



KDHD

King's Daughters' Health

**KING'S DAUGHTERS' HEALTH
AND AFFILIATED ORGANIZATION**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

CPAs / ADVISORS



**KING'S DAUGHTERS' HEALTH AND
AFFILIATED ORGANIZATION**

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REPORT OF INDEPENDENT AUDITORS

Board of Managers
King's Daughters' Health
and Affiliated Organization
Madison, Indiana

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of King's Daughters' Health and its affiliated organization (the "Hospital"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Board of Managers
King's Daughters' Health
and Affiliated Organization
Madison, Indiana

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

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

Board of Managers
King's Daughters' Health
and Affiliated Organization
Madison, Indiana

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2022, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

Blue & Co., LLC

Louisville, Kentucky
August 4, 2022

**KING'S DAUGHTERS' HEALTH AND
AFFILIATED ORGANIZATION**

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

ASSETS		
	2021	2020
Current assets		
Cash and cash equivalents	\$ 25,535,042	\$ 27,102,760
Restricted cash	-0-	161,521
Patient accounts receivable, net	15,510,341	10,759,153
Inventories	3,253,610	3,056,386
Prepaid expenses and other current assets	1,703,079	1,748,766
Other assets - current portion	354,586	321,749
Total current assets	46,356,658	43,150,335
Assets whose use is limited	219,884,157	184,924,294
Property and equipment, net	86,632,490	90,093,824
Other assets, net of current portion	8,760,308	9,207,407
Total assets	\$ 361,633,613	\$ 327,375,860
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 2,106,807	\$ 2,766,122
Accrued personnel costs	5,771,121	5,122,684
Refundable advances	752,251	-0-
Accrued expenses	1,827,349	2,023,391
Estimated third-party payor settlements	2,021,206	948,599
Current portion of obligations under finance leases	375,778	265,024
Current portion of long-term debt	1,910,000	1,815,000
Total current liabilities	14,764,512	12,940,820
Long-term liabilities		
Obligations under finance leases, net of current portion	430,615	304,928
Long-term debt, net of current portion	84,283,262	86,047,865
Life insurance policies	403,713	399,224
Deferred compensation liabilities	34,977	53,992
Total long-term liabilities	85,152,567	86,806,009
Total liabilities	99,917,079	99,746,829
Net assets		
Without donor restrictions	261,261,453	226,931,224
With donor restrictions	455,081	697,807
Total net assets	261,716,534	227,629,031
Total liabilities and net assets	\$ 361,633,613	\$ 327,375,860

See accompanying notes to consolidated financial statements.

**KING'S DAUGHTERS' HEALTH AND
AFFILIATED ORGANIZATION**

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Changes in net assets without donor restrictions		
Operating revenues		
Net patient service revenue	\$ 145,093,966	\$ 119,280,061
Provider relief fund revenue	3,646,723	13,282,101
Grant revenue	312,448	38,479
Other revenue	617,323	517,464
Net assets released from restrictions	334,196	550,144
Total operating revenues	150,004,656	133,668,249
Operating expenses		
Salaries and wages	57,448,355	50,979,979
Employee benefits and payroll taxes	14,383,884	11,883,219
Professional medical fees	1,828,721	981,111
Medical supplies	9,438,215	7,728,575
Other supplies	943,643	917,953
Drugs	11,768,223	10,511,084
Purchased services	14,203,592	14,895,167
Utilities	2,093,323	1,875,997
Insurance	1,646,721	1,519,079
Depreciation	8,463,536	8,436,098
Interest	5,073,013	5,163,667
Hospital assessment fee	4,567,032	3,665,202
Other operating expenses	4,543,693	3,730,036
Total operating expenses	136,401,951	122,287,167
Income (loss) from operations	13,602,705	11,381,082
Nonoperating gains (losses)	20,727,524	20,680,098
Excess revenues (expenses) and change in net assets without donor restrictions	34,330,229	32,061,180
Changes in net assets with donor restrictions		
Contributions	91,470	282,653
Net assets released from restrictions	(334,196)	(550,144)
Change in net assets with donor restrictions	(242,726)	(267,491)
Change in net assets	34,087,503	31,793,689
Net assets, beginning of year	227,629,031	195,835,342
Net assets, end of year	\$ 261,716,534	\$ 227,629,031

See accompanying notes to consolidated financial statements.

**KING'S DAUGHTERS' HEALTH AND
AFFILIATED ORGANIZATION**

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 34,087,503	\$ 31,793,689
Adjustments to reconcile total change in net assets to net cash from operating activities		
Depreciation	8,463,536	8,436,098
Amortization of bond issue costs included in interest expense	53,472	53,472
Amortization of bond discount	91,925	86,519
(Gain) loss on disposal of capital assets	(64,735)	(33,041)
Net realized gains and losses and unrealized gains and losses on assets whose use is limited	(17,095,790)	(17,758,218)
Changes in operating assets and liabilities		
Patient accounts receivable	(4,751,188)	(798,348)
Inventories	(197,224)	(613,524)
Prepaid expenses and other current assets	45,687	2,358,617
Accounts payable	(858,056)	123,715
Accrued personnel costs	648,437	(1,823,358)
Refundable advances	752,251	-0-
Accrued expenses	(196,042)	131,956
Estimated third-party payor settlements	1,072,607	(1,392,108)
Deferred compensation liabilities	(19,015)	6,877
Net cash from operating activities	22,033,368	20,572,346
Cash flows from investing activities		
Purchases of property and equipment	(4,177,341)	(2,588,908)
Proceeds from sale of capital assets	70,728	33,231
Change in assets whose use is limited	(17,864,265)	(1,484,442)
Change in other assets	414,262	(747,795)
Change in life insurance policies	4,489	6,047
Net cash from investing activities	(21,552,127)	(4,781,867)
Cash flows from financing activities		
Principal payments on obligations under finance leases	(395,672)	(656,286)
Principal payments on long-term debt	(1,815,000)	(1,730,000)
Net cash from financing activities	(2,210,672)	(2,386,286)
Net change in cash, restricted cash, and cash equivalents	(1,729,431)	13,404,193
Cash, restricted cash, and cash equivalents, beginning of year	29,324,014	15,919,821
Cash, restricted cash, and cash equivalents, end of year	\$ 27,594,583	\$ 29,324,014

See accompanying notes to consolidated financial statements.

**KING'S DAUGHTERS' HEALTH AND
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CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Reconciliation of cash, restricted cash, and cash equivalents to the consolidated balance sheets		
Cash and cash equivalents	\$ 25,535,042	\$ 27,102,760
Restricted cash	-0-	161,521
Assets whose use is limited	<u>2,059,541</u>	<u>2,059,733</u>
Total cash, restricted cash, and cash equivalents	<u>\$ 27,594,583</u>	<u>\$ 29,324,014</u>
 Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 4,962,498	\$ 5,056,114
Property and equipment acquired under accounts payable	\$ 198,741	\$ -0-
Right-of-use assets obtained	\$ 632,113	\$ 19,377
Operating cash flows from finance leases	\$ 24,074	\$ 31,538
Financing cash flows from finance leases	\$ 395,672	\$ 656,286

See accompanying notes to consolidated financial statements.

