

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana

Independent Auditor's Report and Financial Statements
December 31, 2019 and 2018

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Sullivan County Community Hospital
Sullivan, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Sullivan Community Hospital (Hospital), a component unit of Sullivan County, Indiana and SSCH Fitness Center, Inc., its discretely presented component unit, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Sullivan County Community Hospital and of its discretely presented component unit as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated May 28, 2020, on our consideration of 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 Hospital's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
May 28, 2020

Sullivan County Community Hospital

A Component Unit of Sullivan County, Indiana

Management's Discussion and Analysis

Years Ended December 31, 2019 and 2018

Introduction

This management's discussion and analysis of the financial performance of Sullivan County Community Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2019 and 2018. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2019 by \$1,024,164 or 7.3% compared to a decrease of \$1,332,234 or 8.7% in 2018.
- The Hospital's net position increased in 2019 by \$272,432 or 0.9% compared to a decrease of \$1,270,033 or 4.2% in 2018. The increase in 2019 is a combination of the increase in net position of \$340,192 as shown in Table 2 and a beginning net position adjustment for a new blended component unit of \$(67,760) which was effective at January 1, 2019.
- The Hospital reported operating income in 2019 of \$46,267 compared to an operating loss of \$1,187,920 during 2018. The operating results in 2019 improved by \$1,234,187 or 103.9% over the operating results reported in 2018. The operating results in 2018 improved by \$219,770 or 15.6% from the operating results reported in 2017.
- Net nonoperating results increased by \$376,038 or 458.0% in 2019 compared to 2018, and decreased by \$161,693 or 203.2% in 2018 compared to 2017.

Using This Annual Report

The Hospital's financial statements consist of three statements—the balance sheets; the statements of revenues, expenses and changes in net position; and the statements 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 is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheets and Statements of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any hospital's finances is "Is the hospital as a whole better or worse off as a result of the year's activities?" The balance sheets and the statements of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. 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 are 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 Statements of Cash Flows

The statements of cash flows report cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheets. The Hospital's net position increased by \$272,432 or 0.9% in 2019 compared to a decrease in net position of \$1,270,033 or 4.2% in 2018 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2019	2018	2017
Assets			
Patient accounts receivable, net	\$ 4,212,881	\$ 3,708,908	\$ 3,611,589
Other current assets	5,429,210	4,367,623	6,415,893
Capital assets, net	18,016,526	18,523,479	18,599,508
Other noncurrent assets	<u>11,617,032</u>	<u>11,311,376</u>	<u>11,158,617</u>
Total assets	<u>\$ 39,275,649</u>	<u>\$ 37,911,386</u>	<u>\$ 39,785,607</u>
Liabilities			
Long-term debt	\$ 5,596,001	\$ 5,513,519	\$ 5,209,846
Other current liabilities	4,154,902	3,145,553	4,053,414
Total liabilities	<u>9,750,903</u>	<u>8,659,072</u>	<u>9,263,260</u>
Net Position			
Net investment in capital assets	12,298,183	13,009,960	14,300,945
Restricted	229,735	-	-
Unrestricted	<u>16,996,828</u>	<u>16,242,354</u>	<u>16,221,402</u>
Total net position	<u>29,524,746</u>	<u>29,252,314</u>	<u>30,522,347</u>
Total liabilities and net position	<u>\$ 39,275,649</u>	<u>\$ 37,911,386</u>	<u>\$ 39,785,607</u>

A significant change in the Hospital's assets in 2019 is the increase in other current assets of \$1,061,587 or 24.3%. This increase was attributed to an increase in cash of \$718,508 or 26.9%. Additionally, the Hospital recorded a receivable of approximately \$382,000 within estimated amounts due from third-party payors related to unpaid Medicaid Disproportionate Share Hospital (DSH) payments as of December 31, 2019.

A significant change in the Hospital's assets in 2018 is the decrease in other current assets of \$2,048,270 or 31.9%. This decrease was attributed to a decrease in cash and restricted cash of \$1,484,993 or 35.7%. Also, there was a decrease in estimated amounts due from third-party payors as a result of Medicaid DSH payments received during 2018.

Operating Results and Changes in the Hospital's Net Position

In 2019, the Hospital's total net position increased by \$272,432 or 0.9%, which is a combination of the increase in net position of \$340,192 as shown in Table 2 and a beginning net position adjustment for a new blended component unit of \$(67,760) which was effective at January 1, 2019. The increase in net position of \$340,192 is made up of several different components and represents an improvement of 126.8% compared with the decrease in net position for 2018 of \$1,270,033. In 2018, the decrease in net position of \$1,270,033 represents an improvement of 4.4% compared with the decrease in net position for 2017 of \$1,328,110.

Table 2: Operating Results and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues			
Net patient service revenue	\$ 34,445,696	\$ 30,905,875	\$ 31,054,684
Other operating revenues	1,873,384	1,288,800	853,034
Total operating revenues	<u>36,319,080</u>	<u>32,194,675</u>	<u>31,907,718</u>
Operating Expenses			
Salaries and wages and employee benefits	21,501,501	20,141,088	19,868,538
Purchased services and professional fees	5,194,140	4,612,758	4,539,645
Depreciation and amortization	1,800,866	1,841,134	1,776,727
Other operating expenses	7,776,306	6,787,615	7,130,498
Total operating expenses	<u>36,272,813</u>	<u>33,382,595</u>	<u>33,315,408</u>
Operating Income (Loss)	<u>46,267</u>	<u>(1,187,920)</u>	<u>(1,407,690)</u>
Nonoperating Revenues (Expenses)			
Investment income	310,886	157,065	73,769
Interest expense	(191,534)	(195,116)	(21,116)
Other	174,573	(44,062)	26,927
Total nonoperating revenues (expenses)	<u>293,925</u>	<u>(82,113)</u>	<u>79,580</u>
Increase (Decrease) in Net Position	<u>\$ 340,192</u>	<u>\$ (1,270,033)</u>	<u>\$ (1,328,110)</u>

Operating Income

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital has reported operating income in 2019 and operating losses in the previous two years.

