$4,289, Scott Physicians Group \$284)	4,113	141	-	4,254
Short term investments	14	-	-	14
Receivable from Scott Physicians Group	3,460	-	(3,460)	-
Other	12	75	-	87
Inventories	468	-	-	468
Prepaid expenses	263	66	-	329
Total current assets	<u>10,634</u>	<u>312</u>	<u>(3,460)</u>	<u>7,486</u>
Long-term assets:				
Property and equipment	36,849	3,899	-	40,748
Construction in progress	41	-	-	41
Less accumulated depreciation	<u>(17,995)</u>	<u>(1,634)</u>	<u>-</u>	<u>(19,629)</u>
Total long-term assets	<u>18,895</u>	<u>2,265</u>	<u>-</u>	<u>21,160</u>
Total assets	<u>\$ 29,529</u>	<u>\$ 2,577</u>	<u>\$ (3,460)</u>	<u>\$ 28,646</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	\$ 895	\$ 37	\$ -	\$ 932
Estimated third-party payor settlements	464	-	-	464
Accrued expenses	740	65	-	805
Due to Scott Memorial Hospital	-	3,460	(3,460)	-
Total liabilities	<u>2,099</u>	<u>3,562</u>	<u>(3,460)</u>	<u>2,201</u>
Net assets:				
Invested in capital assets	18,895	2,265	-	21,160
Unrestricted	<u>8,535</u>	<u>(3,250)</u>	<u>-</u>	<u>5,285</u>
Total net assets	<u>27,430</u>	<u>(985)</u>	<u>-</u>	<u>26,445</u>
Total liabilities and net assets	<u>\$ 29,529</u>	<u>\$ 2,577</u>	<u>\$ (3,460)</u>	<u>\$ 28,646</u>

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

SCOTT MEMORIAL HOSPITAL
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2011
(In Thousands)

	Hospital	Scott Physicians Group (SPG)	Total Primary Government
Net patient service revenues (net of provision for bad debt)	\$ 17,420	\$ 823	\$ 18,243
Other operating revenues	<u>116</u>	<u>541</u>	<u>657</u>
Total operating revenues	<u>17,536</u>	<u>1,364</u>	<u>18,900</u>
Operating expenses:			
Personnel	10,557	1,360	11,917
Supplies	2,390	41	2,431
Purchased services	3,593	648	4,241
Professional fees	119	-	119
Other	1,041	133	1,174
Depreciation	<u>2,260</u>	<u>167</u>	<u>2,427</u>
Total operating expenses	<u>19,960</u>	<u>2,349</u>	<u>22,309</u>
Loss from operations	<u>(2,424)</u>	<u>(985)</u>	<u>(3,409)</u>
Nonoperating revenues (expenses):			
Investment income	<u>2</u>	<u>-</u>	<u>2</u>
Deficiency of revenues under expenses before contributions	(2,422)	(985)	(3,407)
Contributions	<u>451</u>	<u>-</u>	<u>451</u>
Decrease in net assets	(1,971)	(985)	(2,956)
Net assets beginning of the year	<u>29,401</u>	<u>-</u>	<u>29,401</u>
Net assets end of the year	<u>\$ 27,430</u>	<u>\$ (985)</u>	<u>\$ 26,445</u>

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

SCOTT MEMORIAL HOSPITAL
COMBINING STATEMENT OF CASH FLOWS
Year Ended December 31, 2011
(In Thousands)

	Hospital	Scott Physicians Group (SPG)	Total Primary Government
Cash flows from operating activities:			
Receipts from and on behalf of patients	\$ 18,409	\$ 1,065	\$ 19,474
Payments to suppliers and contractors	(6,349)	(762)	(7,111)
Payments to employees	(10,557)	(1,360)	(11,917)
Other receipts and payments, net	(18)	541	523
Net cash provided by (used in) operating activities	<u>1,485</u>	<u>(516)</u>	<u>969</u>
Cash flows from noncapital financing activities:			
Noncapital contributions	451	-	451
Proceeds/repayment of loans between component unit	(501)	501	-
Net cash used by capital and related financing activities	<u>(50)</u>	<u>501</u>	<u>451</u>
Cash flows from capital and related financing activities:			
Purchase/Refunds of capital assets	(2,646)	4	(2,642)
Cash flows from investing activities:			
Investment income	2	-	2
Net decrease in cash and cash equivalents	(1,209)	(11)	(1,220)
Cash and cash equivalents at beginning of year	3,513	41	3,554
Cash and cash equivalents at end of year	<u>\$ 2,304</u>	<u>\$ 30</u>	<u>\$ 2,334</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:			
Cash and cash equivalents in current assets	<u>\$ 2,304</u>	<u>\$ 30</u>	<u>\$ 2,334</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating loss	\$ (2,424)	\$ (985)	\$ (3,409)
Adjustments to reconcile operating income to net cash flows used in operating activities:			
Depreciation	2,260	167	2,427
(Increase) decrease in current assets:			
Patient accounts receivable	989	242	1,231
Supplies and other current assets	139	(18)	121
Increase (decrease) in current liabilities:			
Accounts payable and accrued expenses	655	78	733
Estimated third-party payor settlements	(134)	-	(134)
Net cash provided (used) in operating activities	<u>\$ 1,485</u>	<u>\$ (516)</u>	<u>\$ 969</u>

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

SCOTT MEMORIAL HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2012 with Angela G. Doan, Treasurer, and Eric Graham, Vice President of the Hospital Board. Our audit disclosed no material items that warrant comment at this time.