

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

Independent Auditor's Report and Financial Statements
December 31, 2020 and 2019

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
December 31, 2020 and 2019

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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 County Community Hospital (Hospital), a component unit of Sullivan County, Indiana and SCCH Fitness Center, Inc., its discretely presented component unit, as of and for the years ended December 31, 2020 and 2019, 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 its discretely presented component unit as of December 31, 2020 and 2019, 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 24, 2021, 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 the 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.

BKD, LLP

Indianapolis, Indiana
May 24, 2021

Sullivan County Community Hospital

A Component Unit of Sullivan County, Indiana

Management's Discussion and Analysis

Years Ended December 31, 2020 and 2019

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, 2020 and 2019. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2020 by \$6,879,608 or 45.8% compared to an increase in 2019 of \$1,024,164 or 7.3%.
- The Hospital's net position increased in 2020 by \$1,661,204 or 5.6% compared to an increase in 2019 of \$340,192 or 1.2%.
- The Hospital reported operating income in 2020 of \$241,300 compared to operating income of \$46,267 during 2019. The operating results in 2020 increased by \$195,033 or 421.5% over the operating results reported in 2019. The operating results in 2019 improved by \$1,234,187 or 103.9% from the operating results reported in 2018.
- Net nonoperating results increased by \$1,382,439 or 470.3% in 2020 compared to 2019, and increased by \$376,038 or 458.0% in 2019 compared to 2018.

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 \$1,661,204 or 5.6% in 2020 compared to an increase of \$340,192 or 1.2% in 2019. The 2019 increase of \$340,192 was reduced by \$67,760 related to the cumulative impact of a change in accounting principle.

Table 1: Assets, Liabilities and Net Position

	2020	2019	2018
Assets			
Patient accounts receivable, net	\$ 4,639,908	\$ 4,212,881	\$ 3,708,908
Other current assets	14,990,732	5,429,210	4,367,623
Capital assets, net	17,629,772	18,016,526	18,523,479
Other noncurrent assets	9,392,380	11,617,032	11,311,376
Total assets	<u>\$ 46,652,792</u>	<u>\$ 39,275,649</u>	<u>\$ 37,911,386</u>
Liabilities			
Long-term debt	\$ 8,792,793	\$ 5,596,001	\$ 5,513,519
Other current liabilities	6,674,049	4,154,902	3,145,553
Total liabilities	<u>15,466,842</u>	<u>9,750,903</u>	<u>8,659,072</u>
Net Position			
Net investment in capital assets	12,591,779	12,298,183	13,009,960
Restricted	284,538	229,735	-
Unrestricted	18,309,633	16,996,828	16,242,354
Total net position	<u>31,185,950</u>	<u>29,524,746</u>	<u>29,252,314</u>
Total liabilities and net position	<u>\$ 46,652,792</u>	<u>\$ 39,275,649</u>	<u>\$ 37,911,386</u>

A significant change in the Hospital's assets in 2020 is the increase in other current assets of \$9,561,522 or 176.1%. This increase was attributed to an increase in cash of \$9,264,442 or 273.4% from funds received from the U.S. Department of Health and Human Services Provider Relief Fund and proceeds from the Hospital's Paycheck Protection Program loan payable, both as authorized in the *Coronavirus Aid, Relief and Economic Security Act (CARES Act)*.

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.

Operating Results and Changes in the Hospital's Net Position

In 2020, the Hospital's total net position increased by \$1,661,204 or 5.6% as shown in Table 2. The increase in net position of \$1,661,204 is made up of several different components and represents an improvement of 388.3% compared with the increase in net position for 2019 of \$340,192. In 2019, the increase in net position of \$340,192 represents an improvement of 126.8% compared with the decrease in net position for 2018 of \$1,270,033.