The operating income was \$46,267 for 2019 compared to operating loss of \$1,187,920 for 2018, which equates to an increase in operating results of \$1,234,187 or 103.9%, while the operating results for 2018 increased by \$219,770 or 15.6% compared to 2017. The primary components of the change in operating loss in 2019 are:

- Net patient service revenue for the Hospital was \$34,445,696 in 2019 compared to \$30,905,875 in 2018, which represents an increase of \$3,539,821 or 11.5%
- Other operating revenue for the Hospital was \$1,873,384 in 2019 compared to \$1,288,800 in 2018, which represents an increase of \$584,584 or 45.4% and is the result of the Hospital's participation in the 340b drug discount program
- Salaries, wages and employee benefits for the Hospital were \$21,501,501 in 2019 compared to \$20,141,088 in 2018, which represents an increase of \$1,360,413 or 6.75%

The increase in net patient service revenue and other operating revenue is a result of increased activity at the Hospital, in its employer clinic operations and the inclusion of its pain management joint venture as a blended component unit. The increases in salaries, wages and employee benefits is attributed to these increases in volumes.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense, rental income on Hospital-owned property and payments made to subsidize the Hospital's discretely presented component unit. Investment income increased by \$153,821 or 97.9% in 2019 compared to 2018 as a result of investment activity. Interest expense decreased by \$3,582 or 1.8% in 2019 compared to 2018 as a result of the Hospital's stable borrowings. The Hospital's subsidy of its discretely presented component unit decreased by \$71,843 to \$136,540 in 2019.

The Hospital's Cash Flows

The Hospital's operating cash flows increased by \$1,271,138 in 2019 compared to 2018. The Hospital's cash flows used in capital and related financing activity decreased by \$692,826 in 2019 compared to 2018 as a result of capital investment activity. The Hospital's cash flows provided by investing activities increased by \$213,455 in 2019 compared to 2018.

Capital Asset and Debt Administration

Capital Assets

At the end of 2019, the Hospital had \$18,016,526 invested in capital assets, net of accumulated depreciation. In 2019 and 2018, the Hospital had capital acquisitions of approximately \$1,481,000 and \$1,765,000, respectively. Of the capital acquisitions during 2019 and 2018, \$532,936 and \$728,379, respectively, was acquired through capital lease obligations. The majority of all purchases were related to overall Hospital facility improvements and expansion. Please reference Note 5 of the audited financial statements for additional disclosures concerning capital asset activity.

Debt

At December 31, 2019, the Hospital had \$5,596,001 in revenue bonds and capital lease obligations outstanding, compared to outstanding balances of \$5,513,519 at December 31, 2018. See Note 8 to the basic financial statements for more information regarding long-term debt.

Other Economic Factors

Management believes the health care industry's and Hospital's operating margins will continue to be under pressure due to changes in payor mix and growth in operating expense that are in excess of the increases in contractually arranged and legally established payment received for services rendered. 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.

Additionally, uncertainty and business disruption surrounding the outbreak of COVID-19 will impact the operations of the Hospital. The economic impact, contingent on the overall impact of the outbreak, may negatively impact the Hospital's payor and service mix and overall operating expenses.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers 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 Hospital Administration by telephoning (812) 268-4311.

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Balance Sheets
December 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash	\$ 3,388,022	\$ 2,669,514
Patient accounts receivable, net of allowance: 2019 - \$1,629,840; 2018 - \$937,957	4,212,881	3,708,908
Supplies	623,614	850,497
Estimated amounts due from third-party payors	382,121	-
Prepaid expenses and other current assets	1,035,453	847,612
Total current assets	9,642,091	8,076,531
Noncurrent Investments - funded depreciation	11,617,032	11,311,376
Capital Assets, net	18,016,526	18,523,479
Total assets	\$ 39,275,649	\$ 37,911,386

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 557,566	\$ 436,377
Accounts payable	1,136,219	773,671
Accrued expenses	2,368,683	2,173,490
Estimated amounts due to third-party payors	650,000	198,392
Total current liabilities	4,712,468	3,581,930
Long-Term Debt	5,038,435	5,077,142
Total liabilities	9,750,903	8,659,072
Net Position		
Net investment in capital assets	12,298,183	13,009,960
Restricted	229,735	-
Unrestricted	16,996,828	16,242,354
Total net position	29,524,746	29,252,314
Total liabilities and net position	\$ 39,275,649	\$ 37,911,386

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
SCCH Fitness Center, Inc.
Statements of Financial Position
December 31, 2019 and 2018

Assets

	2019	2018
Property and equipment, net of accumulated depreciation of \$1,040,496 and \$977,124 for 2019 and 2018, respectively	\$ 259,976	\$ 310,916
Total assets	\$ 259,976	\$ 310,916

Liabilities and Net Assets

Liabilities

Accrued expenses	\$ 20,258	\$ 34,675
Net Assets - unrestricted	239,718	276,241
Total liabilities and net assets	\$ 259,976	\$ 310,916