KING'S DAUGHTERS' HEALTH AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

1. NATURE OF OPERATIONS

King's Daughters' Health ("KDH") is a not-for-profit, acute care hospital owned by the Bethany Circle of King's Daughters' of Madison, Indiana, Inc., ("Bethany Circle") located in Madison, Indiana. KDH is organized for the purpose of providing healthcare services to the residents of Jefferson County, Indiana and the surrounding area. KDH's primary sources of support are from patient revenues. Patient revenues include funds received from Medicare, Medicaid, state agencies, insurance companies, and the patients themselves.

The King's Daughters' Hospital Foundation, Inc. (the "Foundation") is a not-for-profit organization created in 2005 and located in Madison, Indiana. The Foundation operates for the benefit of KDH. The Foundation's main sources of revenue are earnings on investments and contributions received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by KDH and the Foundation (collectively the "Hospital") in the preparation of the consolidated financial statements are summarized below:

Financial Statement Presentation

The Financial Accounting Standards Board ("FASB") is the independent, private-sector organization that establishes accounting and financial reporting standards for public and private companies and not-for-profit organizations that follow accounting principles generally accepted in the United States of America. The Hospital follows FASB accounting and financial reporting standards in the preparation of their financial statements.

Reporting Entity and Consolidation Policy

The accompanying consolidated financial statements include the accounts of KDH and the Foundation. Intercompany transactions and balances have been eliminated in consolidation.

Basis of Accounting

The Hospital prepares its consolidated financial statements using the accrual basis of accounting. Accrual accounting requires the recognition of revenues when its performance obligations are satisfied, and the recognition of expenses in the period in which they occur.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis, and have been prepared with a focus on the entity as a whole. Net assets, revenue, support gains, and losses are classified based on the existence or absence of donor restrictions. Accordingly, the net assets of the Hospital are classified and reported as follows:

KING'S DAUGHTERS' HEALTH AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Net assets without donor restrictions: Net assets that are currently available for operating purposes under the direction of the board or designated by the board for specific use.

Net assets with donor restrictions: Net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations or specific purposes.

Management's Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, if any, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash, Restricted Cash, and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less excluding amounts included in assets whose use is limited. Restricted cash includes grant funding received prior to satisfaction of the associated terms and conditions for use or repayment of the funds.

Patient Accounts Receivable and Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others, and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Hospital bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services or patients receiving services in our outpatient centers or in their homes (home care). The Hospital measures the performance obligation from admission into the Hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for

KING'S DAUGHTERS' HEALTH AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

example, pharmaceuticals and medical equipment) and the Hospital does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policy, and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Inventories

Inventories consist of medical supplies, pharmaceuticals, and office supplies and are valued at the lower of cost or net realizable value, with cost being determined on the first-in, first-out (FIFO) method.

Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the Hospital's Board of Managers for future capital improvements and other long-term uses, over which the Board retains control and may at its discretion subsequently use for other purposes; assets held by trustees under indenture agreements; donor restricted assets whose use by the Hospital has been limited by donors to a specific time period or purpose or whose use has been restricted by donors in perpetuity; and deferred compensation assets related to certain deferred compensation agreements.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair market value in the consolidated balance sheets. Investment income or loss, including unrealized gains and losses on trading securities, interest, and dividends is included in nonoperating gains of net assets without donor restrictions, unless the income is restricted by donor or law.

**KING'S DAUGHTERS' HEALTH AND
AFFILIATED ORGANIZATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Property and Equipment

Property and equipment are recorded at cost, except for donations, which are recorded at the fair market value at the date of the donation. Property and equipment include expenditures for additions and repairs which substantially increase the useful lives of existing property and equipment. Maintenance, repairs, and minor improvements are expensed as incurred.

The property and equipment of the Hospital are being depreciated using the straight-line method of depreciation over their estimated useful lives based upon the American Hospital Association's *Estimated Useful Lives of Depreciable Hospital Assets*.

Leases

The Hospital determines if an arrangement is a lease at inception. Operating leases, if any, are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on the consolidated balance sheets. Finance leases are included in property and equipment and obligations under finance leases on the consolidated balance sheets.

ROU assets represent the Hospital's right to use an underlying asset for the lease term and lease liabilities represent the Hospital's obligation to make lease payment arising from the lease. Operating lease ROU assets and liabilities, if any, are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Hospital's leases do not provide an implicit rate, the Hospital uses an incremental borrowing rate based on the estimated rate of interest for collateralized borrowing at commencement date. The operating lease ROU asset, if any, also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonable certain that the Hospital will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Lease and non-lease components within any lease agreements the Hospital has are accounted for separately.

Cost of Borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets, if any, are capitalized as a component of the cost of acquiring those assets. For the years ended December 31, 2021 and 2020, interest costs incurred were as follows:

	<u>2021</u>	<u>2020</u>
Interest costs capitalized	\$ -0-	\$ -0-
Interest costs expensed	<u>5,073,013</u>	<u>5,163,667</u>
Total interest costs incurred	<u>\$ 5,073,013</u>	<u>\$ 5,163,667</u>

KING'S DAUGHTERS' HEALTH AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Consolidated Statements of Operations and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses and included within the line *income (loss) from operations* in the consolidated statements of operations and changes in net assets. Peripheral and incidental transactions are reported as nonoperating gains (losses). Nonoperating gains (losses) which are excluded from *income (loss) from operations* include contributions and donations, investment income or loss, and gain or loss on disposal of capital assets.

Performance Indicator

The consolidated statements of operations and changes in net assets include *excess revenues (expenses)*. Consistent with industry practice, changes in net assets which are excluded from *excess revenues (expenses)* include, if any, unrealized gains and losses on investments, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Advertising

The Hospital expenses advertising costs as incurred. Advertising expenses were \$165,242 and \$171,999 for the years ended December 31, 2021 and 2020, respectively.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are reported as deductions from revenue.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give, if any, are reported at fair value at the date the gift is received. The gifts are reported as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

KING'S DAUGHTERS' HEALTH AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Income Taxes

KDH and the Foundation are not-for-profit corporations as described in Section 501©(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. As such, KDH and the Foundation are generally exempt from income taxes. However, KDH and the Foundation are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the Hospital has taken an uncertain tax position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital, and has concluded that as of December 31, 2021 and 2020, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Hospital is subject to routine audits by taxing jurisdictions. However, as of the date the consolidated financial statements were issued, there were no audits for any tax periods in progress.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the consolidated financial statements were issued.

Risk Management

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

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were issued, which is August 4, 2022.

Reclassifications

Current reclassifications have been made to the 2020 consolidated financial statements to correspond to the current year's format. Total net position and change in net position are unchanged due to these reclassifications.