Table 2: Operating Results and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues			
Net patient service revenue	\$ 37,275,679	\$ 34,445,696	\$ 30,905,875
Other operating revenues	2,562,962	1,873,384	1,288,800
Total operating revenues	<u>39,838,641</u>	<u>36,319,080</u>	<u>32,194,675</u>
Operating Expenses			
Salaries and wages and employee benefits	24,237,571	21,501,501	20,141,088
Purchased services and professional fees	5,381,482	5,194,140	4,612,758
Depreciation and amortization	1,835,908	1,800,866	1,841,134
Other operating expenses	8,142,380	7,776,306	6,787,615
Total operating expenses	<u>39,597,341</u>	<u>36,272,813</u>	<u>33,382,595</u>
Operating Income (Loss)	<u>241,300</u>	<u>46,267</u>	<u>(1,187,920)</u>
Nonoperating Revenues (Expenses)			
Investment income	263,376	310,886	157,065
Interest expense	(217,070)	(191,534)	(195,116)
Noncapital governmental grant	1,650,000	-	-
Other	(19,942)	174,573	(44,062)
Total nonoperating revenues (expenses)	<u>1,676,364</u>	<u>293,925</u>	<u>(82,113)</u>
Joint Venture Distributions	<u>(256,460)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ 1,661,204</u>	<u>\$ 340,192</u>	<u>\$ (1,270,033)</u>

Operating Income (Loss)

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 reported an operating loss in 2018 and has reported operating income in 2020 and 2019.

Operating income was \$241,300 for 2020 compared to operating income of \$46,267 for 2019, which equates to an increase in operating results of \$195,033 or 421.5%, while the operating results for 2019 equate to an increase of \$1,234,187 or 103.9% compared to 2018. The primary components of the change in operating loss in 2020 are:

- Net patient service revenue for the Hospital was \$37,275,679 in 2020 compared to \$34,445,696 in 2019, which represents an increase of \$2,829,983 or 8.2%
- Other operating revenue for the Hospital was \$2,562,962 in 2020 compared to \$1,873,384 in 2019, which represents an increase of \$689,578 or 36.8% and is the result of the Hospital's continued participation in the 340b drug discount program and shared savings from the Hospital's participation in its Accountable Care Organization
- Salaries, wages and employee benefits for the Hospital were \$24,237,571 in 2020 compared to \$21,501,501 in 2019, which represents an increase of \$2,736,070 or 12.7%

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 its pain management joint venture. The increases in salaries, wages and employee benefits, along with other changes in operating costs, is attributed to these increases in volumes as well as additional costs related to the impact of COVID-19.

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. In 2020, nonoperating revenues and expenses also includes revenue recognized from the Provider Relief Fund. These distributions from the Provider Relief Fund 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 Department of Health and Human Services. Amounts recognized as nonoperating revenues in 2020 totaled \$1,650,000. Investment income decreased by \$47,510 or 15.3% in 2020 compared to 2019 as a result of investment activity and declining interest rates. Interest expense increased by \$25,536 or 13.3% in 2020 compared to 2019 as a result of the Hospital's stable borrowings. The Hospital's subsidy of its discretely presented component unit decreased by \$25,214 to \$111,326 in 2020.

The Hospital's Cash Flows

The Hospital's operating cash flows decreased by \$1,258,959 in 2020 compared to 2019. This decline in operating activities was offset by cash flows from noncapital financing activities of \$8,309,716. The Hospital's cash flows used in capital and related financing activity increased by \$1,014,074 in 2020 compared to 2019 as a result of capital investment activity. The Hospital's cash flows provided by investing activities increased by \$2,535,333 in 2020 compared to 2019.

Capital Asset and Debt Administration

Capital Assets

At the end of 2020, the Hospital had \$17,629,772 invested in capital assets, net of accumulated depreciation. In 2020 and 2019, the Hospital had capital acquisitions of approximately \$1,449,000 and \$1,481,000, respectively. Of the capital acquisitions during 2019, \$532,936 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, 2020, the Hospital had \$8,792,793 in revenue bonds, capital lease obligations and a note payable through the Small Business Administration Paycheck Protection Program outstanding, compared to outstanding balances of \$5,596,001 at December 31, 2019. See Note 8 of the audited 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 have and will continue to 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, 2020 and 2019

Assets

	2020	2019
Current Assets		
Cash	\$ 12,652,464	\$ 3,388,022
Patient accounts receivable, net of allowance: 2020 - \$2,078,944; 2019 - \$1,629,840	4,639,908	4,212,881
Supplies	753,218	623,614
Estimated amounts due from third-party payors	907,121	382,121
Prepaid expenses and other current assets	677,929	1,035,453
Total current assets	19,630,640	9,642,091
Noncurrent Investments - funded depreciation	9,232,198	11,617,032
Capital Assets, net	17,629,772	18,016,526
Other	160,182	-
Total assets	\$ 46,652,792	\$ 39,275,649

