



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

August 1, 2022

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

We have reviewed the audit report of Perry County Memorial Hospital which was opined upon by FORVIS, LLP, Independent Public Accountants, for the period January 1, 2021 to December 31, 2021. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of the Perry County Memorial Hospital as of December 31, 2021, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding included in the report on pages 45-46. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding. Management's Corrective Action Plan appears on page 48.

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

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

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner

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

Independent Auditor's Report and Financial Statements

December 31, 2021 and 2020

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
December 31, 2021 and 2020

Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	4
Financial Statements	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12
Supplementary Information	
Schedule of Expenditures of Federal Awards	36
Notes to the Schedule of Expenditures of Federal Awards	37
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards – Independent Auditor’s Report	38
Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance – Independent Auditor’s Report	40
Schedule of Findings and Questioned Costs	44
Summary Schedule of Prior Audit Findings	47



600 N. Hurstbourne Parkway, Suite 350 / Louisville, KY 40222

P 502.581.0435 / F 502.581.0723

forvis.com

Independent Auditor's Report

Board of Trustees
Perry County Memorial Hospital
Tell City, Indiana

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Perry County Memorial Hospital (Hospital), a component unit of Perry County, Indiana, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of December 31, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Hospital, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2022, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

FORVIS,LLP

Louisville, Kentucky
June 23, 2022

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020

Introduction

This management's discussion and analysis of the financial performance of Perry County Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2021 and 2020. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2021 and 2020 by \$3,433,799 and \$6,346,036, or 17% and 44%, respectively.
- The Hospital's net position increased by \$2,578,399, or 8.7% in 2021, as compared to 2020, and increased by \$3,823,411, or 14.8%, in 2020, as compared to 2019, from operating and nonoperating results.
- The Hospital reported operating income in 2021 of \$769,928 and 2020 of \$439,756. The operating income in 2021 increased by \$330,172, or 75.1%, as compared to 2020. The Hospital reported operating income in 2020 of \$439,756, which represents a decrease of \$2,592,569, or 85.5%, over the operating income in 2019.
- Net nonoperating revenues (expenses) decreased by \$1,575,184 or 46.6% in 2021 as compared to 2020, and net nonoperating revenues (expenses) in 2020 of \$3,383,655, as compared to 2019, of \$(685,434).

Using This Annual Report

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

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

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

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Management’s Discussion and Analysis
Years Ended December 31, 2021 and 2020

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

The Statement of Cash Flows

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

The Hospital’s Net Position

The Hospital’s net position is the difference between assets and liabilities reported in the statement of net position. The Hospital’s net position increased by \$2,578,399 (8.7%) in 2021 over 2020 and increased by \$3,823,411 (14.8%) in 2020 over 2019, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2021	2020	2019
Assets			
Patient accounts receivable, net	\$ 6,436,909	\$ 5,351,611	\$ 4,865,049
Other current assets	24,135,673	20,643,640	14,554,245
Capital assets, net	42,369,699	44,052,728	45,564,674
Other noncurrent assets	1,845,000	1,845,000	1,845,000
	<u>\$ 74,787,281</u>	<u>\$ 71,892,979</u>	<u>\$ 66,828,968</u>
Liabilities			
Long-term debt	\$ 35,751,917	\$ 36,336,906	\$ 36,693,000
Current liabilities	6,796,294	5,895,402	4,298,708
	<u>42,548,211</u>	<u>42,232,308</u>	<u>40,991,708</u>
Net Position			
Net investment in capital assets	5,923,510	6,969,718	8,230,674
Restricted	1,820,000	1,820,000	1,820,000
Unrestricted	24,495,560	20,870,953	15,786,586
	<u>32,239,070</u>	<u>29,660,671</u>	<u>25,837,260</u>
Total net position	<u>\$ 74,787,281</u>	<u>\$ 71,892,979</u>	<u>\$ 66,828,968</u>
Total liabilities and net position	<u>\$ 74,787,281</u>	<u>\$ 71,892,979</u>	<u>\$ 66,828,968</u>

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020

A significant change in the Hospital's financial position in 2021 was the increase in cash and investments. Cash and investments increased by \$3,433,799, which was primarily related to the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act) provider relief funding of \$2,481,031 received in 2021.

The most significant change in the Hospital's financial position in 2020 was the increase in cash and investments. Cash and investments increased by \$6,346,036, which was primarily related to the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act) provider relief funding of \$4,786,593 received in 2020.

Operating Results and Changes in the Hospital's Net Position

In 2021, the Hospital's net position increased by \$2,578,399, or 8.9%, from operating and nonoperating results, as shown in Table 2. This increase is made up of several different components and represents a decrease of \$1,245,012 as compared with the change in net position for 2020 of \$3,823,411. The Hospital's net position increased by \$3,823,411 from 2019 to 2020.

Table 2: Operating Results and Changes in Net Position

	2021	2020	2019
Operating Revenues			
Net patient service revenue	\$ 44,445,166	\$ 37,892,250	\$ 40,577,572
Other operating revenues	2,278,259	2,215,206	2,496,711
Total operating revenues	<u>46,723,425</u>	<u>40,107,456</u>	<u>43,074,283</u>
Operating Expenses			
Salaries, wages and employee benefits	23,373,260	19,582,522	19,516,865
Purchased services and professional fees	10,668,824	9,653,742	8,461,336
Depreciation and amortization	2,717,611	2,647,580	2,630,115
Provider tax expense	1,437,303	1,142,947	1,350,625
Other operating expenses	7,756,499	6,640,909	8,083,017
Total operating expenses	<u>45,953,497</u>	<u>39,667,700</u>	<u>40,041,958</u>
Operating Income	<u>769,928</u>	<u>439,756</u>	<u>3,032,325</u>
Nonoperating Revenues (Expenses)			
Investment income	515,544	367,736	527,834
Governmental grant income	2,427,228	4,160,651	-
Interest expense	(1,132,938)	(1,144,732)	(1,171,672)
Loss on disposal of capital assets	(1,363)	-	(41,596)
	<u>1,808,471</u>	<u>3,383,655</u>	<u>(685,434)</u>
Change in Net Position	<u>\$ 2,578,399</u>	<u>\$ 3,823,411</u>	<u>\$ 2,346,891</u>

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020

Operating Income

The first component of the overall change in the Hospital's net position is its operating income or loss, identified as the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital was formed and is operated primarily to serve residents of Perry County, Indiana, and the surrounding area. In 2021 and 2020, the Hospital reported operating income.