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of \$1,912,000 and \$1,829,666 for 2019 and 2018, respectively	\$ 34,445,696	\$ 30,905,875
Other	1,873,384	1,288,800
Total operating revenues	36,319,080	32,194,675
Operating Expenses		
Salaries and wages	16,467,162	15,187,402
Employee benefits	5,034,339	4,953,686
Purchased services and professional fees	5,194,140	4,612,758
Supplies	3,342,529	2,668,306
Utilities	517,035	512,778
Repair and maintenance	1,271,394	1,197,731
Leases and rentals	341,601	309,991
Insurance	336,379	313,516
Depreciation and amortization	1,800,866	1,841,134
Other	719,788	637,634
Provider hospital assessment fee	1,247,580	1,147,659
Total operating expenses	36,272,813	33,382,595
Operating Income (Loss)	46,267	(1,187,920)
Nonoperating Revenues (Expenses)		
Investment income	310,886	157,065
Interest expense	(191,534)	(195,116)
Other	174,573	(44,062)
Total nonoperating revenues (expenses)	293,925	(82,113)
Increase (Decrease) in Net Position	340,192	(1,270,033)
Net Position, Beginning of Year, as Previously Reported	29,252,314	30,522,347
Cumulative Effect of Change in Accounting Principle	(67,760)	-
Net Position, Beginning of Year, as Restated	29,184,554	30,522,347
Net Position, End of Year	\$ 29,524,746	\$ 29,252,314

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
SCCH Fitness Center, Inc.
Statements of Activities
Years Ended December 31, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support		
Membership, training, class and other revenue	\$ 247,547	\$ 246,632
Operating support from the Hospital	136,540	208,383
Total revenues, gains and other support	384,087	455,015
Expenses		
Salaries and wages	185,120	240,839
Employee benefits	75,000	111,205
Purchased services	34,420	36,892
Supplies	5,980	1,895
Utilities	22,228	20,211
Repair and maintenance	18,961	15,482
Depreciation	63,372	63,921
Other	15,529	13,309
Total expenses	420,610	503,754
Decrease in Net Assets	(36,523)	(48,739)
Unrestricted Net Assets, Beginning of Year	276,241	324,980
Unrestricted Net Assets, End of Year	\$ 239,718	\$ 276,241

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients	\$ 32,763,630	\$ 30,112,264
Payments to suppliers and contractors	(10,785,288)	(9,925,676)
Payments to employees	(21,306,308)	(20,283,262)
Other payments, net	1,153,596	651,166
Net cash provided by operating activities	1,825,630	554,492
Capital and Related Financing Activities		
Purchase of capital assets	(858,153)	(1,379,907)
Proceeds from sale of capital assets	193,238	-
Principal payments made on long-term debt	(300,466)	(314,561)
Principal payments made on capital leases	(149,988)	(110,145)
Interest payments on long-term debt and capital leases	(191,534)	(195,116)
Net cash used in capital and related financing activities	(1,306,903)	(1,999,729)
Investing Activities		
Interest and dividends on investments	310,886	157,065
Purchase of investments	(5,174,464)	(9,763,536)
Proceeds from disposition of investments	4,868,808	9,610,777
Other investing activities	168,469	(44,062)
Net cash provided by (used in) investing activities	173,699	(39,756)
Increase (Decrease) in Cash	692,426	(1,484,993)
Cash, Beginning of Year, as Previously Reported	2,669,514	4,154,507
Cumulative Effect of Change in Accounting Principle	26,082	-
Cash, Beginning of Year, as Restated	2,695,596	4,154,507
Cash, End of Year	\$ 3,388,022	\$ 2,669,514

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Income (Loss) to Net Cash Provided by		
Operating Activities		
Operating income (loss)	\$ 46,267	\$ (1,187,920)
Depreciation and amortization	1,800,866	1,841,134
Provision for uncollectible accounts	1,912,000	1,829,666
Changes in operating assets and liabilities:		
Patient accounts receivable	(2,415,973)	(1,926,985)
Estimated amounts due to/from third-party payors	69,487	451,367
Accounts payable and accrued expenses	344,729	(475,701)
Other assets	68,254	22,931
	<u>\$ 1,825,630</u>	<u>\$ 554,492</u>
Supplemental Cash Flow Information		
Purchase of capital assets included in accounts payable	\$ 122,342	\$ 32,384
Capital assets acquired through capital leases	532,936	728,379
Non-cash changes in operating assets and liabilities as a result of change in accounting principle	93,842	-

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2019 and 2018

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

Nature of Operations and Reporting Entity

Sullivan County Community Hospital (Hospital) is an acute care hospital located in Sullivan, Indiana. The Hospital is a component unit of Sullivan County (County) and the Board of County Commissioners appoints members to the Governing Board of the Hospital pursuant to 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 the Sullivan County surrounding area. It also operates a home health agency in the same geographic area.

In accordance with GASB Statement No. 61, the financial statements include the financial statements of MSO Clinics, Inc. (MSO Clinics), reported as a blended component unit. The primary government appoints a voting majority of the MSO Clinics' board of directors and a financial benefit/burden relationship exists between the Hospital and MSO Clinics. Although it is legally separate from the Hospital, MSO Clinics is reported as if it were a part of the Hospital as it provides services entirely or almost entirely for the benefit of the Hospital. All significant intercompany transactions have been eliminated for financial reporting purposes. Separate audited financial statements are not issued for MSO Clinics.

The Hospital holds a 51% ownership interest in Sullivan County Community Hospital Pain Management, LLC (Pain Management), which was organized to offer pain management services in the Hospital's primary service area. Effective January 1, 2019, upon adoption of Governmental Accounting Standards Board (GASB) Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, the operations of Pain Management are reported as a blended component unit, as the Hospital holds a majority equity interest. Although it is legally separate from the Hospital, Pain Management is reported as if it were a part of the Hospital. This change was applied prospectively at the adoption date, and resulted in a decrease in net position of \$67,760 as of January 1, 2019. Prior to the adoption of GASB Statement No. 90, the Hospital's ownership interest was accounted for under the equity method. Separate audited financial statements are not issued for Pain Management.