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 4,339,172	\$ 557,566
Accounts payable	945,570	1,136,219
Accrued expenses	2,340,343	2,368,683
Unearned grant revenue	3,161,376	-
Estimated amounts due to third-party payors	226,760	650,000
Total current liabilities	11,013,221	4,712,468
Long-Term Debt	4,453,621	5,038,435
Total liabilities	15,466,842	9,750,903
Net Position		
Net investment in capital assets	12,591,779	12,298,183
Restricted	284,538	229,735
Unrestricted	18,309,633	16,996,828
Total net position	31,185,950	29,524,746
Total liabilities and net position	\$ 46,652,792	\$ 39,275,649

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
SCCH Fitness Center, Inc.
Statements of Financial Position
December 31, 2020 and 2019

Assets

	2020	2019
Property and equipment, net of accumulated depreciation of \$1,100,101 and \$1,040,496 for 2020 and 2019, respectively	\$ 200,371	\$ 259,976
Total assets	\$ 200,371	\$ 259,976

Liabilities and Net Assets

Liabilities		
Accrued expenses	\$ 23,300	\$ 20,258
Net Assets - unrestricted	177,071	239,718
Total liabilities and net assets	\$ 200,371	\$ 259,976

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of \$2,435,943 and \$1,912,000 for 2020 and 2019, respectively	\$ 37,275,679	\$ 34,445,696
Other	2,562,962	1,873,384
Total operating revenues	39,838,641	36,319,080
Operating Expenses		
Salaries and wages	18,393,840	16,467,162
Employee benefits	5,843,731	5,034,339
Purchased services and professional fees	5,381,482	5,194,140
Supplies	3,696,016	3,383,875
Utilities	510,270	517,035
Repair and maintenance	1,390,208	1,230,048
Leases and rentals	364,082	341,601
Insurance	527,435	336,379
Depreciation and amortization	1,835,908	1,800,866
Other	590,311	719,788
Provider hospital assessment fee	1,064,058	1,247,580
Total operating expenses	39,597,341	36,272,813
Operating Income	241,300	46,267
Nonoperating Revenues (Expenses)		
Investment income	263,376	310,886
Interest expense	(217,070)	(191,534)
Noncapital governmental grant	1,650,000	-
Other	(19,942)	174,573
Total nonoperating revenues (expenses)	1,676,364	293,925
Income Before Joint Venture Distributions	1,917,664	340,192
Joint Venture Distributions	(256,460)	-
Increase in Net Position	1,661,204	340,192
Net Position, Beginning of Year	29,524,746	29,184,554
Net Position, End of Year	\$ 31,185,950	\$ 29,524,746

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
SCCH Fitness Center, Inc.
Statements of Activities
Years Ended December 31, 2020 and 2019

	2020	2019
Revenues, Gains and Other Support		
Membership, training, class and other revenue	\$ 153,751	\$ 247,547
Operating support from the Hospital	111,326	136,540
Total revenues, gains and other support	265,077	384,087
Expenses		
Salaries and wages	152,351	185,120
Employee benefits	47,000	75,000
Purchased services	22,779	34,420
Supplies	5,483	5,980
Utilities	19,953	22,228
Repair and maintenance	7,081	18,961
Depreciation	59,605	63,372
Other	13,472	15,529
Total expenses	327,724	420,610
Decrease in Net Assets	(62,647)	(36,523)
Unrestricted Net Assets, Beginning of Year	239,718	276,241
Unrestricted Net Assets, End of Year	\$ 177,071	\$ 239,718

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Receipts from and on behalf of patients	\$ 34,836,354	\$ 32,763,630
Payments to suppliers and contractors	(11,950,826)	(10,785,288)
Payments to employees	(24,291,508)	(21,306,308)
Other payments, net	1,972,651	1,153,596
Net cash provided by operating activities	566,671	1,825,630
Noncapital Financing Activities		
Noncapital governmental grant	4,811,376	-
Proceeds from Paycheck Protection Program loan payable	3,754,800	-
Joint venture distributions	(256,460)	-
Net cash provided by noncapital financing activities	8,309,716	-
Capital and Related Financing Activities		
Purchase of capital assets	(1,571,496)	(858,153)
Proceeds from sale of capital assets	-	193,238
Principal payments made on long-term debt	(308,913)	(300,466)
Principal payments made on capital leases	(249,095)	(149,988)
Interest payments on long-term debt and capital leases	(191,473)	(191,534)
Net cash used in capital and related financing activities	(2,320,977)	(1,306,903)
Investing Activities		
Interest and dividends on investments	263,376	310,886
Purchase of investments	(1,780,313)	(5,174,464)
Proceeds from disposition of investments	4,165,147	4,868,808
Other investing activities	60,822	168,469
Net cash provided by investing activities	2,709,032	173,699
Increase in Cash	9,264,442	692,426
Cash, Beginning of Year	3,388,022	2,695,596
Cash, End of Year	\$ 12,652,464	\$ 3,388,022