Operating income for 2021 increased by \$330,172, or 75.1%, as compared to the operating income for 2020. The primary components of change in operating results are:

- An increase in net patient service revenue of \$6,552,916, or 17.3%
- An increase in salaries, wages and employee benefits of \$3,790,738, or 19.4%
- An increase in purchased services and professional fees of \$1,015,082, or 10.5%
- A decrease in other operating expenses of \$1,115,590, or 16.8%

Net patient service revenue increased due to increased volumes in 2021, as compared to 2020, related to the COVID-19 pandemic which significantly impacted 2020, as further discussed in Note 16. The increase in salaries, wages and employee benefits in 2021, as compared to 2020, was primarily due to an increase in employees, including two new physicians, shift differentials and market raises. The increase in purchased services and professional fees in 2021, as compared to 2020, was primarily due to an increase in contract nursing costs. The increase in other expenses in 2021, as compared to 2020, was primarily due to an increase in the cost of supplies related to the impact of inflation.

The operating income for 2020 decreased by \$2,592,569, as compared to the operating income for 2019. Net patient service revenue decreased due to decreased volumes in 2020, as compared to 2019, related to the COVID-19 pandemic. The increase in purchased services and professional services was primarily due to an increase in purchased services in 2020, as compared to 2019, related to the COVID-19 pandemic. Other expenses decreased related to additional expenses in 2019 related to the skilled nursing facility that was closed in April 2019.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with the changes in operating gains and nonoperating revenues and expenses for 2021, compared to 2020, discussed earlier, with one exception. Cash provided by operating activities decreased and the change in operating income increased from 2020 to 2021 due to the change in patient accounts receivable. The changes in the Hospital's cash flows were consistent with the changes in operating gains and nonoperating revenues and expenses for 2020 as compared to 2019 discussed earlier, with one exception. Cash provided by operating activities decreased less than the decrease in operating income due to the changes in estimated amounts due to/from third-party payors that included the payment of the 2019 Medicare cost report.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020

Capital Asset and Debt Administration

Capital Assets

At the end of 2021, the Hospital had \$42,369,699 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2021, the Hospital purchased cash assets costing \$1,060,945.

Debt

At December 31, 2021, the Hospital had \$36,028,000 in lease revenue bonds. The Hospital entered into a capital lease agreement for \$251,191 in 2021. The Hospital issued no new debt in 2020.

Other Economic Factors

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 as a global pandemic. For health care providers, patient volumes and related revenues were affected by COVID-19, as various policies were implemented by federal, state and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities. While some of these policies have been eased and states have lifted moratoriums on nonemergent procedures, some restrictions remain in place. There is still considerable uncertainty around the duration and ultimate financial impacts of the COVID-19 pandemic. The Hospital continues to monitor the direct and indirect impacts of the pandemic and develop responses accordingly to maintain its operational and financial flexibility.

Aside from COVID-19, the health care industry and the Hospital's operating margins may continue to be under pressure with ongoing health care reform and how it will impact the overall care delivery model for hospitals, physicians and other health care providers. Uncertainty with the fate of programs, such as the *Affordable Care Act*, requires health care organizations to remain vigilant and flexible. The ongoing challenge facing the Hospital is to continue to provide quality patient care in a competitive environment and to attain reasonable rates for services provided while managing costs.

Contacting the Hospital's Financial Management

This financial report is designed to provide patients, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the chief financial officer by calling 812.547.0170.

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

Statements of Net Position
December 31, 2021 and 2020

Assets

	2021	2020
Current Assets		
Cash	\$ 15,243,957	\$ 12,078,813
Short-term investments	7,152,032	6,883,377
Patient accounts receivable, net of allowance; 2021 – \$1,658,000; 2020 – \$1,667,000	6,436,909	5,351,611
Other receivables	139,214	157,178
Supplies	730,398	726,796
Prepaid expenses and other current assets	449,574	376,977
Estimated amounts due from third-party payors	420,498	420,499
Total current assets	30,572,582	25,995,251
Noncurrent Cash and Investments		
Held by trustee for debt service	1,820,000	1,820,000
Capital Assets, Net		
	42,369,699	44,052,728
Other Assets		
	25,000	25,000
Total assets	\$ 74,787,281	\$ 71,892,979

Liabilities and Net Position

Current Liabilities		
Current portion of long-term debt	\$ 814,808	\$ 746,104
Accounts payable	1,304,072	1,283,100
Payable to employees (including payroll taxes and benefits)	1,818,702	1,468,098
Accrued expenses	1,367,893	961,084
Unearned grant revenue	844,049	790,246
Estimated amounts due to third-party payors	646,770	646,770
Total current liabilities	6,796,294	5,895,402
Long-Term Debt		
	35,751,917	36,336,906
Total liabilities	42,548,211	42,232,308
Net Position		
Net investment in capital assets	5,923,510	6,969,718
Restricted-expendable for debt service and capital improvements	1,820,000	1,820,000
Unrestricted	24,495,560	20,870,953
Total net position	32,239,070	29,660,671
Total liabilities and net position	\$ 74,787,281	\$ 71,892,979

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2021 – \$2,429,170; 2020 – \$2,429,170	\$ 44,445,166	\$ 37,892,250
Other	2,278,259	2,215,206
Total operating revenues	46,723,425	40,107,456
Operating Expenses		
Salaries and benefits	23,373,260	19,582,522
Purchased services and professional fees	10,668,824	9,653,742
Supplies	5,252,303	4,173,641
Provider tax expense	1,437,303	1,142,947
Depreciation and amortization	2,717,611	2,647,580
Other expenses	2,504,196	2,467,268
Total operating expenses	45,953,497	39,667,700
Operating Income	769,928	439,756
Nonoperating Revenues (Expenses)		
Investment income	515,544	367,736
Governmental grant income	2,427,228	4,160,651
Interest expense	(1,132,938)	(1,144,732)
Loss on disposal of capital assets	(1,363)	-
Total nonoperating revenues (expenses)	1,808,471	3,383,655
Increase in Net Position	2,578,399	3,823,411
Net Position, Beginning of Year	29,660,671	25,837,260
Net Position, End of Year	\$ 32,239,070	\$ 29,660,671