The Hospital holds a 10% ownership in Solidago Dialysis, LLC (Dialysis), which was organized to provide dialysis services in the Hospital's primary service area. The Hospital's ownership interest is accounted for under the equity method. Separate audited financial statements are not issued for Dialysis.

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. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions.

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2019 and 2018

Use of Estimates

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; 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 three 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 in nonnegotiable certificates of deposit are carried at amortized cost. The investments in equity investees are reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income 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.

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2019 and 2018

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. Assets under capital lease obligations and 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	5 - 20 years
Buildings and leasehold improvements	10 - 20 years
Equipment	3 - 10 years

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	<u>2019</u>	<u>2018</u>
Interest costs capitalized	\$ -	\$ 19,059
Interest costs charged to expense	<u>191,534</u>	<u>195,116</u>
Total interest incurred	<u>\$ 191,534</u>	<u>\$ 214,175</u>

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 or lease asset has occurred. If a capital or lease 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, 2019 and 2018.

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 to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. 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. The estimated compensated absences liability is expected to be paid within one year of the balance sheet date and is therefore included in current liabilities.

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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 net position consists of the minority equity ownership of Pain Management. Unrestricted net position is the remaining assets, less remaining liabilities that do 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. Charges excluded from revenue under the Hospital's charity care policy were \$640,474 for 2019, compared to \$747,278 for 2018.

Operating Activities

The Hospital defines operating activities, as reported in the statement of revenues, expenses and changes in net position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Nearly all of the Hospital's expenses are from exchange transactions. Certain revenues relied upon for operations, such as investment income, are recorded as nonoperating revenues in accordance with GASB Statement No. 35.

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SCCH Fitness Center

SCCH Fitness Center, Inc. (Fitness Center) is a legally separate, tax-exempt component unit of the Hospital. The Fitness Center's primary function is to provide community access to health and fitness equipment. The Hospital appoints a voting majority of the Fitness Center's board and a financial relationship exists where the Hospital subsidizes the operations of the Fitness Center. Because of this relationship, the Fitness Center is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements. Complete financial statements for the Fitness Center may be obtained by contacting Fitness Center management.

During the years ended December 31, 2019 and 2018, the Hospital provided \$136,540 and \$208,383, respectively, of support to the Fitness Center for operations.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. In addition, the Hospital is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Fitness Center is exempt from federal income taxes under Section 501(c)(3) and 509(a)(2) of the U.S. Internal Revenue Code and a similar provision of state law. However, the Fitness Center is subject to federal income tax on any unrelated business taxable income. The Fitness Center files federal tax returns in the U.S. federal jurisdiction.

MSO Clinics is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and a similar provision of state law. However, MSO Clinics is subject to federal income tax on any unrelated business taxable income. MSO Clinics files federal tax returns in the U.S. federal jurisdiction.

Pain Management is not directly subject to income taxes under the provision of the Internal Revenue Code and applicable state laws. Taxable income or loss is allocated to its members in accordance with their respective percentage ownership for inclusion in their respective tax returns.

Future Accounting Standards

In fiscal year 2020, the Hospital will implement GASB Statement No. 84, *Fiduciary Activities*. The statement was issued to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Hospital has not determined the impact of this new standard on its financial statements; however, it could have a material future impact.

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In fiscal year 2021, the Hospital will implement GASB Statement No. 87, *Leases*. The statement provides a new framework for accounting for leases under the principal that leases are financings and lessees should recognize an intangible asset and a corresponding liability while the lessor will recognize a lease receivable and related deferred inflow of resources. The Hospital has not determined the impact of this new standard on its financial statements; however, it could have a material future impact.

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. The Hospital is designated by Medicare as a critical access hospital (CAH). Inpatient acute care and swing bed services, and most outpatient services, are reimbursed based on a cost reimbursement methodology. Interim per diem rates for inpatient services and percent of charges for outpatient services are reimbursed throughout the year, with final settlement determined after submission of the annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to the service provided and the patient diagnosis.

Approximately 62% percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for each of the years ended December 31, 2019 and 2018. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and are determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately \$764,000 annually within net patient service revenue related to this supplemental payment program for the years ended December 31, 2019 and 2018. Amounts outstanding at December 31, 2019 approximated \$382,000 and are included in estimated amounts due from third-party payors. Net deferred revenue at December 31, 2018 related to advance funding of payments totaled \$76,000 and was included in estimated amounts due to third-party payors.

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The Hospital participates in a state specific provider assessment fee program to increase Medicaid payments to hospitals. The Hospital incurred fees approximating \$1,248,000 and \$1,148,000 related to this program for 2019 and 2018, respectively, which are recorded as an operating expense in the statements of revenues, expenses and changes in net position. The amounts outstanding under the assessment fee program for the years ended December 31, 2019 and 2018 were not significant.

The Hospital's Medicaid Inpatient Utilization Rate (MIUR) exceeded state-wide thresholds, as defined by state regulation, during its most recent measurement period. A benefit of having a MIUR exceeding this threshold includes a 25% reduction in the provider assessment fee. The provider assessment fee program is subject to further retroactive rate settings by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital, including the 25% benefit, through December 31, 2019.

The state measures MIUR percentages no less than every four years and no more than every two years. At each measurement period, the state-defined MIUR threshold changes, which could affect the Hospital's eligibility status. Any change in MIUR eligibility would affect the Hospital's ability to receive the 25% provider assessment fee reduction. The State's most recent measurement is for the period ended June 30, 2019. Any change in the amount of tax due as a result of eligibility changes will be recorded in the period the state has made its determination.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, HMOs 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.

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 deposits 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 Depository Insurance Corporation (FDIC) or by the Indiana Public Deposit Insurance Fund (IPDIF). This includes any deposit accounts issued or offered by a qualifying financial institution. Accordingly, all deposits in excess of FDIC levels are covered by the IPDIF and are considered collateralized.