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Statements of Cash Flows (Continued)
Years Ended December 31, 2020 and 2019

	2020	2019
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Operating income	\$ 241,300	\$ 46,267
Depreciation and amortization	1,835,908	1,800,866
Provision for uncollectible accounts	2,435,943	1,912,000
Changes in operating assets and liabilities:		
Patient accounts receivable	(2,862,970)	(2,415,973)
Estimated amounts due to/from third-party payors	(948,240)	69,487
Accounts payable and accrued expenses	(122,244)	344,729
Other assets	(13,026)	68,254
	\$ 566,671	\$ 1,825,630
Supplemental Cash Flow Information		
Purchase of capital assets included in accounts payable	\$ -	\$ 122,342
Capital assets acquired through capital leases	-	532,936

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2020 and 2019

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. During 2020, the Hospital transitioned operations of MSO Clinics through change of ownership filings, and subsequent to the change of ownership filings, the operating results of MSO Clinics are reported as departments of the Hospital. The Hospital expects the remaining transfer of assets to occur in 2021. 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. All significant intercompany transactions have been eliminated for financial reporting purposes. 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.

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2020 and 2019

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, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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 providing goods and services and payments made for goods and services received, as well as program-specific, government-mandated nonexchange transactions. 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. Other government-mandated or voluntary nonexchange transactions that are not program specific, and interest on capital asset-related debt are also included in nonoperating revenues and expenses.

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.

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2020 and 2019

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.

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.

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

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, 2020 and 2019.

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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.

Unearned Grant Revenue

Unearned grant revenue represents funds received from the Provider Relief Fund as authorized through the *Coronavirus Aide, Relief and Economic Security Act* (CARES Act), and other state and local grants where the Hospital has not met the applicable eligibility requirements, including the incurrence of eligible expenses or lost revenues.

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 \$577,980 for 2020, compared to \$640,474 for 2019.

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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, 2020 and 2019, the Hospital provided \$111,326 and \$136,540, 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.

Change in Accounting Principle – Fiduciary Activities

For the year ended December 31, 2020, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Adoption of this Statement had no effect on the financial statements.

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Future Accounting Standards

In fiscal year 2022, 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.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation. The reclassifications had no effect on the changes in net position.

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 58% and 62% percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2020 and 2019, 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.

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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, 2020 and 2019. Amounts outstanding at December 31, 2020 and 2019 approximated \$382,000 and are included in estimated amounts due from third-party payors.

The Hospital participates in a state specific provider assessment fee program to increase Medicaid payments to hospitals. The Hospital incurred fees approximating \$1,064,000 and \$1,248,000 related to this program for 2020 and 2019, 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 were \$183,000 for the year ended December 31, 2020 and are included in estimated amounts due to third-party payors. Amounts outstanding for the year ended December 31, 2019 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, 2020.

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.

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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.

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.

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Summary of Carrying Values

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

	<u>2020</u>	<u>2019</u>
Carrying value:		
Deposits	\$ 21,884,662	\$ 15,005,054
Included in the following balance sheets captions:		
Cash	\$ 12,652,464	\$ 3,388,022
Noncurrent investments - funded depreciation	9,232,198	11,617,032
	<u>\$ 21,884,662</u>	<u>\$ 15,005,054</u>

Non-negotiable certificates of deposit totaling \$9,232,198 and \$11,617,032 are included in deposit balances at December 31, 2020 and 2019, respectively.