**KING'S DAUGHTERS' HEALTH AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

3. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited are reported at market value and include the following at December 31, 2021 and 2020:

	2021	2020
Cash, restricted cash, and cash equivalents	\$ 2,059,541	\$ 2,059,733
Money market mutual funds	40,372,378	12,316,743
Mutual funds	71,436,866	54,996,239
Exchange-traded funds	71,661,252	65,761,271
Common stocks	25,442,472	40,759,561
Corporate bonds	1,791,595	2,038,415
U.S. Government securities	7,120,053	6,992,332
	<u>\$ 219,884,157</u>	<u>\$ 184,924,294</u>

	2021	2020
Board-designated funds	\$ 212,637,655	\$ 177,435,155
Trustee-held under debt agreement	6,756,444	6,764,626
Donor-restricted funds	455,081	670,521
Deferred compensation fund	34,977	53,992
	<u>\$ 219,884,157</u>	<u>\$ 184,924,294</u>

	2021	2020
Dividends and interest income	\$ 3,986,213	\$ 3,434,665
Realized gains on investments	17,576,335	4,317,978
Change in net unrealized gains (losses)		
on investments	(480,545)	13,440,240
Investment fees	(725,715)	(661,681)
	<u>\$ 20,356,288</u>	<u>\$ 20,531,202</u>

Board-Designated Funds

The Hospital's Board of Managers approved the funding of depreciation expense to meet the capital asset replacement needs of the facility. Depreciation is funded totally with expenditures for capital assets

KING'S DAUGHTERS' HEALTH AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

reducing the funded depreciation balance. All income amounts earned by the Board-designated funds are left to accumulate as additions to the funds.

Trustee-Held Under Debt Agreement

The trustee-held funds are restricted for the payments of principal, interest, and construction costs related to certain long-term debt agreements.

Donor-Restricted Funds

Donor-restricted funds represent contributions that have been restricted by the donors for a specific purpose or in perpetuity.

Deferred Compensation Funds

The deferred compensation funds represent assets that have accumulated under separate deferred compensation plans. The Hospital simply maintains the funds for the participants until they are withdrawn according to the specific terms of each separate deferred compensation agreement. The Hospital records liabilities equal to the deferred compensation assets.

Fair Value Measurements and Disclosures

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2021 and 2020.

- *Money market mutual funds:* Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV); however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.
- *Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.
- *Exchange-traded funds (ETFs):* Valued at the closing price on the active exchange on which the individual securities are traded. Unlike mutual funds, ETFs trade like common stocks and are not required to publish and transact their daily net asset value. The ETFs held by the Hospital are deemed to be actively traded.
- *Common stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.
- *Corporate bonds:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- *U.S. Government securities:* Valued using pricing models maximizing the use of observable inputs for similar securities.

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The following table sets forth by level, within the hierarchy, the Hospital's assets measured at fair value on a recurring basis as of December 31, 2021 are as follows:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ -0-	\$ 40,372,378	\$ -0-	\$ 40,372,378
Mutual funds				
Emerging markets	4,159,739	-0-	-0-	4,159,739
Foreign large cap	8,488,940	-0-	-0-	8,488,940
High yield bond	1,626,889	-0-	-0-	1,626,889
Inflation-protected bond	2,593,977	-0-	-0-	2,593,977
Intermediate core plus bond	8,671,823	-0-	-0-	8,671,823
Large cap	6,238,540	-0-	-0-	6,238,540
Mid cap	3,755,545	-0-	-0-	3,755,545
Multisector bond	2,650,470	-0-	-0-	2,650,470
Nontraditional bond	48,336	-0-	-0-	48,336
Short-term bond	26,764,922	-0-	-0-	26,764,922
Small cap	5,203,395	-0-	-0-	5,203,395
World bond	1,234,290	-0-	-0-	1,234,290
Total mutual funds	<u>71,436,866</u>	<u>-0-</u>	<u>-0-</u>	<u>71,436,866</u>
Exchange-traded funds				
Commodities broad basket	1,231,089	-0-	-0-	1,231,089
Commodities precious metals	1,146,287	-0-	-0-	1,146,287
Diversified emerging markets	5,172,874	-0-	-0-	5,172,874
Foreign large cap	3,616,847	-0-	-0-	3,616,847
Inflation-protected bond	861,764	-0-	-0-	861,764
Intermediate-term bond	7,527,874	-0-	-0-	7,527,874
Large cap	31,218,969	-0-	-0-	31,218,969
Mid cap	7,742,590	-0-	-0-	7,742,590
Short term bond	13,142,958	-0-	-0-	13,142,958
Total exchange-traded funds	<u>71,661,252</u>	<u>-0-</u>	<u>-0-</u>	<u>71,661,252</u>
Common stocks	25,442,472	-0-	-0-	25,442,472
Corporate bonds	-0-	1,791,595	-0-	1,791,595
U.S. government securities	-0-	7,120,053	-0-	7,120,053
Total assets at fair value	<u>\$ 168,540,590</u>	<u>\$ 49,284,026</u>	<u>\$ -0-</u>	<u>217,824,616</u>
Cash, restricted cash, and cash equivalents				<u>2,059,541</u>
Total assets whose use is limited				<u>\$ 219,884,157</u>

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The following table sets forth by level, within the hierarchy, the Hospital's assets measured at fair value on a recurring basis as of December 31, 2020 are as follows:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ -0-	\$ 12,316,743	\$ -0-	\$ 12,316,743
Mutual funds				
Corporate bond	2,332	-0-	-0-	2,332
Diversified emerging markets	2,404	-0-	-0-	2,404
Emerging markets	6,372,441	-0-	-0-	6,372,441
Foreign large cap	6,803,184	-0-	-0-	6,803,184
High yield bond	1,654,608	-0-	-0-	1,654,608
Inflation-protected bond	3,821,104	-0-	-0-	3,821,104
Intermediate core plus bond	13,241,862	-0-	-0-	13,241,862
International large cap	1,037	-0-	-0-	1,037
Large cap	9,033,768	-0-	-0-	9,033,768
Mid cap	3,020,785	-0-	-0-	3,020,785
Multisector bond	2,725,057	-0-	-0-	2,725,057
Short-term bond	3,494	-0-	-0-	3,494
Small cap	5,724,840	-0-	-0-	5,724,840
World allocation	836,269	-0-	-0-	836,269
World bond	1,751,192	-0-	-0-	1,751,192
World stock	1,862	-0-	-0-	1,862
Total mutual funds	<u>54,996,239</u>	<u>-0-</u>	<u>-0-</u>	<u>54,996,239</u>
Exchange-traded funds				
Commodities broad basket	878,082	-0-	-0-	878,082
Diversified emerging markets	6,816,420	-0-	-0-	6,816,420
Equity precious metals	1,686,393	-0-	-0-	1,686,393
Europe stock	710,547	-0-	-0-	710,547
Foreign large cap	3,276,707	-0-	-0-	3,276,707
Global real estate	840,689	-0-	-0-	840,689
Inflation-protected bond	816,066	-0-	-0-	816,066
Intermediate-term bond	10,348,770	-0-	-0-	10,348,770
Large cap	29,231,472	-0-	-0-	29,231,472
Mid cap	9,759,954	-0-	-0-	9,759,954
Real estate	1,396,171	-0-	-0-	1,396,171
Total exchange-traded funds	<u>65,761,271</u>	<u>-0-</u>	<u>-0-</u>	<u>65,761,271</u>
Common stocks				
Basic materials	667,047	-0-	-0-	667,047
Communication services	2,138,209	-0-	-0-	2,138,209
Consumer cyclical	4,168,336	-0-	-0-	4,168,336
Consumer defensive	2,532,011	-0-	-0-	2,532,011
Energy	1,253,294	-0-	-0-	1,253,294
Financial services	6,240,544	-0-	-0-	6,240,544
Healthcare	5,520,873	-0-	-0-	5,520,873
Industrials	5,573,647	-0-	-0-	5,573,647
Real estate	1,089,247	-0-	-0-	1,089,247
Technology	10,041,130	-0-	-0-	10,041,130
Utilities	1,535,223	-0-	-0-	1,535,223
Total common stocks	<u>40,759,561</u>	<u>-0-</u>	<u>-0-</u>	<u>40,759,561</u>
Corporate bonds	-0-	2,038,415	-0-	2,038,415
U.S. government securities	-0-	6,992,332	-0-	6,992,332
Total assets at fair value	<u>\$ 161,517,071</u>	<u>\$ 21,347,490</u>	<u>\$ -0-</u>	<u>182,864,561</u>
Cash, restricted cash, and cash equivalents				<u>2,059,733</u>
Total assets whose use is limited				<u>\$ 184,924,294</u>