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Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities, in bank repurchase agreements, and other investments defined in Indiana Code 16-22-3-20.

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy limits investments to certificates of deposit and certain bond and mutual funds. No more than 50% of the total Hospital portfolio (including deposits) should be invested in bond mutual funds. Generally, the maturity date on all investments shall not exceed two years.

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 certain bond and mutual funds to the American Hospital Association's Investment Fund and other portfolios with AAA or government-backed ratings.

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. The Hospital's investment policy does not address how securities underlying repurchase agreements are to be held.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer.

Summary of Carrying Values

The carrying values of deposits are included in the balance sheets as follows:

	2019	2018
Carrying value:		
Deposits	\$ 15,005,054	\$ 13,980,890
Included in the following balance sheets captions:		
Cash	\$ 3,388,022	\$ 2,669,514
Noncurrent investments - funded depreciation	11,617,032	11,311,376
	\$ 15,005,054	\$ 13,980,890

Non-negotiable certificates of deposit totaling \$11,617,032 and \$11,311,376 are included in deposit balances at December 31, 2019 and 2018, respectively.

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Investment Income

Investment income for the years ended December 31 consisted of:

	2019	2018
Interest and dividend income	\$ 310,886	\$ 157,065

Note 4: 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. Patient accounts receivable at December 31 consisted of:

	2019	2018
Medicare	\$ 1,179,889	\$ 1,362,520
Medicaid	735,785	413,964
Other third-party payors	1,742,019	1,402,406
Patients	2,185,028	1,467,975
	5,842,721	4,646,865
Less allowance for uncollectible accounts	1,629,840	937,957
	\$ 4,212,881	\$ 3,708,908

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Hospital					
Land and improvements	\$ 1,032,727	\$ -	\$ (30,600)	\$ -	\$ 1,002,127
Buildings and leasehold improvements	24,769,117	5,049	(467,014)	65,218	24,372,370
Equipment	20,998,197	1,180,655	(47,503)	185,172	22,316,521
Construction in progress	157,875	295,343	-	(250,390)	202,828
	46,957,916	1,481,047	(545,117)	-	47,893,846
Less accumulated depreciation:					
Buildings and leasehold improvements	14,150,365	819,061	(357,983)	-	14,611,443
Equipment	14,284,072	981,805	-	-	15,265,877
	28,434,437	1,800,866	(357,983)	-	29,877,320
Total Hospital capital assets, net	\$ 18,523,479	\$ (319,819)	\$ (187,134)	\$ -	\$ 18,016,526

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	2018				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Hospital					
Land and improvements	\$ 1,032,727	\$ -	\$ -	\$ -	\$ 1,032,727
Buildings and leasehold improvements	22,220,155	60,339	-	2,488,623	24,769,117
Equipment	19,531,421	1,470,165	(3,389)	-	20,998,197
Construction in progress	2,411,897	234,601	-	(2,488,623)	157,875
	<u>45,196,200</u>	<u>1,765,105</u>	<u>(3,389)</u>	<u>-</u>	<u>46,957,916</u>
Less accumulated depreciation:					
Buildings and leasehold improvements	13,274,332	876,033	-	-	14,150,365
Equipment	13,322,360	965,101	(3,389)	-	14,284,072
	<u>26,596,692</u>	<u>1,841,134</u>	<u>(3,389)</u>	<u>-</u>	<u>28,434,437</u>
Total Hospital capital assets, net	<u>\$ 18,599,508</u>	<u>\$ (76,029)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,523,479</u>

Note 6: Medical Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Malpractice Act (Act) and purchases medical malpractice insurance up to coverage limits under a claims-made policy on a fixed premium basis up to limits set forth in the Act. The Act limits professional liability for claims prior to July 1, 2017 to a maximum recovery of \$1,250,000 per occurrence, \$250,000 of which would be paid through commercial medical insurance coverage, while the remaining balance would be paid by the State of Indiana Patient Compensation Fund (the Fund). For claims on or after July 1, 2017, the maximum recovery is \$1,650,000 per occurrence, \$400,000 of which would be paid through commercial insurance coverage, with the remainder due from the Fund. For claims on or after July 1, 2019, the maximum recovery is \$1,800,000 per occurrence, \$500,000 of which would be paid through commercial insurance coverage, with the remainder due from the Fund.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. 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.

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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 \$1,000,000, and an individual policy maximum of \$100,000. 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 reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2019 and 2018 is summarized as follows:

	2019	2018
Balance, beginning of year	\$ 328,959	\$ 288,171
Current year claims incurred and changes in estimates for		
claims incurred in prior years	2,997,712	3,426,721
Claims and expenses paid	(2,890,285)	(3,385,933)
	\$ 436,386	\$ 328,959

Note 8: Long-Term Obligations

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2019 and 2018:

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Health facility revenue bonds, Series 2017A	\$ 3,526,573	\$ -	\$ (221,411)	\$ 3,305,162	\$ 226,624
Taxable health facility revenue bonds, Series 2017B	1,368,712	-	(79,055)	1,289,657	81,788
Capital lease obligations	618,234	532,936	(149,988)	1,001,182	249,154
Total long-term debt	\$ 5,513,519	\$ 532,936	\$ (450,454)	\$ 5,596,001	\$ 557,566

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	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Health facility revenue bonds, Series 2017A	\$ 3,759,180	\$ -	\$ (232,607)	\$ 3,526,573	\$ 220,502
Taxable health facility revenue bonds, Series 2017B	1,450,666	-	(81,954)	1,368,712	78,660
Capital lease obligations	-	728,379	(110,145)	618,234	137,215
Total long-term debt	<u>\$ 5,209,846</u>	<u>\$ 728,379</u>	<u>\$ (424,706)</u>	<u>\$ 5,513,519</u>	<u>\$ 436,377</u>

Health Facility Revenue Bonds, Series 2017A and Series 2017B

During 2017, the Hospital issued bonds to fund certain capital expansions of the Hospital. The Series 2017A revenue bonds consist of nontaxable revenue bonds in the original amount of \$3,900,000 dated April 5, 2017, which bear interest at 2.865%. The Series 2017B revenue bonds consist of taxable revenue bonds in the original amount of \$1,500,000 dated April 5, 2017, which bear interest at 4.100%. Beginning July 2017, the bonds are payable quarterly through April 1, 2032. The bonds are secured by all existing and future net revenues and accounts of the Hospital.