Investment Income

Investment income for the years ended December 31 consisted of:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 263,376	\$ 310,886

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:

	<u>2020</u>	<u>2019</u>
Medicare	\$ 1,260,304	\$ 1,179,889
Medicaid	720,502	735,785
Other third-party payors	1,988,465	1,742,019
Patients	2,749,581	2,185,028
	<u>6,718,852</u>	<u>5,842,721</u>
Less allowance for uncollectible accounts	2,078,944	1,629,840
	<u>\$ 4,639,908</u>	<u>\$ 4,212,881</u>

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Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2020				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Hospital					
Land and improvements	\$ 1,002,127	\$ 34,000	\$ -	\$ -	\$ 1,036,127
Buildings and leasehold improvements	24,372,370	4,894	-	120,194	24,497,458
Equipment	22,316,521	964,643	-	353,325	23,634,489
Construction in progress	202,828	445,617	-	(473,519)	174,926
	<u>47,893,846</u>	<u>1,449,154</u>	<u>-</u>	<u>-</u>	<u>49,343,000</u>
Less accumulated depreciation:					
Buildings and leasehold improvements	14,611,443	870,804	-	-	15,482,247
Equipment	15,265,877	965,104	-	-	16,230,981
	<u>29,877,320</u>	<u>1,835,908</u>	<u>-</u>	<u>-</u>	<u>31,713,228</u>
Total Hospital capital assets, net	<u>\$ 18,016,526</u>	<u>\$ (386,754)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,629,772</u>

	2019				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
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
	<u>46,957,916</u>	<u>1,481,047</u>	<u>(545,117)</u>	<u>-</u>	<u>47,893,846</u>
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
	<u>28,434,437</u>	<u>1,800,866</u>	<u>(357,983)</u>	<u>-</u>	<u>29,877,320</u>
Total Hospital capital assets, net	<u>\$ 18,523,479</u>	<u>\$ (319,819)</u>	<u>\$ (187,134)</u>	<u>\$ -</u>	<u>\$ 18,016,526</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 after July 1, 2017 to a maximum recovery of \$1,650,000 per occurrence, \$400,000 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, 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.

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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.

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 per eligible covered person. Commercial stop-loss insurance coverage is purchased for claims in excess of these annual amounts. 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 2020 and 2019 is summarized as follows:

	2020	2019
Balance, beginning of year	\$ 436,386	\$ 328,959
Current year claims incurred and changes in estimates for claims incurred in prior years	3,525,471	2,997,712
Claims and expenses paid	<u>(3,485,890)</u>	<u>(2,890,285)</u>
Balance, end of year	<u>\$ 475,967</u>	<u>\$ 436,386</u>

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Note 8: Long-Term Obligations

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2020 and 2019:

	2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Health facility revenue bonds, Series 2017A	\$ 3,305,162	\$ -	\$ (227,425)	\$ 3,077,737	\$ 233,450
Taxable health facility revenue bonds, Series 2017B	1,289,657	-	(81,488)	1,208,169	85,341
Capital lease obligations	1,001,182	-	(249,095)	752,087	265,581
Paycheck Protection Program loan payable	-	3,754,800	-	3,754,800	3,754,800
Total long-term debt	\$ 5,596,001	\$ 3,754,800	\$ (558,008)	\$ 8,792,793	\$ 4,339,172

	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

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.

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The debt service requirements as of December 31, 2020 are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
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	455,007	362,146	92,861
2026 - 2030	2,275,033	1,921,948	353,085
2031 - 2032	682,509	663,673	18,836
	<u>\$ 5,232,577</u>	<u>\$ 4,285,906</u>	<u>\$ 946,671</u>

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, 2020 and 2019 totaled \$1,261,315, net of accumulated depreciation of \$462,268 and \$207,705, 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, 2020:

2021	\$ 294,475
2022	279,430
2023	148,765
2024	107,857
Total minimum lease payments	<u>830,527</u>
Less amount representing interest	<u>(78,440)</u>
Present value of future minimum lease payments	<u>\$ 752,087</u>

Paycheck Protection Program Loan Payable

During 2020, the Hospital borrowed \$3,754,800 through the Small Business Association (SBA) Paycheck Protection Program (PPP) as authorized by the CARES Act and other subsequent legislation. The loan is designed to provide a direct incentive for small businesses to keep their workers on the payroll. The PPP loans will be forgiven if all employee retention criteria are met and the funds are used for eligible expenses. The loan has an interest rate of 1 percent, with payments due monthly starting ten months after the end of the Hospital's loan forgiveness covered period. The loan, if not forgiven, matures in April 2022, two years from the date proceeds were received.

