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June 3, 2019

Board of Trustees  
Sullivan County Community Hospital  
2200 North Section Street  
Sullivan, IN 47882

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2018 to December 31, 2018. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of the Sullivan County Community Hospital, as of December 31, 2018, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA  
State Examiner

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

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**December 31, 2018 and 2017**

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## Independent Auditor's Report

Board of Trustees  
Sullivan County Community Hospital  
Sullivan, Indiana

### Report on the Financial Statements

We have audited the accompanying financial statements of the Sullivan Community Hospital (Hospital), a component unit of Sullivan County, Indiana, and SSCH Fitness Center, Inc., the Hospital's discretely presented component unit, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Sullivan County Community Hospital and of its discretely presented component unit as of December 31, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated May 23, 2019, on our consideration of Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hospital's internal control over financial reporting and compliance.

***BKD, LLP***

Indianapolis, Indiana  
May 23, 2019

# **Sullivan County Community Hospital**

## **A Component Unit of Sullivan County, Indiana**

### **Management's Discussion and Analysis**

#### **Years Ended December 31, 2018 and 2017**

#### **Introduction**

This management's discussion and analysis of the financial performance of Sullivan County Community Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2018 and 2017. It should be read in conjunction with the accompanying financial statements of the Hospital.

#### **Financial Highlights**

- Cash and investments decreased in 2018 by \$1,332,234 or 8.7% compared to an increase of \$365,082 or 2.4% in 2017.
- The Hospital's net position decreased in 2018 by \$1,270,033 or 4.2% compared to a decrease of \$1,328,110 or 4.2% in 2017.
- The Hospital reported operating losses in both 2018 \$(1,187,920) and 2017 \$(1,407,690). The operating results in 2018 improved by \$219,770 or 15.6% over the operating results reported in 2017. The operating results in 2017 decreased by \$1,169,583 or 491.2% from the operating results reported in 2016.
- Net nonoperating results decreased by \$161,693 or 203.2% in 2018 compared to 2017, and increased by \$118,603 or 303.9% in 2017 compared to 2016.

#### **Using This Annual Report**

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

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

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

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

### **The Statements of Cash Flows**

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

### **The Hospital's Net Position**

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheets. The Hospital's net position decreased by \$1,270,033 or 4.2% in 2018 compared to a decrease in net position of \$1,328,110 or 4.2% in 2017 as shown in Table 1.

**Table 1: Assets, Liabilities and Net Position**

	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 3,708,908	\$ 3,611,589	\$ 3,476,184
Other current assets	4,367,623	6,415,893	6,438,174
Capital assets, net	18,523,479	18,599,508	14,388,027
Other noncurrent assets	11,311,376	11,158,617	11,091,706
Total assets	<u>\$ 37,911,386</u>	<u>\$ 39,785,607</u>	<u>\$ 35,394,091</u>
<b>Liabilities</b>			
Long-term debt	\$ 5,513,519	\$ 5,209,846	\$ -
Other current and long-term liabilities	3,145,553	4,053,414	3,543,634
Total liabilities	<u>8,659,072</u>	<u>9,263,260</u>	<u>3,543,634</u>
<b>Net Position</b>			
Net investment in capital assets	13,009,960	14,300,945	14,388,027
Unrestricted	16,242,354	16,221,402	17,462,430
Total net position	<u>29,252,314</u>	<u>30,522,347</u>	<u>31,850,457</u>
Total liabilities and net position	<u>\$ 37,911,386</u>	<u>\$ 39,785,607</u>	<u>\$ 35,394,091</u>

A significant change in the Hospital's assets in 2018 is the decrease in other current assets of \$2,048,270 or 31.9%. This decrease was attributed to a decrease in cash and restricted cash of \$1,484,993 or 35.7%. Also, there was a decrease in estimated amounts due from third-party payers as a result of Medicaid Disproportionate Share Hospital (DSH) payments received during 2018. Patient accounts receivable increased by \$97,319 or 2.7% in 2018, compared to a decrease in net patient revenue of \$148,809 or 0.5%, which equates to an increase of 1 day of revenue at December 31, 2018 versus December 31, 2017.

A significant change in the Hospital's assets in 2017 was the increase in capital assets of \$4,211,481 or 29.3%. This increase was a result of ongoing capital projects at the Hospital. This increase was funded by the issuance of long-term debt of \$5,400,000. Patients accounts receivable increased by \$135,405 or 3.9% in 2017 despite a decrease of net patient revenue of \$877,782 or 2.7%, which equates to an increase of 3 days of revenue at December 31, 2017 versus December 31, 2016. This increase results primarily from changes in the Hospital collection cycle and remittances from third-party payers.

### **Operating Results and Changes in the Hospital's Net Position**

In 2018, the Hospital's net position decreased by \$1,270,033 or 4.20%, as shown in Table 2. This decrease is made up of several different components and represents an improvement of 4.4% compared with the decrease in net position for 2017 of \$1,328,110. In 2017, the decrease in net position of \$1,328,110 represents a decline of 379.2% compared with the decrease in net position for 2016 of \$277,130.