The Hospital is required to comply with certain restrictive covenants, including maintaining an annual cash flow coverage ratio greater than 1.25 to 1.00.

The debt service requirements as of December 31, 2019 are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2020	\$ 455,007	\$ 308,412	\$ 146,595
2021	455,007	318,791	136,216
2022	455,007	329,105	125,902
2023	455,007	339,762	115,245
2024	455,007	350,481	104,526
2025 - 2029	2,275,033	1,859,576	415,457
2030 - 2032	1,137,515	1,088,692	48,823
	<u>\$ 5,687,583</u>	<u>\$ 4,594,819</u>	<u>\$ 1,092,764</u>

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Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2019 and 2018 totaled \$1,261,315 and \$728,379, net of accumulated depreciation of \$207,705 and \$64,059, respectively. The following is a schedule by year of future minimum lease payments under capital leases including interest at rates of 4.1% to 8.5% together with the present value of the future minimum lease payments as of December 31, 2019:

2020		\$ 294,475
2021		294,475
2022		279,430
2023		148,765
2024		<u>107,857</u>
Total minimum lease payments		<u>1,125,002</u>
Less amount representing interest		<u>(123,820)</u>
Present value of future minimum lease payments		<u><u>\$ 1,001,182</u></u>

Note 9: Pension Plan

The Hospital and MSO Clinics contribute to defined-contribution pension plans, as authorized by Indiana Code 16-22-3-11, covering substantially all employees following one year of service. Pension expense is recorded for the amount of the employer's required contributions, determined in accordance with the terms of the plans. The Hospital plans are administered by a board of trustees appointed by the Hospital Board. The MSO Clinics plan is administered by its governing body. The plans provide retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan documents and were established and can be amended by action of the Hospital's governing body.

Plan members may contribute up to \$19,000 of their annual covered salary. The Hospital and MSO Clinics are required to match one-half of the employee contribution up to 5% of employee's compensation. In addition, the Hospital contributes 2% of the annual covered payroll for all eligible active participants. The MSO Clinics may make a discretionary contribution as determined by its governing body. Expense related to employer contributions to the plans was \$553,954 for 2019 and \$644,941 for 2018. The Hospital had accrued benefits payable to the plan of \$255,825 at December 31, 2019, compared to \$205,206 as of December 31, 2018.

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Note 10: Operating Leases

A noncancellable operating lease for primary care outpatient office space began in October 2013 and was renewed in 2018 for a five-year period ending December 2023. The lease contains two additional renewal options for five-year periods and requires the Hospital to pay all executory costs (property taxes, maintenance and insurance). Rental expense for operating leases during 2019 and 2018 was \$341,601 and \$309,991, respectively. Future minimum lease payments at December 31, 2019 were:

2020		\$	225,027
2021			225,027
2022			225,027
2023			<u>225,027</u>
Future minimum lease payments		\$	<u><u>900,108</u></u>

Note 11: 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 may be in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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Note 12: Investment in Equity Investee

The Hospital invested \$51,000 for a 51% ownership of Sullivan County Community Hospital Pain Management, LLC (Pain Management). The Hospital's investment in Pain Management was \$239,111 and \$(89,536) at December 31, 2019 and 2018, respectively, which represents its share of operating gains and losses. Effective January 1, 2019, upon adoption of Governmental Accounting Standards Board (GASB) Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, the operations of Pain Management are reported as a blended component unit and the Hospital's investment is now eliminated. At December 31, 2018, the Hospital's net investment in Pain Management was recorded in prepaid expenses and other current assets. The Hospital provides support to the joint venture through labor and supply costs which are billed to Pain Management on a monthly basis. The Hospital also provides billing and collection services for Pain Management and remits patient collections to the joint venture to satisfy operating expenses. Net amounts due from Pain Management totaled \$65,791 at December 31, 2018 and are included in prepaid expenses and other current assets. Effective January 1, 2019, all intercompany transactions are now eliminated.

Financial position and results of operations of the investee for the year ended December 31, 2018 are summarized below.

	2018
Current assets	\$ 26,081
Patient billings and receipts due from Sullivan County Community Hospital	626,999
Other assets	5,323
Total assets	658,403
Current liabilities	123,053
Advances payable to Sullivan County Community Hospital	692,790
Total liabilities	815,843
Net assets	\$ (157,440)
Revenues	\$ 419,566
Deficiency of revenues over expenses	\$ (82,142)

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The Hospital invested \$100,000 for an initial 10% ownership of Solidago Dialysis, LLC (Dialysis). The Hospital's investment in Dialysis was \$(6,271) and \$5,484 at December 31, 2019 and 2018, respectively, which represents its share of the net assets of Dialysis and is recorded in prepaid expenses and other current assets. Dialysis has a \$1.6 million bank loan outstanding, which the Hospital has guaranteed 10%. The Hospital entered into a lease agreement with Dialysis for operating space. The lease terminates in April 2027 and requires annual rental payments due to the Hospital of \$117,000 through April 2022 and \$129,000 for the remaining term. Financial position and results of operations of the investee for the years ended December 31, 2019 and 2018 are summarized below.