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Risks and Uncertainties

The Hospital holds investments in common stocks, mutual funds, exchange-traded funds, corporate bonds, and U.S. Government Securities. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could affect the amounts reported in the accompanying consolidated financial statements. The Hospital's management is currently unable to determine the effect, if any, the decline in market conditions may ultimately have on the Hospital's investment portfolio and ability to fund certain projects.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following at December 31, 2021 and 2020:

	2021	2020
Land	\$ 4,282,249	\$ 3,989,556
Buildings and improvements	119,412,547	118,711,592
Fixtures and equipment	64,344,756	63,151,848
Construction in progress	276,513	414,153
	188,316,065	186,267,149
Less accumulated depreciation	(101,683,575)	(96,173,325)
Property and equipment, net	\$ 86,632,490	\$ 90,093,824

Impairment of Property and Equipment

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. The Hospital did not recognize a loss on impairment of property and equipment for the years ended December 31, 2021 and 2020, respectively.

Conditional Asset Retirement Obligation

FASB ASC Topic 410 ("Topic 410") clarified when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered Topic 410, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing

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properties. Management believes there is an indeterminate settlement date for the asset retirement obligations, if any, because the range of time over which the Hospital may settle the obligations is unknown and cannot be estimated. As a result, as of December 31, 2021 and 2020, the Hospital cannot reasonably estimate a liability related to these potential asset retirement activities nor determine conclusively that a liability exists.

5. OTHER ASSETS

Other assets consist of the following at December 31, 2021 and 2020:

	2021	2020
Investment in captive insurance company	\$ 335,311	\$ 335,311
Captive insurance company subscriber savings	1,782,909	2,537,505
Executive Benefit Plan notes receivable	5,225,968	4,895,717
Executive Benefit Plan interest receivable	528,142	477,748
Sun Life investments	67,056	-0-
Life insurance policies	403,713	399,224
Physician recruiting notes receivable	771,795	856,365
Pledges receivable	-0-	27,286
	9,114,894	9,529,156
Total other assets	9,114,894	9,529,156
Less: current portion of other assets	(354,586)	(321,749)
	\$ 8,760,308	\$ 9,207,407
Other assets, net of current portion		

The Hospital is less than 20 percent owner of Tecumseh Health Reciprocal Risk Retention Group (the "Captive"), a risk retention company created to purchase professional liability and general liability insurance for its members. The Hospital accounts for this investment using the cost method. In addition, the Captive retains a subscriber savings account for each of its members based upon the premiums paid in and the resulting claims paid out, plus other factors. Members are paid the balance of their subscriber savings account once they leave the Captive in accordance with the terms of the captive agreement.

See Note 6 for a description of the Executive Benefit Plan.

The Hospital is the holder of life insurance policies for several different physicians and key management members. The Hospital has a liability outstanding for the expected payout that will be paid out on the insured's behalf.

Physician recruiting notes receivable are forgiven if the physicians meet the period-of-service requirement. If the physicians do not meet the period-of-service requirement, the notes are immediately due in full. Other physician notes receivable are paid back over the terms of the notes. All physician

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notes receivable are in varying amounts maturing through 2025 and carry interest rates ranging from 3.25 percent to 5.50 percent.

Pledges receivable represent pledges made by donors for the construction of the cancer center at the Hospital. Pledges receivable are recorded at their estimated net realizable value and discounted to their estimated net present value. The Hospital's management uses historical losses, economic climate, and other factors when estimating the allowance for uncollectible pledges amount. The allowance for uncollectible pledges was \$-0- at both December 31, 2021 and 2020.

Pledges receivable consist of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Pledges receivable	\$ -0-	28,479
Less: discounts to present value (4.5%)	-0-	<u>(1,193)</u>
Pledges receivable, net of discount	<u>\$ -0-</u>	<u>\$ 27,286</u>

The current portion of other assets represents the amount of notes receivable from physicians expected to be repaid or forgiven in the next fiscal year, according to individual employment contracts and the amount of pledges receivable due in one year.

6. EXECUTIVE BENEFIT PLAN

The Hospital entered into collateral assignment split-dollar life insurance arrangements, referred to as the Executive Benefit Plan, for certain current or former executives. Under the Executive Benefit Plan, the Hospital pays the planned periodic premiums set forth in the policies for each participant during their employment with the Hospital. The premium payments made by the Hospital are treated as a series of loans (notes) by the Hospital to the participants that are secured by the death benefit of the policy.

Death benefits under the policy subject to a collateral assignment are as follows:

1. The employer shall receive an amount equal to the recoverable amount, determined as of the date the death benefit is paid, which amount shall be paid before any other amounts, and
2. The balance of the death benefit shall be payable to the beneficiary under the policy.

The recoverable amount is determined as follows:

1. The pre-effective date premium amount plus the premium accretion amount, using the applicable interest rate, plus
2. The cumulative premiums that have been paid by the employer plus the premium accretion amount for each premium payment using the interest factor.

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The balance of the Executive Benefit Plan notes receivable as of December 31, 2021 and 2020 was \$5,225,968 and \$4,895,717, respectively. The notes bear interest at the applicable federal rate for a term loan, as defined in Internal Revenue Code Section 1274(d), at the date the note is made. The federal rates for the notes outstanding at December 2021 range from 1.00% to 3.50%.

7. OPERATING AND FINANCE LEASE OBLIGATIONS

The Hospital has finance lease expiring in various years through 2026. The interest rates used in determining the carrying value of finance lease obligations are determined using the stated interest rate in the lease agreements, or using interest rates the Hospital is able to obtain from lenders in the normal course of business in a similar financing scenario. The lease obligations are secured by equipment leased. Amortization of assets held under finance leases is included in depreciation expense. Assets held under finance lease obligations are included with property and equipment on the consolidated balance sheets.