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	\$ 43,359,869	\$ 37,631,375
Payments to suppliers and contractors	(19,525,239)	(17,121,641)
Payments to employees	(23,022,656)	(19,145,312)
Other receipts, net	2,296,223	2,211,371
Net cash provided by operating activities	3,108,197	3,575,793
Cash Flows from Noncapital Financing Activities		
Governmental grant revenue	2,481,031	4,950,897
Net cash provided by noncapital financing activities	2,481,031	4,950,897
Cash Flows from Capital and Related Financing Activities		
Principal payments on long-term debt	(767,476)	(670,019)
Interest paid on long-term debt	(1,141,578)	(1,161,766)
Purchase of capital assets	(786,919)	(716,605)
Proceeds from disposition of capital assets	25,000	-
Net cash used in capital and related financing activities	(2,670,973)	(2,548,390)
Cash Flows from Investing Activities		
Purchase of investments	(4,565,738)	(2,916,805)
Proceeds from disposition of investments	4,569,191	2,806,238
Interest and dividends on investments	243,436	146,614
Net cash provided by investing activities	246,889	36,047
Increase in Cash	3,165,144	6,014,347
Cash, Beginning of Year	12,078,813	6,064,466
Cash, End of Year	\$ 15,243,957	\$ 12,078,813
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 769,928	\$ 439,756
Depreciation and amortization	2,717,611	2,647,580
Provision for uncollectible accounts	2,188,671	2,429,170
Changes in operating assets and liabilities		
Patient accounts receivable	(3,273,969)	(2,915,732)
Estimated amounts due to/from third-party payors	1	225,687
Accounts payable and accrued expenses	764,190	492,691
Prepaid assets, supplies and other assets	(58,235)	256,641
Net cash provided by operating activities	\$ 3,108,197	\$ 3,575,793
Supplemental Cash Flows Information		
Capital leases incurred for equipment	\$ 251,191	\$ 419,029
Capital assets included in accounts payable	\$ 22,835	\$ -

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2021 and 2020

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

Nature of Operations and Reporting Entity

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

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

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

The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital. The Association has fiscal dependency relationship with the Hospital and, therefore, is a blended component unit of the Hospital.

Basis of Accounting and Presentation

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

Use of Estimates

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

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2021 and 2020

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. The Hospital does consider uninvested cash held in investment accounts as cash or cash equivalents.

Risk Management

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

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

Investments and Investment Income

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

Noncurrent cash includes assets held by trustees under debt agreements.

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

Patient Accounts Receivable

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

Supplies

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

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

Notes to Financial Statements
December 31, 2021 and 2020

Capital Assets

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

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

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2021 and 2020.

Compensated Absences

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

Unearned Grant Revenue

Unearned grant revenue is recognized when the Hospital has met all the applicable eligibility requirements.

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2021 and 2020

Net Position

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

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 is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods, as adjustments become known.

Charity Care

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

Operating Activities

The Hospital defines operating activities, as reported in the statements of revenues, expenses and changes in net position, as those that generally result from exchange transactions, such as payments received for goods and services and payments made for goods and services received. Nearly all of the Hospital's expenses are from exchange transactions. Investment income, interest expense and loss on disposal of capital assets are recorded as nonoperating revenues and expenses.

Income Taxes

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

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2021 and 2020

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

Note 2: Net Patient Service Revenue

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

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

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

The Hospital participates in a state specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$1,437,000 and \$1,143,000 of fees related to the program in 2021 and 2020, respectively, which is recorded as an operating expense. The provider assessment fee program is subject to retroactive rate setting by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital. There is no assurance this program will continue to be implemented in the future.

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

Approximately 56% and 57% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2021 and 2020, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

**Notes to Financial Statements
December 31, 2021 and 2020**

Note 3: Deposits, Investments and Investment Income

Deposits

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

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

At December 31, 2021 and 2020, all bank balances were insured through the FDIC and IPDIF.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury, U.S. agencies and instrumentalities, and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds, equity securities, money market mutual funds, mutual funds and CDs. At December 31, 2021 and 2020, the Hospital had the following investments and maturities:

Type	2021				
	Fair Value	Maturities in Years			
		Less Than One	One to Five	Six to Ten	More Than 10
Money market mutual funds	\$ 70,758	\$ 70,758	\$ -	\$ -	\$ -
Mutual funds	7,081,274				
	<u>\$ 7,152,032</u>				

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

**Notes to Financial Statements
December 31, 2021 and 2020**

Type	2020				
	Fair Value	Maturities in Years			
		Less Than One	One to Five	Six to Ten	More Than 10
Money market mutual funds	\$ 981,746	\$ 981,746	\$ -	\$ -	\$ -
Negotiable CDs	180,470	180,470	-	-	-
	1,162,216	<u>\$ 1,162,216</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual funds	<u>2,971,161</u>				
	<u>\$ 4,133,377</u>				

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

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital’s policy to limit its investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organization. At December 31, 2021 and 2020, the Hospital held no investments in corporate bonds.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At December 31, 2021 and 2020, the Hospital held no investments in the possession of an outside party.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. At December 31, 2021 and 2020, the Hospital held no investments in any one issuer.

Foreign Currency Risk – This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Hospital had no investments denominated in foreign currency at December 31, 2021 and 2020.

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

Notes to Financial Statements
December 31, 2021 and 2020

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statements of net position at December 31, 2021 and 2020, as follows:

	2021	2020
Carrying value		
Deposits	\$ 17,063,957	\$ 16,648,813
Investments	7,152,032	4,133,377
	\$ 24,215,989	\$ 20,782,190

Included in the following statement of net position captions:

	2021	2020
Cash	\$ 15,243,957	\$ 12,078,813
Short-term investments	7,152,032	6,883,377
Noncurrent cash and investments	1,820,000	1,820,000
	\$ 24,215,989	\$ 20,782,190

Investment Income

Investment income for the years ended December 31, 2021 and 2020, consisted of:

	2021	2020
Interest and dividend income	\$ 243,436	\$ 146,614
Net unrealized gains on investments	118,302	186,509
Net realized gains (losses) on investments	153,806	34,613
	\$ 515,544	\$ 367,736

The Hospital had \$1,820,000 of non-negotiable CDs included in deposits at December 31, 2021 and 2020.