	<u>2019</u>	<u>2018</u>
Current assets	\$ 242,913	\$ 124,435
Capital assets	1,481,306	1,689,597
Other long-term assets	772,059	-
Total assets	<u>2,496,278</u>	<u>1,814,032</u>
Current liabilities	276,567	33,661
Long-term liabilities	2,274,385	1,725,531
Total liabilities	<u>2,550,952</u>	<u>1,759,192</u>
Net assets (deficit)	<u>\$ (54,674)</u>	<u>\$ 54,840</u>
Revenues	\$ 1,031,730	\$ 560,657
Deficiency of revenues over expenses	\$ (284,783)	\$ (682,692)

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Note 13: Condensed Combining Information

The following tables include condensed combining balance sheets information for the Hospital and its blended component units as of December 31, 2019 and 2018:

	2019				
	Hospital	MSO Clinics	Pain Management	Eliminations	Total
Assets					
Current assets	\$ 8,472,846	\$ 1,093,359	\$ 75,886	\$ -	\$ 9,642,091
Due from Hospital	-	-	403,624	(403,624)	-
Capital assets, net	17,210,269	806,257	-	-	18,016,526
Other noncurrent assets	11,856,143	-	-	(239,111)	11,617,032
Total assets	<u>\$ 37,539,258</u>	<u>\$ 1,899,616</u>	<u>\$ 479,510</u>	<u>\$ (642,735)</u>	<u>\$ 39,275,649</u>
Liabilities					
Current liabilities	\$ 4,504,736	\$ 197,068	\$ 10,664	\$ -	\$ 4,712,468
Due to Pain Management	403,624	-	-	(403,624)	-
Long-term liabilities	5,038,435	-	-	-	5,038,435
Total liabilities	<u>9,946,795</u>	<u>197,068</u>	<u>10,664</u>	<u>(403,624)</u>	<u>9,750,903</u>
Net Position					
Net investment in capital assets	11,491,926	806,257	-	-	12,298,183
Restricted	-	-	229,735	-	229,735
Unrestricted	16,100,537	896,291	239,111	(239,111)	16,996,828
Total net position	<u>27,592,463</u>	<u>1,702,548</u>	<u>468,846</u>	<u>(239,111)</u>	<u>29,524,746</u>
Total liabilities and net position	<u>\$ 37,539,258</u>	<u>\$ 1,899,616</u>	<u>\$ 479,510</u>	<u>\$ (642,735)</u>	<u>\$ 39,275,649</u>
2018					
	Hospital	MSO Clinics	Total		
Assets					
Current assets	\$ 7,132,674	\$ 943,857	\$ 8,076,531		
Capital assets, net	17,491,000	1,032,479	18,523,479		
Other noncurrent assets	11,311,376	-	11,311,376		
Total assets	<u>\$ 35,935,050</u>	<u>\$ 1,976,336</u>	<u>\$ 37,911,386</u>		
Liabilities					
Current liabilities	\$ 3,486,800	\$ 95,130	\$ 3,581,930		
Long-term liabilities	5,077,142	-	5,077,142		
Total liabilities	<u>8,563,942</u>	<u>95,130</u>	<u>8,659,072</u>		
Net Position					
Net investment in capital assets	11,977,481	1,032,479	13,009,960		
Unrestricted	15,393,627	848,727	16,242,354		
Total net position	<u>27,371,108</u>	<u>1,881,206</u>	<u>29,252,314</u>		
Total liabilities and net position	<u>\$ 35,935,050</u>	<u>\$ 1,976,336</u>	<u>\$ 37,911,386</u>		

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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, 2019 and 2018:

	2019				
	Hospital	MSO Clinics	Pain Management	Eliminations	Total
Operating Revenues					
Net patient service revenue	\$ 29,170,344	\$ 3,918,177	\$ 1,357,175	\$ -	\$ 34,445,696
Other operating revenues	939,693	1,050,050	-	(116,359)	1,873,384
Total operating revenues	<u>30,110,037</u>	<u>4,968,227</u>	<u>1,357,175</u>	<u>(116,359)</u>	<u>36,319,080</u>
Operating Expenses					
Depreciation and amortization	1,731,175	69,691	-	-	1,800,866
Other operating expenses	28,126,810	5,730,318	731,178	(116,359)	34,471,947
Total operating expenses	<u>29,857,985</u>	<u>5,800,009</u>	<u>731,178</u>	<u>(116,359)</u>	<u>36,272,813</u>
Operating Income (Loss)	<u>252,052</u>	<u>(831,782)</u>	<u>625,997</u>	<u>-</u>	<u>46,267</u>
Nonoperating Revenues (Expenses)					
Investment income	310,886	-	-	-	310,886
Interest expense	(191,534)	-	-	-	(191,534)
Other	503,075	-	-	(328,502)	174,573
Total nonoperating revenues (expenses)	<u>622,427</u>	<u>-</u>	<u>-</u>	<u>(328,502)</u>	<u>293,925</u>
Increase (Decrease) in Net Position	<u>874,479</u>	<u>(831,782)</u>	<u>625,997</u>	<u>(328,502)</u>	<u>340,192</u>
Transfer From (To) Affiliate	<u>(653,124)</u>	<u>653,124</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Position, Beginning of Year, as Previously Reported	27,371,108	1,881,206	-	-	29,252,314
Cumulative Effect of Change in Accounting Principle	<u>-</u>	<u>-</u>	<u>(157,151)</u>	<u>89,391</u>	<u>(67,760)</u>
Net Position, Beginning of Year, as Restated	<u>27,371,108</u>	<u>1,881,206</u>	<u>(157,151)</u>	<u>89,391</u>	<u>29,184,554</u>
Net Position, End of Year	<u>\$ 27,592,463</u>	<u>\$ 1,702,548</u>	<u>\$ 468,846</u>	<u>\$ (239,111)</u>	<u>\$ 29,524,746</u>