The components of finance lease assets and liabilities as of December 31, 2021 and 2020 is as follows:

	2021	2020
Equipment	\$ 1,623,008	\$ 2,870,491
Less: accumulated depreciation	826,208	2,335,119
Equipment, net	<u>\$ 796,800</u>	<u>\$ 535,372</u>
Current portion of obligations under finance leases	\$ 375,778	\$ 265,024
Obligations under finance leases, net of current portion	430,615	304,928
Total obligations under finance leases	<u>\$ 806,393</u>	<u>\$ 569,952</u>

The components of operating and finance lease expense for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Depreciation of right-of-use assets	\$ 340,486	\$ 622,810
Interest expense on lease liabilities	24,074	31,858
Short-term lease costs	8,132	3,337
Total operating and finance lease expense	<u>\$ 372,692</u>	<u>\$ 658,005</u>

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At December 31, 2021 and 2020, the weighted-average lease term and weighted-average discount rate on finance lease obligations are as follows:

	2021	2020
Weighted-average remaining lease term		
Finance leases	2.45 years	2.22 years
Weighted-average discount rate		
Finance leases	2.68%	3.10%

Minimum future lease payments under finance leases as of December 31, 2021 are as follows:

Year Ending December 31,	Amount
2022	\$ 392,483
2023	254,020
2024	155,099
2025	29,931
2026	2,796
Total lease payments	834,329
Less: amount representing interest	27,936
Present value of minimum lease payments	\$ 806,393

8. LONG-TERM DEBT

At December 31, 2021 and 2020, the Hospital was obligated for long-term debt agreements as follows:

	2021	2020
Indiana Finance Authority Hospital Revenue Bonds, dated October 2010, payable in annual principal installments commencing August 2015 through August 2045, in amounts ranging from \$1,370,000 to \$6,400,000. Serial remaining fixed interest rates ranging from 5.0% to 5.5%. Secured by gross revenues.	\$ 88,980,000	\$ 90,795,000
Less unamortized bond discounts	(1,521,271)	(1,613,196)
Less bond issue costs	(1,265,467)	(1,318,939)
Less current portion	(1,910,000)	(1,815,000)
Long-term debt, net of current portion	\$ 84,283,262	\$ 86,047,865

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Bond issue costs are being amortized over the 35-year life of the bonds and began in 2010. Maturities of long-term debt for each of the five years subsequent to December 31, 2021, are as follows:

<u>Year Ending December 31,</u>	<u>Principal Amount</u>
2022	\$ 1,910,000
2023	2,005,000
2024	2,110,000
2025	2,220,000
2026	2,330,000
Thereafter	<u>78,405,000</u>
Total	<u>\$ 88,980,000</u>

Under the terms of the Series 2010 Bonds, the Hospital is required to maintain certain deposits with a trustee. Such deposits are reported in the consolidated financial statements as assets whose use is limited. These agreements also place limits on the occurrence of additional borrowings and require that the Hospital satisfy certain covenants, including debt service coverage ratio, days cash on hand, and submission of audited financial statements. Management believes the Hospital is in compliance with all restrictive covenants.

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9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2021 and 2020:

	2021	2020
Subject to expenditure for specified purpose:		
Art Work (New Hospital)	\$ 22	\$ 22
Bill Zink Scholarship Fund	20,633	20,633
Building	5,135	5,135
Building/Technology (Cancer Center)	24,459	24,460
Business Office	483	483
Caring and Responding to Employees (CARE)	6,873	4,500
Diabetes Care	255	255
E. Pendleton Fund	36,694	34,724
E. Pendleton Interest Earned (Hospice)	2,863	1,737
Education	2,272	6,743
Emergency Medical Services Development	1,559	1,353
Girls on the Run	2,103	859
Hearing Aids for Diabetic Patients	10,000	10,000
Healthy Indiana Plan 2.0 Premium Assistance	2,266	2,266
Home Health/Hospice	58,627	63,952
Hope and Healing Campaign (Cancer Center)	-0-	178,477
Indiana Cancer Consortium Grant	8,421	8,289
Mammography	-0-	1,206
Nursing	3,054	11,664
Oncology	22,617	22,540
Oncology - Cancer Survivor's Dinner	3,333	332
Oncology - Convenience Medications	81	-0-
Oncology - Snacks	2,797	3,052
Oncology - Staff Discretionary	6,469	6,768
Pediatrics	1,196	15,170
Pet Therapy	325	325
Pharmacy COPD Meds	236	330
Physician Wall	6,320	6,191
Prostate Health	582	582
Quilt	150	150
Radiology	1,470	1,370
Rehab	-0-	1,870
Relief Fund	7,444	7,134
Ripley County	1,100	1,100
Scholarship Fund	40	-0-

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	2021	2020
Taustine	1,000	1,000
Volunteer Services	351	351
We Care About Our Patients	10,993	14,476
Wellness	39,679	43,546
Wellness - Community Health Initiatives	26,302	30,289
Wellness - Community Health Initiatives - RJC	497	-0-
Wellness - Community Health Initiatives - Lilly Gift	85,362	106,910
Wellness - Community Health Zero Suicide Initiative	16,454	16,454
Wellness - Community Health Lifestyles	652	652
Womens' Health	13,912	20,457
	435,081	677,807

Subject to spending policy and appropriation:

Investment in perpetuity:

Heberhart Endowment	10,000	10,000
E. Pendleton Hospice Endowment	10,000	10,000
	20,000	20,000

Total net assets with donor restrictions	\$ 455,081	\$ 697,807
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Net assets released from donor restrictions were related to the following restrictions for the periods as of December 31, 2021 and 2020:

	2021	2020
Net assets released from restrictions		
Satisfaction of program restrictions	\$ 334,196	\$ 550,144
Total net assets released from restrictions	\$ 334,196	\$ 550,144

10. ENDOWMENTS

The Hospital's endowment funds consist of two individual funds established for a variety of purposes. The endowment consists of donor-restricted endowment funds established by the donor to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Managers to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Hospital is subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions. The Board of Managers has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

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As a result of this interpretation, the Hospital considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The Hospital has adopted a policy to not spend from underwater endowments unless directed by the donor. No underwater funds existed as of December 31, 2021 and 2020.

In accordance with UPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- (1) The duration and preservation of the fund
- (2) The purposes of the Hospital and the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Hospital
- (7) The investment policies of the Hospital

The Hospital has adopted investment and spending policies for endowment assets that attempt to balance the mission of building capital for future use with the corresponding obligation to support current and future needs of the Hospital. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Managers, the endowment assets are invested in a manner that is intended to produce long-term growth of capital without undue exposure to risk.

To satisfy its long-term rate of return objectives, the Hospital relies on a total return strategy in which investment decisions shall be made with the intent of maximizing the long-term total return of the portfolio through market value changes (realized and unrealized) and through earned income (dividends and interest).

On balances of endowed funds, as of the beginning of each fiscal year, an amount as determined by the Hospital Board will be distributed for the intended purposes of the endowment annually. Growth of the endowment will come from the annual earnings of investments in excess of distributions plus contributions made to the endowment.