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The Hospital is accounting for the PPP loan in accordance with GASB Statement 62. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan will be recognized as a gain in the financial statements in the period the debt is legally released. The PPP loan is included on the accompanying balance sheet as current maturities of long-term debt as management believes amounts will be forgiven in full in 2021.

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 plans are administered by the Hospital and MSO Clinics governing bodies. 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 governing bodies.

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 \$585,124 for 2020 and \$553,954 for 2019. The Hospital had accrued benefits payable to the plan of \$307,191 at December 31, 2020, compared to \$255,825 as of December 31, 2019.

Note 10: Operating Leases

The Hospital has entered into noncancellable operating leases for outpatient office space with termination dates ending in 2023. The leases contain renewal options for three to five-year periods and requires the Hospital to pay all executory costs (property taxes, maintenance and insurance). Rental expense for operating leases, including short-term rentals, during 2020 and 2019 was \$364,082 and \$341,601, respectively. Future minimum lease payments at December 31, 2020 were:

2021		\$ 261,027
2022		261,987
2023		<u>237,507</u>
Future minimum lease payments		<u>\$ 760,521</u>

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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.

Note 12: Investment in Equity Investee

The Hospital invested \$100,000 in 2017 for a 10% ownership of Solidago Dialysis, LLC (Dialysis). During 2020, the Hospital contributed an additional \$167,000 which was utilized by Dialysis to pay off its outstanding debt approximating \$1.67 million, which had previously been guaranteed by the Hospital and other equity owners based on their respective ownership shares. The Hospital's investment in Dialysis was \$160,182 at December 31, 2020, which represents its share of the net assets of Dialysis and is recorded in other long-term assets. The investment in Dialysis at December 31, 2019 was not material. Concurrent with the initial investment in Dialysis, 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, 2020 and 2019 are summarized below.

	2020	2019
Current assets	\$ 428,022	\$ 242,913
Capital assets	1,298,446	1,481,306
Other long-term assets	687,771	772,059
Total assets	<u>2,414,239</u>	<u>2,496,278</u>
Current liabilities	146,052	276,567
Long-term liabilities	658,328	2,274,385
Total liabilities	<u>804,380</u>	<u>2,550,952</u>
Net assets (deficit)	<u>\$ 1,609,859</u>	<u>\$ (54,674)</u>
Revenues	\$ 1,465,505	\$ 1,031,730
Deficiency of revenues over expenses	\$ (4,875)	\$ (284,783)

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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, 2020 and 2019:

	2020				
	Hospital	MSO Clinics	Pain Management	Eliminations	Total
Assets					
Current assets	\$ 18,880,518	\$ 603,660	\$ 146,462	\$ -	\$ 19,630,640
Due from Hospital	-	-	442,655	(442,655)	-
Capital assets, net	16,875,687	754,085	-	-	17,629,772
Other noncurrent assets	9,688,237	-	-	(295,857)	9,392,380
	<u>\$ 45,444,442</u>	<u>\$ 1,357,745</u>	<u>\$ 589,117</u>	<u>\$ (738,512)</u>	<u>\$ 46,652,792</u>
Liabilities					
Current liabilities	\$ 10,980,097	\$ 24,402	\$ 8,722	\$ -	\$ 11,013,221
Due to Pain Management	442,655	-	-	(442,655)	-
Long-term liabilities	4,453,621	-	-	-	4,453,621
Total liabilities	<u>15,876,373</u>	<u>24,402</u>	<u>8,722</u>	<u>(442,655)</u>	<u>15,466,842</u>
Net Position					
Net investment in capital assets	11,837,694	754,085	-	-	12,591,779
Restricted	-	-	284,538	-	284,538
Unrestricted	17,730,375	579,258	295,857	(295,857)	18,309,633
Total net position	<u>29,568,069</u>	<u>1,333,343</u>	<u>580,395</u>	<u>(295,857)</u>	<u>31,185,950</u>
Total liabilities and net position	<u>\$ 45,444,442</u>	<u>\$ 1,357,745</u>	<u>\$ 589,117</u>	<u>\$ (738,512)</u>	<u>\$ 46,652,792</u>
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
	<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>

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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, 2020 and 2019:

	2020				
	Hospital	MSO Clinics	Pain Management	Eliminations	Total
Operating Revenues					
Net patient service revenue	\$ 34,032,197	\$ 1,716,474	\$ 1,527,008	\$ -	\$ 37,275,679
Other operating revenues	2,186,801	535,067	-	(158,906)	2,562,962
Total operating revenues	<u>36,218,998</u>	<u>2,251,541</u>	<u>1,527,008</u>	<u>(158,906)</u>	<u>39,838,641</u>
Operating Expenses					
Depreciation and amortization	1,783,737	52,171	-	-	1,835,908
Other operating expenses	33,249,306	3,778,963	892,070	(158,906)	37,761,433
Total operating expenses	<u>35,033,043</u>	<u>3,831,134</u>	<u>892,070</u>	<u>(158,906)</u>	<u>39,597,341</u>
Operating Income (Loss)	<u>1,185,955</u>	<u>(1,579,593)</u>	<u>634,938</u>	<u>-</u>	<u>241,300</u>
Nonoperating Revenues (Expenses)					
Investment income	263,376	-	-	-	263,376
Interest expense	(217,070)	-	-	-	(217,070)
Noncapital governmental grant	1,650,000	-	-	-	1,650,000
Other	303,733	-	-	(323,675)	(19,942)
Total nonoperating revenues (expenses)	<u>2,000,039</u>	<u>-</u>	<u>-</u>	<u>(323,675)</u>	<u>1,676,364</u>
Income (Loss) Before Joint Venture Distributions and Transfers	3,185,994	(1,579,593)	634,938	(323,675)	1,917,664
Joint Venture Distributions	-	-	(523,389)	266,929	(256,460)
Transfers From (To) Affiliate	<u>(1,210,388)</u>	<u>1,210,388</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	1,975,606	(369,205)	111,549	(56,746)	1,661,204
Net Position, Beginning 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>
Net Position, End of Year	<u>\$ 29,568,069</u>	<u>\$ 1,333,343</u>	<u>\$ 580,395</u>	<u>\$ (295,857)</u>	<u>\$ 31,185,950</u>

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	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>
Income (Loss) Before Transfers	874,479	(831,782)	625,997	(328,502)	340,192
Transfer From (To) Affiliate	<u>(653,124)</u>	<u>653,124</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	221,355	(178,658)	625,997	(328,502)	340,192
Net Position, Beginning of Year	<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>

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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, 2020 and 2019:

	2020				
	Hospital	MSO Clinics	Pain Management	Eliminations	Total
Net Cash Provided By (Used In):					
Operating activities	\$ 1,106,219	\$ (1,133,513)	\$ 593,965	\$ -	\$ 566,671
Noncapital financing activity	7,355,788	1,210,388	(523,389)	266,929	8,309,716
Capital and related financing activities	(2,320,977)	-	-	-	(2,320,977)
Investing activities	2,975,961	-	-	(266,929)	2,709,032
Increase in Cash	9,116,991	76,875	70,576	-	9,264,442
Cash, Beginning of Year	3,173,127	144,621	70,274	-	3,388,022
Cash, End of Year	\$ 12,290,118	\$ 221,496	\$ 140,850	\$ -	\$ 12,652,464

	2019				
	Hospital	MSO Clinics	Pain Management	Eliminations	Total
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	2,308,666	360,848	26,082	-	2,695,596
Cash, End of Year	\$ 3,173,127	\$ 144,621	\$ 70,274	\$ -	\$ 3,388,022

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Note 14: 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 (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.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments re-imposed certain restrictions due to increasing rates of COVID-19 cases prior to the widespread availability of a vaccine.

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; and
- Reduction of certain planned projects and capital expenditures

In addition, the Hospital received approximately \$4.0 million of accelerated Medicare payments which were subsequently repaid, and approximately \$4.6 million in general and targeted Provider Relief Fund distributions, both as provided for under the CARES Act. In addition, the Hospital received an additional \$214,000 in other state and federal grants and awards.

The extent of the COVID-19 pandemic's adverse effect on the Hospital's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Hospital's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

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.

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Provider Relief Fund

During the year ended December 31, 2020, the Hospital received \$4.6 million of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund 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 Department of Health and Human Services.

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 the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2020, the Hospital recognized \$1.7 million, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue – noncapital government grants in the statement of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions are recorded as part of unearned grant revenue in the accompanying balance sheets.

The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Funds 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, the Hospital's 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 Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

**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 Trustees
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, 2020, 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 24, 2021.

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 Hospital'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 may exist that have not been identified.

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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Indianapolis, Indiana
May 24, 2021