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2019 and 2018

	2018		
	Hospital	MSO Clinics	Total
Operating Revenues			
Net patient service revenue	\$ 26,870,158	\$ 4,035,717	\$ 30,905,875
Other operating revenues	414,009	874,791	1,288,800
Total operating revenues	<u>27,284,167</u>	<u>4,910,508</u>	<u>32,194,675</u>
Operating Expenses			
Depreciation and amortization	1,756,735	84,399	1,841,134
Other operating expenses	25,147,473	6,393,988	31,541,461
Total operating expenses	<u>26,904,208</u>	<u>6,478,387</u>	<u>33,382,595</u>
Operating Income (Loss)	<u>379,959</u>	<u>(1,567,879)</u>	<u>(1,187,920)</u>
Nonoperating Revenues (Expenses)			
Investment income	157,065	-	157,065
Interest expense	(195,116)	-	(195,116)
Other	(44,062)	-	(44,062)
Total nonoperating revenues (expenses)	<u>(82,113)</u>	<u>-</u>	<u>(82,113)</u>
Increase (Decrease) in Net Position	297,846	(1,567,879)	(1,270,033)
Transfer From (To) Affiliate	(1,346,409)	1,346,409	-
Net Position, Beginning of Year	<u>28,419,671</u>	<u>2,102,676</u>	<u>30,522,347</u>
Net Position, End of Year	<u>\$ 27,371,108</u>	<u>\$ 1,881,206</u>	<u>\$ 29,252,314</u>

Sullivan County Community Hospital
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Notes to Financial Statements
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The following tables include condensed combining statements of cash flows information for the Hospital and its blended component units for the years ended December 31, 2019 and 2018:

	2019				Total
	Hospital	MSO Clinics	Pain Management	Eliminations	
Net Cash Provided By (Used In):					
Operating activities	\$ 2,807,320	\$ (1,025,882)	\$ 44,192	\$ -	\$ 1,825,630
Noncapital financing activity	(653,124)	653,124	-	-	-
Capital and related financing activities	(1,463,434)	156,531	-	-	(1,306,903)
Investing activities	173,699	-	-	-	173,699
Increase (Decrease) in Cash	864,461	(216,227)	44,192	-	692,426
Cash, Beginning of Year, as Previously Stated	2,308,666	360,848	-	-	2,669,514
Cumulative Effect of Change in Accounting Principle	-	-	26,082	-	26,082
Cash, Beginning of Year, as Restated	2,308,666	360,848	26,082	-	2,695,596
Cash, End of Year	\$ 3,173,127	\$ 144,621	\$ 70,274	\$ -	\$ 3,388,022

	2018		Total
	Hospital	MSO Clinics	
Net Cash Provided By (Used In):			
Operating activities	\$ 2,213,678	\$ (1,659,186)	\$ 554,492
Noncapital financing activity	(1,346,409)	1,346,409	-
Capital and related financing activities	(1,984,761)	(14,968)	(1,999,729)
Investing activities	(39,756)	-	(39,756)
Increase (Decrease) in Cash	(1,157,248)	(327,745)	(1,484,993)
Cash, Beginning of Year	3,465,914	688,593	4,154,507
Cash, End of Year	\$ 2,308,666	\$ 360,848	\$ 2,669,514

Sullivan County Community Hospital
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Notes to Financial Statements
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Note 14: Subsequent Events

In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced. Subsequent to year-end, the worldwide spread of COVID-19 began to cause some business disruption throughout the United States as local governments implemented orders to reduce non-essential business operations and advised citizens to shelter-in place. The Hospital has continued to operate as an essential healthcare provider and experienced declines in volumes related to elective procedure cancellations and lower physician office visits.

In 2020, the Hospital received approximately \$4.5 million in funding through the Public Health and Social Services Emergency Fund as authorized in the Coronavirus Aid, Relief and Economic Security (CARES) Act, which was made available to prevent, prepare for and respond to the coronavirus and reimburse providers for eligible expenses and lost revenues. Similarly, the Hospital applied for and received a loan totaling \$3.8 million under the Small Business Administration Paycheck Protection Program authorized in the CARES Act.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the magnitude and duration. The Hospital expects this matter to negatively impact its financial condition and operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

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

Independent Auditor's Report

Board of Directors
Sullivan County Community Hospital
Sullivan, 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 Sullivan County Community Hospital (Hospital), a component unit of Sullivan County, Indiana and SCCH Fitness Center, Inc., the Hospital's discretely presented component unit, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated May 28, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Management's Response to Finding

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

Purpose of this Report

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

BKD, LLP

Indianapolis, Indiana
May 28, 2020

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Schedule of Findings and Responses
December 31, 2019

Reference Number	Finding	
2019-001	<p>Criteria or Specific Requirement:</p> <p>Condition:</p> <p>Effect:</p> <p>Cause:</p> <p>Recommendation:</p> <p>Views of Responsible Officials and Planned Corrective Action:</p>	<p>Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p>The Hospital did not timely complete and review certain account reconciliations.</p> <p>Routine completion and monitoring of account reconciliations is imperative to ensure accuracy and completeness of recorded transactions. Potential misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner.</p> <p>While financial statements were prepared and monitored by management, the lack of complete and accurate account reconciliations led to adjustments required to appropriately reflect the operations of the Hospital.</p> <p>We recommend that the Hospital complete and review account reconciliations for all balance sheet accounts on a routine basis. Reconciling items should be investigated and accounted for as required.</p> <p>We concur. Management continues to evaluate current controls over account reconciliation processes with changes in accounting department staffing and will implement process to properly and timely complete these reconciliations in the future.</p>