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Endowment net asset composition by type of fund as of December 31, 2021 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds			
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	\$ -0-	\$ 20,000	\$ 20,000
Accumulated investment gains	-0-	2,863	2,863
	<u>\$ -0-</u>	<u>\$ 22,863</u>	<u>\$ 22,863</u>

Changes in endowment net assets for the year ended December 31, 2021 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -0-	\$ 21,737	\$ 21,737
Investment income and contributions	-0-	2,450	2,450
Net assets released from restrictions	-0-	(1,324)	(1,324)
Endowment net assets, end of year	<u>\$ -0-</u>	<u>\$ 22,863</u>	<u>\$ 22,863</u>

Endowment net asset composition by type of fund as of December 31, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds			
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	\$ -0-	\$ 20,000	\$ 20,000
Accumulated investment gains	-0-	1,737	1,737
	<u>\$ -0-</u>	<u>\$ 21,737</u>	<u>\$ 21,737</u>

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Changes in endowment net assets for the year ended December 31, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -0-	\$ 21,567	\$ 21,567
Investment income and contributions	-0-	1,065	1,065
Net assets released from restrictions	-0-	(895)	(895)
Endowment net assets, end of year	<u>\$ -0-</u>	<u>\$ 21,737</u>	<u>\$ 21,737</u>

11. NET PATIENT SERVICE REVENUE

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigation and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Laws and regulations concerning government programs, including Medicare and Medicaid, are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Hospital believes that it is in compliance with all applicable laws and regulations.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2021 and 2020.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments,

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discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. For the years ended December 31, 2021 and 2020, adjustments were recognized due to changes in the Hospital's estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. Subsequent changes that are significant and determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients.

Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized. The following tables provide details of these factors.

The composition of net patient service revenue by primary payor for the years ended December 31, 2021 and 2020, is as follows:

	2021	2020
Medicare	\$ 50,504,328	\$ 42,520,826
Medicaid	19,770,588	13,620,873
Managed Care and other third-party payors	74,373,639	62,527,443
Self-Pay	445,411	610,919
	\$ 145,093,966	\$ 119,280,061

Revenue from patient's deductibles and coinsurance are included in the preceding categories based on the primary payor.

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The composition of net patient service revenue based on its lines of business and timing of revenue recognition for the years ended December 31, 2021 **and 2020**, are as follows:

	2021	2020
Services lines		
Hospital inpatient	\$ 31,049,915	\$ 29,397,323
Hospital outpatient	86,628,854	64,573,035
Physician services	25,935,383	23,906,925
Home health and hospice	1,479,814	1,402,778
	\$ 145,093,966	\$ 119,280,061

The Hospital grants credit without collateral to its patients, most of who are local residents and insured under third-party payor agreements. The mix and concentration of gross patient service revenue and patient accounts receivable at December 31, 2021 **and 2020** is as follows:

	2021		2020	
	Gross Revenue	Accounts Receivable	Gross Revenue	Accounts Receivable
Medicare	49 %	42 %	51 %	39 %
Medicaid	18	13	17	12
Blue Cross	18	17	16	13
Other Commercial	14	19	15	26
Self-Pay	1	9	1	10
	100 %	100 %	100 %	100 %

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

- **Medicare.** The Hospital is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The Hospital is reimbursed for Medicare inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) and Medicare outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

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- **Medicaid.** The Hospital is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. There is no cost settlement for either of the inpatient or outpatient programs.
- **Other.** The Hospital has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these arrangements is a discount from established charges and fee schedule payments.
- **Charity Care and Uninsured Discounts.** The Hospital provides care without charge or at less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associating with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total operating expenses divided by gross patient service revenue. For the years ended December 31, 2021 **and 2020**, the Hospital incurred estimated charity costs of \$549,692 and \$460,155, respectively.

The Centers for Medicare and Medicaid Services ("CMS") has been granted authority to suspend payments, in whole or in part, to Medicare providers if CMS possess reliable information on overpayment, fraud or if willful misrepresentation exists. If CMS suspects payments are being made as the result of fraud or misrepresentation, CMS may suspend payment at any time without providing prior notice to the Hospital. The initial suspension period is limited to 180 days. However, the payment suspension period can be extended indefinitely if the matter is under investigation by the United States Department of Health and Human Services Office of Inspector General or the United States Department of Justice. Therefore, the Hospital is unable to predict if or when it may be subject to a suspension of payments by the Medicare and/or Medicaid programs, the possible length of the suspension period, or the potential cash flow impact of a payment suspension. Any such suspension would adversely impact the Hospital's financial position, results of operations, and cash flows.

12. PROVIDER RELIEF FUND REVENUE

During the Hospital's fiscal year 2021 and 2020, Provider Relief Fund grants authorized under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic under Catalog of Federal Domestic Assistance ("CFDA") #93.498. Revenues from Provider Relief Fund grants are recognized to the extent of a combination of expenses incurred to directly respond to the pandemic, and patient revenues lost as a result of the pandemic, and are included in the consolidated statement of operations and changes in net assets as provider relief fund revenue within nonoperating revenues. Patient revenues lost represent the deficiency

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of net patient of net patient service revenues recognized over the period impacted by the pandemic when compared with net patient service revenues recognized over the same period in the previous year. Per the terms of the program, the applicable time period for measurement of lost revenues must be calendar year 2021 compared with calendar year 2019, as well as calendar year 2020 compared with calendar year 2019. Provider Relief Fund grants included in refundable advances on the consolidated balance sheet represent grant funds received in excess of expenses incurred to directly respond to the pandemic, and calculated lost revenues. These qualifying funds the Hospital received were subject to recoupment by the grantor in the event that the conditions for recognition were not met before June 30, 2021 for phase one, and are not met before December 31, 2021.

At December 31, 2021 and 2020, and for the years ended, payments received, revenue recognized, and refundable advances were as follows:

	December 31, 2021		
	Revenue Recognized	Refundable Advances	Total
Provider Relief Fund	\$ 3,646,723	\$ 752,251	\$ 4,398,974

	December 31, 2020		
	Revenue Recognized	Refundable Advances	Total
Provider Relief Fund	\$ 13,282,101	\$ -0-	\$ 13,282,101

13. RETIREMENT PLAN

The Hospital sponsors a defined contribution retirement plan that covers all eligible employees who work over 1,000 hours a year. All employees are eligible for enrollment on the first day of the month following their hire date. The Hospital contributes 2 percent of eligible wages. The employee may contribute up to 15 percent with a maximum of 6 percent being matched at a rate of 50 percent. For the years ended December 31, 2021 and 2020, the amount of retirement expense was \$2,279,363 and \$1,955,716, respectively.

14. DEFERRED COMPENSATION AGREEMENTS

Previously, the Hospital maintained a deferred compensation plan for a select group of key management employees. Under the terms of the plan, the Hospital contributed 4 percent of a participant's compensation, as defined in the agreement, each calendar quarter. The Hospital no longer offers this plan, but still records a liability for any amounts that were unpaid at year-end. The deferred compensation asset and liability

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amounts under this agreement were both \$34,977 and \$53,992 at December 31, 2021 and 2020, respectively.