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

Notes to Financial Statements
December 31, 2021 and 2020

Note 4: Concentration of Credit Risk

Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors at December 31, 2021 and 2020, was:

	2021	2020
Medicare	\$ 2,314,743	\$ 1,809,646
Medicaid	581,452	805,132
Commercial	2,892,240	2,522,393
Patients	2,305,992	1,881,192
	8,094,427	7,018,363
Less allowance for uncollectible accounts	1,657,518	1,666,752
	\$ 6,436,909	\$ 5,351,611

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2021 and 2020, was:

	2021				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land and improvements	\$ 3,815,753	\$ -	\$ (10,000)	\$ -	\$ 3,805,753
Buildings and leasehold improvements	44,171,695	12,600	(163,849)	-	44,020,446
Equipment	20,141,850	840,272	(35,259)	146,364	21,093,227
Construction in progress	146,363	208,073	-	(146,364)	208,072
Total capital assets	68,275,661	1,060,945	(209,108)	-	69,127,498
Less accumulated depreciation					
Land improvements	(228,478)	(7,231)	-	-	(235,709)
Buildings and leasehold improvements	(13,940,440)	(2,110,240)	148,412	-	(15,902,268)
Equipment	(10,054,015)	(600,140)	34,333	-	(10,619,822)
Total accumulated depreciation	(24,222,933)	(2,717,611)	182,745	-	(26,757,799)
Capital assets, net	\$ 44,052,728	\$(1,656,666)	\$ (26,363)	\$ -	\$ 42,369,699

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

Notes to Financial Statements
December 31, 2021 and 2020

	2020				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land and improvements	\$ 3,815,753	\$ -	\$ -	\$ -	\$ 3,815,753
Buildings and leasehold improvements	44,171,695	-	-	-	44,171,695
Equipment	19,053,530	655,782	-	432,538	20,141,850
Construction in progress	99,049	479,852	-	(432,538)	146,363
Total capital assets	<u>67,140,027</u>	<u>1,135,634</u>	<u>-</u>	<u>-</u>	<u>68,275,661</u>
Less accumulated depreciation					
Land improvements	(221,247)	(7,231)	-	-	(228,478)
Buildings and leasehold improvements	(11,812,330)	(2,128,110)	-	-	(13,940,440)
Equipment	<u>(9,541,776)</u>	<u>(512,239)</u>	<u>-</u>	<u>-</u>	<u>(10,054,015)</u>
Total accumulated depreciation	<u>(21,575,353)</u>	<u>(2,647,580)</u>	<u>-</u>	<u>-</u>	<u>(24,222,933)</u>
Capital assets, net	<u>\$ 45,564,674</u>	<u>\$(1,511,946)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,052,728</u>

The December 31, 2020, accumulated depreciation disclosure has been revised for immaterial error corrections. The beginning balance of accumulated depreciation for buildings and leasehold improvements was revised from \$8,193,543 to \$11,812,330; the ending balance was revised from \$10,321,653 to \$13,940,440. The beginning balance of accumulated depreciation for equipment was revised from \$13,160,563 to \$9,541,776; the ending balance was revised from \$13,672,802 to \$10,054,015.

Note 6: Medical Malpractice Claims

Malpractice insurance coverage is provided on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently would be uninsured. However, the *Indiana Malpractice Act* limits professional liability for claims subsequent to June 30, 2017, but before July 1, 2019, to a maximum recovery of \$1,650,000 per occurrence, \$400,000 of which would be paid through medical insurance coverage, while the remaining balance would be paid by the State of Indiana Patient Compensation Fund (Fund). For claims on or after July 30, 2019, the maximum recovery is \$1,800,000 per occurrence, \$500,000 of which would be paid through insurance coverage, with the remainder due from the Fund. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

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

Notes to Financial Statements
December 31, 2021 and 2020

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$75,000.

Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported.

The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is possible that the Hospital's estimate will change by a material amount in the near term.

	2021	2020
Balance, beginning of year	\$ 338,447	\$ 430,679
Current year claims incurred and changes in estimates for claims incurred in prior years	3,336,981	2,356,351
Claims and expenses paid	(3,308,786)	(2,448,583)
Balance, end of year	\$ 366,642	\$ 338,447

Note 8: Long-Term Obligations

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2021 and 2020:

	2021				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
U.S. Department of Agriculture (USDA) lease revenue bonds 2013 (A)	\$ 36,693,000	\$ -	\$ 665,000	\$ 36,028,000	\$ 686,000
Capital lease obligations (B)	390,010	251,191	102,476	538,725	128,808
Total long-term debt obligations	\$ 37,083,010	\$ 251,191	\$ 767,476	\$ 36,566,725	\$ 814,808

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

Notes to Financial Statements
December 31, 2021 and 2020

	2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
USDA lease revenue bonds 2013 (A)	\$ 37,334,000	\$ -	\$ 641,000	\$ 36,693,000	\$ 665,000
Capital lease obligations (B)	-	419,029	29,019	390,010	81,104
Total long-term debt obligations	\$ 37,334,000	\$ 419,029	\$ 670,019	\$ 37,083,010	\$ 746,104

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

The amount of required principal and interest payments on long-term obligations at December 31, 2021, are as follows:

Year Ending December 31	Total to be Paid	Principal	Interest
2022	\$ 1,806,625	\$ 686,000	\$ 1,120,625
2023	1,806,031	707,000	1,099,031
2024	1,803,750	727,000	1,076,750
2025	1,805,859	752,000	1,053,859
2026	1,805,203	775,000	1,030,203
2027–2031	9,028,047	4,259,000	4,769,047
2032–2036	9,028,609	4,974,000	4,054,609
2037–2041	9,032,078	5,812,000	3,220,078
2042–2046	9,029,406	6,784,000	2,245,406
2047–2051	9,032,453	7,925,000	1,107,453
2052–2053	2,709,516	2,627,000	82,516
	\$ 56,887,577	\$ 36,028,000	\$ 20,859,577

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

(B) The Hospital is obligated under various leases for equipment that are accounted for as a capital lease. Assets under capital leases at December 31, 2021 and 2020, totaled \$670,180 and \$419,029, respectively, net of accumulated depreciation of \$127,073 and \$21,744, respectively. The following is a schedule by year of future minimum lease payments, including interest at 1.6% to 4.1%, together with the present value of the future minimum lease payments at December 31, 2021:

2022	\$ 142,038
2023	142,038
2024	142,038
2025	113,020
2026	<u>33,038</u>
Total minimum lease payments	572,172
Less amount representing interest	<u>33,447</u>
Present value of future minimum lease payments	<u><u>\$ 538,725</u></u>

The Hospital has established a revolving line-of-credit agreement, which provides for borrowings up to \$1,000,000. The agreement includes interest at the prime rate as published by the Wall Street Journal, less 0.75% (2.50% at December 31, 2021) and matures August 28, 2022. The line is collateralized by substantially all of the Hospital's assets. There were no amounts outstanding on the line-of-credit agreement at December 31, 2021 and 2020.

Note 9: Disclosures About Fair Value of Assets and Liabilities

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

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

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

Notes to Financial Statements
December 31, 2021 and 2020

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2021 and 2020:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Money market				
mutual funds	\$ 70,758	\$ 70,758	\$ -	\$ -
Mutual funds	7,081,274	7,081,274	-	-
	<u>\$ 7,152,032</u>	<u>\$ 7,152,032</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2020				
Money market				
mutual funds	\$ 981,746	\$ 981,746	\$ -	\$ -
Negotiable CDs	180,470	-	180,470	-
Mutual funds	2,971,161	2,971,161	-	-
	<u>\$ 4,133,377</u>	<u>\$ 3,952,907</u>	<u>\$ 180,470</u>	<u>\$ -</u>

Investments

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

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2021 and 2020

Note 10: Defined Contribution Plan

The Perry County Memorial Hospital Employee Retirement Plan is a defined contribution retirement plan that provides benefits to substantially all of the Hospital's employees and is authorized by Indiana Code 16-22-3-11. The plan is administered by the board of trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Employee contributions are allowed up to the maximum allowable by law. The Hospital's discretionary contribution is up to 3% matching contributions for eligible salaries for 2021 and 2020. For the years ended December 31, 2021 and 2020, the Hospital made approximately \$320,000 and \$210,000 of contributions to the plan.

Note 11: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

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

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 6.

Incurred, but Not Reported, Employee Health Insurance Claims

Estimates of incurred, but not reported, health insurance claims are described in Note 7.

Note 12: Risk, Uncertainties and Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance discussed elsewhere in these notes, *i.e.*, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting

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

Notes to Financial Statements
December 31, 2021 and 2020

investigations to determine the validity of each potential claim. Based on the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 13: Commitments

Management Contracts

The Hospital contracted with Ascension St. Vincent to operate, manage and supervise day-to-day activities of the Hospital. Under the terms of the contract, the fee is adjusted annually by an agreed-upon inflationary adjustment. There were \$127,000 and \$0 management and consulting fees paid to Ascension St. Vincent during the years ended December 31, 2021 and 2020, respectively.

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements December 31, 2021 and 2020

Note 14: Condensed Combining Information

The following tables include condensed combining statements of net position information for the Hospital and its blended component units as of December 31, 2021 and 2020.

	December 31, 2021				
	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Assets					
Current Assets					
Cash	\$ 15,060,720	\$ -	\$ 183,237	\$ -	\$ 15,243,957
Short-term investments	3,919,854	-	3,232,178	-	7,152,032
Patient accounts receivable, net of allowance	6,436,909	-	-	-	6,436,909
Other receivables	139,214	-	-	-	139,214
Supplies	730,398	-	-	-	730,398
Prepaid expenses and other current assets	449,574	-	-	-	449,574
Estimated amounts due from third-party payors	420,498	-	-	-	420,498
Total current assets	27,157,167	-	3,415,415	-	30,572,582
Noncurrent Cash and Investments					
Held by trustee for debt service	1,820,000	-	-	-	1,820,000
Capital Assets, Net					
	6,485,070	35,884,629	-	-	42,369,699
Other Assets					
	25,000	-	-	-	25,000
Total assets	<u>\$ 35,487,237</u>	<u>\$ 35,884,629</u>	<u>\$ 3,415,415</u>	<u>\$ -</u>	<u>\$ 74,787,281</u>
Liabilities and Net Position					
Current Liabilities					
Current portion of long-term debt	\$ 128,808	\$ 686,000	\$ -	\$ -	\$ 814,808
Accounts payable	1,304,072	-	-	-	1,304,072
Payable to employees (including payroll taxes and benefits)	1,818,702	-	-	-	1,818,702
Accrued expenses	850,982	516,911	-	-	1,367,893
Unearned grant revenue	844,049	-	-	-	844,049
Estimated amounts due to third-party payors	646,770	-	-	-	646,770
Total current liabilities	5,593,383	1,202,911	-	-	6,796,294
Long-Term Debt					
	409,917	35,342,000	-	-	35,751,917
Total liabilities	<u>6,003,300</u>	<u>36,544,911</u>	<u>-</u>	<u>-</u>	<u>42,548,211</u>
Net Position					
Net investment in capital assets	5,923,510	-	-	-	5,923,510
Restricted-expendable for debt service and capital improvements	1,820,000	-	-	-	1,820,000
Unrestricted	21,740,427	(660,282)	3,415,415	-	24,495,560
Total net position	<u>29,483,937</u>	<u>(660,282)</u>	<u>3,415,415</u>	<u>-</u>	<u>32,239,070</u>
Total liabilities and net position	<u>\$ 35,487,237</u>	<u>\$ 35,884,629</u>	<u>\$ 3,415,415</u>	<u>\$ -</u>	<u>\$ 74,787,281</u>

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2021 and 2020

December 31, 2020

	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Assets					
Current Assets					
Cash	\$ 11,984,503	\$ -	\$ 94,310	\$ -	\$ 12,078,813
Short-term investments	3,929,138	-	2,954,239	-	6,883,377
Patient accounts receivable, net of allowance	5,351,611	-	-	-	5,351,611
Other receivables	157,178	-	-	-	157,178
Supplies	726,796	-	-	-	726,796
Prepaid expenses and other current assets	376,977	-	-	-	376,977
Estimated amounts due from third-party payors	420,499	-	-	-	420,499
Total current assets	22,946,702	-	3,048,549	-	25,995,251
Noncurrent Cash and Investments					
Held by trustee for debt service	1,820,000	-	-	-	1,820,000
Capital Assets, Net					
	6,179,231	37,873,497	-	-	44,052,728
Other Assets					
	25,000	-	-	-	25,000
Total assets	<u>\$ 30,970,933</u>	<u>\$ 37,873,497</u>	<u>\$ 3,048,549</u>	<u>\$ -</u>	<u>\$ 71,892,979</u>
Liabilities and Net Position					
Current Liabilities					
Current portion of long-term debt	\$ 81,104	\$ 665,000	\$ -	\$ -	\$ 746,104
Accounts payable	1,283,100	-	-	-	1,283,100
Payable to employees (including payroll taxes and benefits)	1,468,098	-	-	-	1,468,098
Accrued expenses	435,533	525,551	-	-	961,084
Unearned grant revenue	790,246	-	-	-	790,246
Estimated amounts due from third-party payors	646,770	-	-	-	646,770
Total current liabilities	4,704,851	1,190,551	-	-	5,895,402
Long-Term Debt					
	308,906	36,028,000	-	-	36,336,906
Total liabilities	<u>5,013,757</u>	<u>37,218,551</u>	<u>-</u>	<u>-</u>	<u>42,232,308</u>
Net Position					
Net investment in capital assets	5,789,221	1,180,497	-	-	6,969,718
Restricted-expendable for debt service and capital improvements	1,820,000	-	-	-	1,820,000
Unrestricted	18,347,955	(525,551)	3,048,549	-	20,870,953
Total net position	<u>25,957,176</u>	<u>654,946</u>	<u>3,048,549</u>	<u>-</u>	<u>29,660,671</u>
Total liabilities and net position	<u>\$ 30,970,933</u>	<u>\$ 37,873,497</u>	<u>\$ 3,048,549</u>	<u>\$ -</u>	<u>\$ 71,892,979</u>