15. PROFESSIONAL LIABILITY INSURANCE

The Indiana Medical Malpractice Act, IC 34-18 (the "Act"), provided for a maximum recovery of \$1,800,000. The Act requires the Hospital to maintain medical malpractice liability insurance of \$500,000 per occurrence (\$10,000,000 in the annual aggregate). The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the "Fund"). The Fund is used to pay medical malpractice claims in excess of the per occurrence and annual aggregate amounts noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

The Hospital maintains professional liability insurance through a multi-provider reciprocal risk retention group (the "Group"), in which premiums are accrued based on the Group's experience to date. This provides protection from liability in amounts not to exceed as follows:

	2021	2020
Hospital per occurrence	\$ 500,000	\$ 500,000
Hospital aggregate	\$ 10,000,000	\$ 10,000,000
Group umbrella aggregate	\$ 10,000,000	\$ 10,000,000
Group first additional umbrella aggregate	10,000,000	10,000,000
Group second additional umbrella aggregate	10,000,000	10,000,000
Total Group umbrella aggregate	\$ 30,000,000	\$ 30,000,000

Liabilities for incurred but not reported losses at December 31, 2021 and 2020, are not determinable; however, in management's opinion, such liabilities, if any, will not have a material effect on the Hospital's financial position and its malpractice and general liability insurance is adequate to cover losses, if any. Should the policies not be renewed or replaced with appropriate insurance coverage, claims based upon occurrences during these terms, but reported subsequently, will be uninsured. The Hospital intends to continue carrying such insurance.

**KING'S DAUGHTERS' HEALTH AND
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16. HOSPITAL ASSESSMENT FEE

The purpose of the Hospital Assessment Fee (“HAF”) Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (“DSH”) payments for Indiana hospitals as reflected in the hospital assessment fee reported in the consolidated statements of operations and changes in net assets. Previously, the State share was funded by government entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. The Hospital recognized HAF program expense of \$4,567,032 and \$3,665,202 for the years ending December 31, 2021 and 2020, respectively.

17. CONCENTRATIONS OF CREDIT RISK

The Hospital maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Hospital has not experienced any losses on such accounts. The Hospital believes it is not exposed to any significant credit risk on cash.

18. FUNCTIONAL EXPENSES

The Hospital provides general healthcare services to residents within its geographic area. Expenses related to providing these services are broken down as follows for the years ended December 31, 2021 and 2020:

	2021			
	Healthcare Services	General and Administrative	Fundraising	Total
Salaries and benefits	\$ 57,511,810	\$ 14,212,866	\$ 107,563	\$ 71,832,239
Purchased services and professional medical fees	8,965,514	7,066,799	-0-	16,032,313
Supplies and drugs	21,541,126	607,209	1,746	22,150,081
Depreciation	5,788,953	2,674,583	-0-	8,463,536
Interest	3,405,339	1,667,674	-0-	5,073,013
Hospital assessment fee	4,567,032	-0-	-0-	4,567,032
Other operating expenses	3,026,591	5,232,436	24,710	8,283,737
	\$ 104,806,365	\$ 31,461,567	\$ 134,019	\$ 136,401,951

**KING'S DAUGHTERS' HEALTH AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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	2020			
	Healthcare Services	General and Administrative	Fundraising	Total
Salaries and benefits	\$ 50,553,578	\$ 12,211,604	\$ 98,016	\$ 62,863,198
Purchased services and professional medical fees	8,940,584	6,935,694	-0-	15,876,278
Supplies and drugs	18,361,666	794,687	1,259	19,157,612
Depreciation	5,649,764	2,786,334	-0-	8,436,098
Interest	3,461,686	1,701,981	-0-	5,163,667
Hospital assessment fee	3,665,202	-0-	-0-	3,665,202
Other operating expenses	2,675,168	4,439,552	10,392	7,125,112
	<u>\$ 93,307,648</u>	<u>\$ 28,869,852</u>	<u>\$ 109,667</u>	<u>\$ 122,287,167</u>

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Hospital. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and occupancy, which are both allocated based on square footage, as well as salaries and benefits, which are allocated based on estimates of time and effort.

19. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year at December 31, 2021 **and 2020**, comprise the following:

	2021	2020
Cash and cash equivalents	\$ 25,535,042	\$ 27,102,760
Patient accounts receivable, net	15,510,341	10,759,153
Current portion of pledges receivable	-0-	27,286
Other receivables	207,492	149,580
	<u>\$ 41,252,875</u>	<u>\$ 38,038,779</u>

As part of the liquidity management plan, excess cash within the Hospital operating checking account is invested via an autosweep function with the financial institution, German American Bank. The excess funds are invested in Federal securities to achieve a better rate of return on the available funds.

KING'S DAUGHTERS' HEALTH AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Amounts not available include board-designated funds that are intended to meet capital asset replacement needs not considered in the annual operating budget. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution.

20. CONTINGENCIES

The Hospital is susceptible to a variety of legal proceedings and claims by others against the Hospital in a variety of matters arising out of the conduct of the Hospital's business. The ultimate resolution of such claims would not, in the opinion of management, have a material adverse effect on the financial statements.

HIPAA

Management continues to implement policies, procedures, and a compliance-monitoring organizational structure to enforce and monitor compliance with the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and other government statutes and regulations. The Hospital's compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions which are unknown or unasserted at this time.

COVID-19

On March 11, 2020, the World Health Organization declared Coronavirus ("COVID-19") a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national, and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, delays, loss of, or reduction to, revenue, contributions and funding, and investment portfolio declines. Management believes the Hospital is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the consolidated financial statements were issued.

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21. COMMITMENTS

As of December 31, 2021, the Hospital has construction and renovation project commitments as follows:

Project	Expected Date of Completion	Estimated Total Cost of Project	Costs Incurred as of December 31, 2021
McKesson - Conserus Enterprise SW	2022	\$ 33,388	\$ 16,694
ChangeHealthcare - PACS upgrade	2022	132,221	33,110
DA tank redundancy	2022	138,094	48,333
Rehab renovation	2022	415,000	15,659
Controls for lined and trash door	2022	5,763	1,393
Steris table 4095	2022	42,045	42,045
Upgrade for server blades and chassis	2022	111,059	111,060
Anesthesia monitor	2022	19,295	8,219
		<u>\$ 896,865</u>	<u>\$ 276,513</u>

22. SUBSEQUENT EVENTS

Sole Member Substitution

Effective January 1, 2022, through a membership transfer agreement, all the Hospital's rights, titles, and membership interests were transferred, assigned, and conveyed to Norton Healthcare ("Norton"). The consideration paid by Norton for the membership interest transfer consisted of an amount equal to the Hospital net asset amount at December 31, 2021 greater than \$201,935,000. In addition, as part of the agreement, either the chair or another individual on the Hospital board and approved by the Norton board, will serve as a director on the Norton board with the same voting rights as all other directors.

Cyberattack

Subsequent to the year under audit, the Hospital sustained a cyberattack by a third-party. As part of the attack, certain portions of the Hospital's network and information systems were paralyzed and locked down by the third party after infiltrating the network. Upon discovery of the cyberattack, the Hospital took immediate action to remediate the security vulnerability and retained a cybersecurity firm evaluate its systems. As a result, the Hospital incurred delays in patient revenue billing as well as other impacts. As of the issuance date of the financial statements, management is unable to estimate the overall financial impact of the cyberattack.