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements December 31, 2021 and 2020

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component units for the years ended December 31, 2021 and 2020:

	Year Ended December 31, 2021				
	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts	\$ 44,445,166	\$ -	\$ -	\$ -	\$ 44,445,166
Other	2,182,511	-	95,748	-	2,278,259
Total operating revenues	<u>46,627,677</u>	<u>-</u>	<u>95,748</u>	<u>-</u>	<u>46,723,425</u>
Operating Expenses					
Salaries and benefits	23,373,260	-	-	-	23,373,260
Purchased services and professional fees	10,668,824	-	-	-	10,668,824
Supplies	5,252,303	-	-	-	5,252,303
Provider tax expense	1,437,303	-	-	-	1,437,303
Depreciation and amortization	728,743	1,988,868	-	-	2,717,611
Other expenses	2,250,479	-	253,717	-	2,504,196
Total operating expenses	<u>43,710,912</u>	<u>1,988,868</u>	<u>253,717</u>	<u>-</u>	<u>45,953,497</u>
Operating Income (Loss)	<u>2,916,765</u>	<u>(1,988,868)</u>	<u>(157,969)</u>	<u>-</u>	<u>769,928</u>
Nonoperating Revenues (Expenses)					
Investment income	(9,291)	-	524,835	-	515,544
Governmental grant income	2,427,228	-	-	-	2,427,228
Interest expense	-	(1,132,938)	-	-	(1,132,938)
Loss on disposal of capital assets	(1,363)	-	-	-	(1,363)
Total nonoperating revenues (expenses)	<u>2,416,574</u>	<u>(1,132,938)</u>	<u>524,835</u>	<u>-</u>	<u>1,808,471</u>
Increase (Decrease) in Net Position Before Transfers	5,333,339	(3,121,806)	366,866	-	2,578,399
Transfers	<u>(1,806,578)</u>	<u>1,806,578</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	3,526,761	(1,315,228)	366,866	-	2,578,399
Net Position, Beginning of Year	<u>25,957,176</u>	<u>654,946</u>	<u>3,048,549</u>	<u>-</u>	<u>29,660,671</u>
Net Position, End of Year	<u>\$ 29,483,937</u>	<u>\$ (660,282)</u>	<u>\$ 3,415,415</u>	<u>\$ -</u>	<u>\$ 32,239,070</u>

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

Notes to Financial Statements
December 31, 2021 and 2020

	Year Ended December 31, 2020				
	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts	\$ 37,892,250	\$ -	\$ -	\$ -	\$ 37,892,250
Other	2,116,785	-	98,421	-	2,215,206
Total operating revenues	40,009,035	-	98,421	-	40,107,456
Operating Expenses					
Salaries and benefits	19,582,522	-	-	-	19,582,522
Purchased services and professional fees	9,653,742	-	-	-	9,653,742
Supplies	4,173,641	-	-	-	4,173,641
Provider tax expense	1,142,947	-	-	-	1,142,947
Depreciation and amortization	658,712	1,988,868	-	-	2,647,580
Other expenses	2,310,657	-	156,611	-	2,467,268
Total operating expenses	37,522,221	1,988,868	156,611	-	39,667,700
Operating Income (Loss)	2,486,814	(1,988,868)	(58,190)	-	439,756
Nonoperating Revenues (Expenses)					
Investment income	33,964	-	333,772	-	367,736
Governmental grant income	4,160,651	-	-	-	4,160,651
Interest expense	(1)	(1,144,731)	-	-	(1,144,732)
Total nonoperating revenues (expenses)	4,194,614	(1,144,731)	333,772	-	3,383,655
Increase (Decrease) in Net Position Before Transfers	6,681,428	(3,133,599)	275,582	-	3,823,411
Transfers	(1,802,765)	1,802,765	-	-	-
Increase (Decrease) in Net Position	4,878,663	(1,330,834)	275,582	-	3,823,411
Net Position, Beginning of Year	21,078,513	1,985,780	2,772,967	-	25,837,260
Net Position, End of Year	\$ 25,957,176	\$ 654,946	\$ 3,048,549	\$ -	\$ 29,660,671

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements December 31, 2021 and 2020

The following tables include condensed combining statements of cash flow information for the Hospital and its blended component units for the years ended December 31, 2021 and 2020:

	Year Ended December 31, 2021				
	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Cash Flows from Operating Activities					
Receipts from and on behalf of patients	\$ 43,359,869	\$ -	\$ -	\$ -	\$ 43,359,869
Payments to suppliers and contractors	(19,271,522)	-	(253,717)	-	(19,525,239)
Payments to employees	(23,022,656)	-	-	-	(23,022,656)
Other receipts, net	2,200,475	-	95,748	-	2,296,223
Net cash provided by (used in) operating activities	3,266,166	-	(157,969)	-	3,108,197
Cash Flows from Noncapital Financing Activities					
Governmental grant revenue	2,481,031	-	-	-	2,481,031
Net cash provided by noncapital financing activities	2,481,031	-	-	-	2,481,031
Cash Flows from Capital and Related Financing Activities					
Principal payments on long-term debt and capital leases	(102,476)	(665,000)	-	-	(767,476)
Interest paid on long-term debt	-	(1,141,578)	-	-	(1,141,578)
Purchase of capital assets	(786,919)	-	-	-	(786,919)
Proceeds from disposition of capital assets	25,000	-	-	-	25,000
Net cash used in capital and related financing activities	(864,395)	(1,806,578)	-	-	(2,670,973)
Cash Flows from Investing Activities					
Purchase of investments	(4,062,425)	-	(503,313)	-	(4,565,738)
Proceeds from disposition of investments	4,033,060	-	536,131	-	4,569,191
Interest and dividend on investments	29,358	-	214,078	-	243,436
Transfer (to) from affiliates	(1,806,578)	1,806,578	-	-	-
Net cash provided by (used in) investing activities	(1,806,585)	1,806,578	246,896	-	246,889
Increase in Cash	3,076,217	-	88,927	-	3,165,144
Cash, Beginning of Year	11,984,503	-	94,310	-	12,078,813
Cash, End of Year	\$ 15,060,720	\$ -	\$ 183,237	\$ -	\$ 15,243,957
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities					
Operating income (loss)	\$ 2,916,765	\$ (1,988,868)	\$ (157,969)	\$ -	\$ 769,928
Depreciation and amortization	728,743	1,988,868	-	-	2,717,611
Provision for uncollectible accounts	2,188,671	-	-	-	2,188,671
Changes in operating assets and liabilities					
Patient accounts receivable	(3,273,969)	-	-	-	(3,273,969)
Estimated amounts due to/from third-party payors	1	-	-	-	1
Accounts payable and accrued expenses	764,190	-	-	-	764,190
Prepaid assets, supplies and other assets	(58,235)	-	-	-	(58,235)
Net cash provided by (used in) operating activities	\$ 3,266,166	\$ -	\$ (157,969)	\$ -	\$ 3,108,197
Supplemental Cash Flows Information					
Capital leases incurred for equipment	\$ 251,191	\$ -	\$ -	\$ -	\$ 251,191
Capital asset additions included in accounts payable	\$ 22,835	\$ -	\$ -	\$ -	\$ 22,835

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2021 and 2020

	Year Ended December 31, 2020				
	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Cash Flows from Operating Activities					
Receipts from and on behalf of patients	\$ 37,631,375	\$ -	\$ -	\$ -	\$ 37,631,375
Payments to suppliers and contractors	(16,965,030)	-	(156,611)	-	(17,121,641)
Payments to employees	(19,145,312)	-	-	-	(19,145,312)
Other receipts, net	2,112,950	-	98,421	-	2,211,371
Net cash provided by (used in) operating activities	<u>3,633,983</u>	<u>-</u>	<u>(58,190)</u>	<u>-</u>	<u>3,575,793</u>
Cash Flows from Noncapital Financing Activities					
Governmental grant revenue	4,950,897	-	-	-	4,950,897
Net cash provided by noncapital financing activities	<u>4,950,897</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,950,897</u>
Cash Flows from Capital and Related Financing Activities					
Principal payments on long-term debt	(29,019)	(641,000)	-	-	(670,019)
Interest paid on long-term debt	(1)	(1,161,765)	-	-	(1,161,766)
Purchase of capital assets	(716,605)	-	-	-	(716,605)
Net cash used in capital and related financing activities	<u>(745,625)</u>	<u>(1,802,765)</u>	<u>-</u>	<u>-</u>	<u>(2,548,390)</u>
Cash Flows from Investing Activities					
Purchase of investments	(2,417,585)	-	(499,220)	-	(2,916,805)
Proceeds from disposition of investments	2,380,980	-	425,258	-	2,806,238
Interest and dividend on investments	33,046	-	113,568	-	146,614
Transfer (to) from affiliates	(1,802,765)	1,802,765	-	-	-
Net cash provided by (used in) investing activities	<u>(1,806,324)</u>	<u>1,802,765</u>	<u>39,606</u>	<u>-</u>	<u>36,047</u>
Increase (Decrease) in Cash	6,032,931	-	(18,584)	-	6,014,347
Cash, Beginning of Year	5,951,572	-	112,894	-	6,064,466
Cash, End of Year	<u>\$ 11,984,503</u>	<u>\$ -</u>	<u>\$ 94,310</u>	<u>\$ -</u>	<u>\$ 12,078,813</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities					
Operating income (loss)	\$ 2,486,814	\$ (1,988,868)	\$ (58,190)	\$ -	\$ 439,756
Depreciation and amortization	658,712	1,988,868	-	-	2,647,580
Provision for uncollectible accounts	2,429,170	-	-	-	2,429,170
Changes in operating assets and liabilities					
Patient accounts receivable	(2,915,732)	-	-	-	(2,915,732)
Estimated amounts due to/from third-party payors	225,687	-	-	-	225,687
Accounts payable and accrued expenses	492,691	-	-	-	492,691
Prepaid assets, supplies and other assets	256,641	-	-	-	256,641
Net cash provided by (used in) operating activities	<u>\$ 3,633,983</u>	<u>\$ -</u>	<u>\$ (58,190)</u>	<u>\$ -</u>	<u>\$ 3,575,793</u>
Supplemental Cash Flows Information					
Capital leases incurred for equipment	\$ 419,029	\$ -	\$ -	\$ -	\$ 419,029

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Note 15: Future Changes in Accounting Principle

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 87, *Leases*. Under the new standard, lessees will now be required to recognize substantially all leases on the statement of net position as both a right-of-use asset and a liability. The new standard is effective for fiscal years beginning after June 15, 2021. The Hospital is evaluating the impact the standard will have on its financial statements; however, the standard may have a material impact on its financial statements, due to the recognition of additional assets and liabilities under leases currently reported as operating leases.

Note 16: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

The Hospital's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Hospital has taken precautionary steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to its business, including the following:

- Implementation of targeted cost reduction initiatives
- Reduction of certain planned projects and capital expenditures

Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the effect of the pandemic on the Hospital's business. Decreases in cash flows and results of operations may have an effect on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured and other patient accounts.

Provider Relief Fund and American Rescue Plan

During the years ended December 31, 2021 and 2020, the Hospital received \$2,481,031 and \$4,786,593, respectively, of distributions from the CARES Act Provider Relief Fund (Provider Relief Fund) and American Rescue Plan. These distributions are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the U.S. Department of Health and Human Services (HHS).

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

The Hospital is accounting for such payments as conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and American Rescue Plan and the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2021 and 2020, the Hospital recognized \$2,427,228 and \$3,996,347, respectively, related to the distributions and these payments are recorded as nonoperating revenue—governmental grant revenue in the statement of revenues, expenses and changes in net position. The unrecognized amount of distributions are recorded as part of unearned grant revenue in the accompanying statements of net position.