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**Report of Independent Auditors 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**

Board of Directors
 King's Daughters' Health
 and Affiliated Organization
 Madison, 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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of King's Daughters' Health and its affiliate (the "Hospital") (a nonprofit organization), which comprise the consolidated balance sheets as of December 31, 2021, and the related consolidated statements of operations and changes in net assets, and cash flows, for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 4, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 with 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-002, that we consider to be a material weakness. We also identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a significant deficiency.

Board of Directors
King's Daughters' Health
and Affiliated Organization
Madison, Indiana

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated 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 consolidated 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*.

Hospital's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

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

Blue & Co., LLC

Louisville, Kentucky
August 4, 2022



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Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
 King's Daughters' Health
 and Affiliated Organization
 Madison, Indiana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited King's Daughters' Health and its affiliate (the "Hospital") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2021. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above is that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

Report on Internal Control Over Compliance

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

Board of Directors
King's Daughters' Health
and Affiliated Organization
Madison, Indiana

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the Hospital as of and for the year ended December 31, 2021, and have issued our report thereon dated August 4, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

Louisville, Kentucky
September 28, 2022

**KING'S DAUGHTERS' HEALTH AND
AFFILIATED ORGANIZATIONS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued		Unmodified
Internal control over financial reporting		
Material weakness(es) identified?	<u> X </u> yes	<u> </u> none reported
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> X </u> yes	<u> </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> none reported

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<u> </u> yes	<u> X </u> none reported
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported
Type of auditor's report issued on compliance for major programs:		Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<u> </u> yes	<u> X </u> no

Identification of major programs:	
<u>Assistance Listing Number</u>	<u>Name of Federal Program</u>
93.498	COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	<u> </u> yes	<u> X </u> no
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**KING'S DAUGHTERS' HEALTH AND
AFFILIATED ORGANIZATIONS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2021

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCY

2021-001:

Allowances for Patient Accounts Receivable and Estimated Third Party-Payor Settlements

Criteria: The allowances for doubtful patient accounts receivable and estimated third party-payor settlements are among the most sensitive estimates in the financial statements. The Hospital's internal control processes should include the appropriate procedures and methods to adequately calculate and regularly update these estimates as new information becomes available.

Condition: During our audit, we noted projected overstatements of the allowances for doubtful patient accounts receivables and overstatements of estimated third party-payor liabilities.

Cause: The Hospital used a slightly less comprehensive approach to estimating allowance for doubtful accounts receivable than in previous years. Reserves were also recorded for estimated paybacks of old Medicaid Disproportionate Share Hospital ("DSH") payments that were no longer necessary.

Effect: An audit adjustment was recorded.

Recommendation: We recommend that the Hospital utilize the appropriate procedures and methods to adequately calculate and regularly update sensitive estimates in the financial statements based on the best information that is available.

Management's Response: The Hospital will utilize the appropriate procedures and methods to adequately calculate and regularly update sensitive estimates in the consolidated financial statements based on the best information that is available.

MATERIAL WEAKNESS

2021-002:

Information Technology Risk Assessment and Intrusion Detection System

Criteria – The Hospital should ensure that existing controls and protocols are operating effectively to prevent any outside parties from accessing its networks.

Condition – During our audit procedures, we noted that the Hospital sustained a cyberattack subsequent to the year under audit. However, the internal controls that were in place when the Hospital sustained a cyberattack were the same controls that were in place during the year under audit.

**KING'S DAUGHTERS' HEALTH AND
AFFILIATED ORGANIZATIONS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2021

Cause – The cause of this deficiency is due to a lack of the operating effectiveness of employee training, outsourced security functions, and/or internal controls as they relate to cybersecurity.

Effect – The effect could be another cyberattack that could disable vital systems the Hospital requires in order to properly operate on a timely and consistent basis.

Recommendation – We recommend that the Hospital assess cybersecurity policies, procedures, and internal controls to strengthen and reinforce existing policies, procedures, and internal controls.

Management's Response – The Hospital acknowledges this need, and is currently enhancing systems and processes to ensure the operating effectiveness of controls intended to prevent a cyberattack of its networks.

**KING'S DAUGHTERS' HEALTH AND
AFFILIATED ORGANIZATIONS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021

Section III – Federal Award Findings and Questioned Costs

No findings were noted during 2021.

**KING'S DAUGHTERS' HEALTH AND
AFFILIATED ORGANIZATIONS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021

Federal Grantor/Pass-through/Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Major programs				
U.S. Department of Health and Human Services COVID-19 - Provider Relief Fund	93.498	N/A	\$ -0-	\$ 13,282,101
Total major programs			-0-	13,282,101
Non-major programs				
U.S. Department of Health and Human Services COVID-19 - Claims Reimbursement to Health Care Providers for Testing, Treatment, and Vaccine Administration for the Uninsured	93.461	N/A	-0-	155,796
U.S. Treasury Department/Jefferson County Health Department COVID-19 - Coronavirus Relief Fund	21.019	N/A	-0-	76,323
U.S. Treasury Department/Switzerland County Health Department COVID-19 - Coronavirus Relief Fund	21.019	N/A	-0-	20,247
Center for Disease Control and Prevention/Jefferson County Health Department COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases	93.323	N/A	-0-	50,000
Total non-major programs			-0-	302,366
Total Expenditures of Federal Awards			\$ -0-	\$ 13,584,467

See report on schedule of expenditures of federal awards as required by the Uniform Guidance on pages 41-43.

KING'S DAUGHTERS' HEALTH AND AFFILIATED ORGANIZATIONS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2021

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. PROVIDER RELIEF FUNDS

Expenditures reported on the Schedule for the Provider Relief Fund ("PRF") under CFDA Number 93.498 are based on the Hospital's June 30, 2021 and December 31, 2021 reports to the PRF Reporting Portal.

Under terms and conditions of the Provider Relief Funds established by the Coronavirus Aids, Relief, and Economic Security ("CARES") Act, the Hospital is required to report COVID-19 related expenses and lost revenue to the U.S. Department of Health and Human Services ("HHS"). Guidance from HHS has required the reporting of the COVID-19 related expenses and lost revenue within certain reporting timetables based on the date that funds were received. For the years ended December 31, 2021 and 2020, the Hospital recognized \$3,646,723 and \$13,282,101, respectively, as other operating revenue in the consolidated statements of operations and changes in net position as the terms and conditions of the PRF grant were satisfied by the Hospital. The 2021 Schedule includes PRF of \$13,282,101 which was received by the Hospital prior to December 31, 2020, the dates designated by HHS for its first and second PRF reporting periods. The \$3,646,723 received after December 31, 2020 will be included on the 2022 SEFA.

4. DONATED PERSONAL PROTECTIVE EQUIPMENT (UNAUDITED)

During 2021, the Hospital did not receive material donated personal protective equipment from federal sources.

**KING'S DAUGHTERS' HEALTH AND
AFFILIATED ORGANIZATIONS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2021

5. INDIRECT COST RATE

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