The Hospital has recognized revenue from the Provider Relief Fund and American Rescue Plan based on guidance issued by HHS as of December 31, 2021, and any clarifications issued by HHS subsequent to year-end. The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and American Rescue Plan and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Fund and American Rescue Plan are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Hospital's reporting could differ for Provider Relief Fund and American Rescue Plan. Provider Relief Fund and American Rescue Plan payments are subject to government oversight, including potential audits.

Supplementary Information

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services/ COVID-19 – Provider Relief Fund	93.498	N/A	N/A	\$ 4,638,209
U.S. Department of Health and Human Services/HRSA COVID-19 Uninsured Program	93.461	N/A	N/A	<u>38,156</u>
				<u><u>\$ 4,676,365</u></u>

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Perry County Memorial Hospital (Hospital), a component unit of Perry County, Indiana, under programs of the federal government for the year ended December 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hospital.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3: Indirect Cost Rate

The Hospital has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4: Federal Loan Program

The Hospital administered no federal loan programs for the year ended December 31, 2021.

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

Independent Auditor's Report

Board of Trustees
Perry County Memorial Hospital
Tell City, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Perry County Memorial Hospital, a component unit of Perry County, Indiana (Hospital), which comprise the statement of net position as of December 31, 2021, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2022.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

FORVIS,LLP

Louisville, Kentucky
June 23, 2022

Report on Compliance for Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Trustees
Perry County Memorial Hospital
Tell City, Indiana

Report on Compliance for Major Federal Program

Qualified Opinion

We have audited Perry County Memorial Hospital, a component unit of Perry County, Indiana (Hospital)'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Hospital's major federal program for the year ended December 31, 2021. The Hospital's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on Provider Relief Fund

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion" section of our report, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Provider Relief Fund program for the year ended December 31, 2021.

Basis for Qualified Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the "Auditor's Responsibilities for the Audit of Compliance" section of our report.

We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Hospital's compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on Provider Relief Fund

As described in the accompanying schedule of findings and questioned costs, the Hospital did not comply with requirements regarding Assistance Listing No. 93.498 Provider Relief Fund as described in Finding Reference Number 2021-001 for Allowable Cost.

Compliance with such requirements is necessary, in our opinion, for the Hospital to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Hospital's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Hospital's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Hospital's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Hospital's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Hospital's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

OTHER MATTERS

Government Auditing Standards requires the auditor to perform limited procedures on management's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Management's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. Management is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. Management's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the "Auditor's Responsibilities for the Audit of Compliance" section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding Reference Number 2021-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Hospital's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. The Hospital is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Hospital's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Board of Trustees
Perry County Memorial Hospital
Page 4

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

FORVIS,LLP

Louisville, Kentucky
June 23, 2022

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Schedule of Findings and Questioned Costs
Year Ended December 31, 2021

Section I – Summary of Auditor’s Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP):

Unmodified Qualified Adverse Disclaimer

2. Internal control over financial reporting:

Material weakness(es) identified? Yes No
Significant deficiency(ies) identified? Yes None reported
Noncompliance material to the financial statements noted? Yes No

Federal Awards

3. Internal control over major federal awards programs:

Material weakness(es) identified? Yes No
Significant deficiency(ies) identified? Yes None reported

4. Type of auditor’s report issued on compliance for major federal award programs:

Provider Relief Fund

Unmodified Qualified Adverse Disclaimer

5. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2021

6. Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster
93.498	Provider Relief Fund

7. Dollar threshold used to distinguish between Type A and Type B programs – \$750,000.

8. Auditee qualified as a low-risk auditee? Yes No

Section II – Financial Statement Findings

Reference Number	Finding
-----------------------------	----------------

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

Reference Number	Finding
-----------------------------	----------------

2021-001 U.S. Department of Health and Human Services (HHS) – Federal Assistance Listing No. 93.498, Provider Relief Fund

Criteria or specific requirement – Allowable Costs (Public Law 116-136)

Condition – Allowable costs related to the program must be expenses that are unreimbursed by other sources and that other sources are not obligated to reimburse.

Cause – As a critical access hospital, the Hospital did not apply reimbursement from Medicare for health care related expenses. The Hospital also did not include reimbursement for COVID-19 testing as an offset to COVID-19 testing expenses. Patient billing for employee COVID-19 testing was incorrectly included as an allowable expense.

Effect or potential effect – The amount of allowable costs is overstated.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2021

Reference Number	Finding
2021-001 (Continued)	<p>Questioned costs – \$776,575, as estimated at the applicable reimbursement percentage for Medicare and COVID-19 testing reimbursement, and amount of employee COVID-19 charges included in allowable costs.</p> <p>Context – The reimbursement from Medicare was identified as not applied to the population of allowable costs. The reimbursement for COVID-19 testing was identified as not applied to costs related to COVID-19 testing within the compliance testing. Patient billing for employee COVID-19 testing was incorrectly included as an allowable expense.</p> <p>Identification as a repeat finding – N/A</p> <p>Recommendation – Refer to the HHS Provider Relief Fund General and Targeted Distribution Post-Payment Notice of Reporting Requirements dated June 11, 2021, and the most recently distributed Provider Relief Fund frequently asked questions which provide details on requirements related to the program.</p> <p>Views of responsible officials – The Hospital’s management and board agree and will continue to review the requirements related to the program for reimbursement from other sources related to expenses and allowable costs.</p>

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2021

Reference Number	Summary of Finding	Status
-----------------------------	---------------------------	---------------

No matters are reportable.

**Schedule of Findings and Questioned Costs
Corrective Action Plan**

Year Ended December 31, 2021

Government Auditing Standards

No matters are reportable.

Uniform Guidance

Finding 2021-001 – As a critical access hospital, the Hospital did not apply reimbursement from Medicare for health care related expenses. The Hospital also did not include reimbursement for COVID-19 testing as an offset to COVID-19 testing expenses. Patient billing for employee COVID-19 testing was incorrectly included as an allowable expense.

Corrective Action Plan: Given the complexity of the reporting requirements and importance to institutional compliance, the Hospital will apply reimbursement from Medicare for health care related expenses and include reimbursement for covid-testing as an offset to covid-testing expenses. The Hospital will continue to monitor the Department of Health and Human Resources Provider Relief Fund General and Targeted Distribution Post-Payment Notice of Reporting Requirements dated June 11, 2021 and the most recently distributed Provider Relief Fund frequently asked questions which provide details on requirements related to the program.

Contact Person: Steve Anderson

Expected Implementation: June 2022



Steve Anderson

Interim Chief Financial Officer

812-547-0146