**Table 2: Operating Results and Changes in Net Position**

	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 30,905,875	\$ 31,054,684	\$ 31,932,466
Other operating revenues	1,288,800	853,034	157,329
Total operating revenues	<u>32,194,675</u>	<u>31,907,718</u>	<u>32,089,795</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	20,141,088	19,868,538	19,964,059
Purchased services and professional fees	4,612,758	4,539,645	4,107,114
Depreciation and amortization	1,841,134	1,776,727	1,682,220
Other operating expenses	6,787,615	7,130,498	6,574,509
Total operating expenses	<u>33,382,595</u>	<u>33,315,408</u>	<u>32,327,902</u>
<b>Operating Loss</b>	<u>(1,187,920)</u>	<u>(1,407,690)</u>	<u>(238,107)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	157,065	73,769	57,148
Interest expense	(195,116)	(21,116)	-
Other	(44,062)	26,927	(96,171)
Total nonoperating revenues (expenses)	<u>(82,113)</u>	<u>79,580</u>	<u>(39,023)</u>
<b>Decrease in Net Position</b>	<u>\$ (1,270,033)</u>	<u>\$ (1,328,110)</u>	<u>\$ (277,130)</u>

## **Operating Income**

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

The operating loss was \$1,187,920 for 2018 compared to operating loss of \$1,407,690 for 2017, which equates to an increase in operating results of \$219,770, or 15.6%, while the operating results for 2017 decreased by \$1,169,583, or 491.2% compared to 2016. The primary components of the change in operating loss in 2018 are:

- Other operating revenue for the Hospital was \$1,288,800 in 2018 compared to \$853,034 in 2017, which results in an increase of \$435,766 or 51.1%
- Provider hospital assessment fee for the Hospital was \$1,147,659 for 2018 compared to \$822,134 for 2017, which results in an increase of \$325,525 or 39.6%.

The increase in other operating revenue is a result of increased activity in the Hospital's employer clinic operations with companies in its service area. The provider hospital assessment fee increased in 2018 is a result of additional fees assessed by the Indiana Medicaid Program to help fund Medicaid expansion and leverage the maximum amount to increase Medicaid payments to hospitals under the Upper Payment Limit.

## **Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of investment income, interest expense, rental income on Hospital-owned property and payments made to subsidize the Hospital's discretely presented component unit. Investment income increased \$83,296 or 112.9% in 2018 compared to 2017 as a result of increases in interest rates. Interest expense increased \$174,000 or 824.0% in 2018 compared to 2017 as a result of the Hospital's outstanding borrowings and reduced capitalization of interest on capital projects. The Hospital's subsidy of its discretely presented component unit decreased by \$6,381 or 3.0% to \$208,383 in 2018. The Hospital recognized losses of \$110,161 and \$51,824 from its equity method investments in 2018 and 2017, respectively.

## **The Hospital's Cash Flows**

The Hospital's operating cash flows decreased \$467,185 in 2018 compared to 2017. The Hospital's cash flows used in capital and related financing activity increased by \$1,409,797 in 2018 compared to 2017 as a result of continued capital projects. The Hospital's cash flows used in investing activities decreased by \$93,818 in 2018 compared to 2017.

## **Capital Asset and Debt Administration**

### **Capital Assets**

At the end of 2018, the Hospital had \$18,523,479 invested in capital assets, net of accumulated depreciation. In 2018 and 2017, the Hospital had capital acquisitions of approximately \$1,765,000 and \$5,821,000, respectively. Of the 2018 amount, \$728,379 was acquired through capital lease obligations. The majority of all purchases were related to overall Hospital facility improvements and expansion. Please reference Note 5 of the audited financial statements for additional disclosures concerning capital asset activity.

## **Debt**

At December 31, 2018, the Hospital had \$5,513,519 in revenue bonds and capital lease obligations outstanding, compared to outstanding balances of \$5,209,846 at December 31, 2017. See Note 8 to the basic financial statements for more information regarding long-term debt.

### **Contacting the Hospital's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by telephoning (812) 268-4311.

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**Balance Sheets**  
**December 31, 2018 and 2017**

**Assets**

	<b>2018</b>	<b>2017</b>
<b>Current Assets</b>		
Cash	\$ 2,669,514	\$ 3,243,224
Restricted cash	-	911,283
Patient accounts receivable, net of allowance: 2018 - \$937,957; 2017 - \$1,171,306	3,708,908	3,611,589
Supplies	850,497	789,392
Estimated amounts due from third-party payers	-	540,346
Prepaid expenses and other current assets	847,612	931,648
Total current assets	8,076,531	10,027,482
<b>Noncurrent Investments</b> - funded depreciation	11,311,376	11,158,617
<b>Capital Assets</b>	18,523,479	18,599,508
Total assets	\$ 37,911,386	\$ 39,785,607

**Liabilities and Net Position**

<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 436,377	\$ 239,793
Accounts payable	773,671	1,450,379
Accrued expenses	2,173,490	2,315,664
Estimated amounts due to third-party payers	198,392	287,371
Total current liabilities	3,581,930	4,293,207
<b>Long-Term Debt</b>	5,077,142	4,970,053
Total liabilities	8,659,072	9,263,260
<b>Net Position</b>		
Net investment in capital assets	13,009,960	14,300,945
Unrestricted	16,242,354	16,221,402
Total net position	29,252,314	30,522,347
Total liabilities and net position	\$ 37,911,386	\$ 39,785,607

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**SCCH Fitness Center, Inc.**  
**Statements of Financial Position**  
**December 31, 2018 and 2017**

**Assets**

	<b>2018</b>	<b>2017</b>
Property and equipment, net of accumulated depreciation of \$977,124 and \$913,205 for 2018 and 2017, respectively	\$ 310,916	\$ 374,835
Total assets	\$ 310,916	\$ 374,835

**Liabilities and Net Assets**

<b>Liabilities</b>		
Accrued expenses	\$ 34,675	\$ 49,855
<b>Net Assets - unrestricted</b>	276,241	324,980
Total liabilities and net assets	\$ 310,916	\$ 374,835

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts of \$1,829,666 and \$1,625,744 for 2018 and 2017, respectively	\$ 30,905,875	\$ 31,054,684
Other	1,288,800	853,034
Total operating revenues	32,194,675	31,907,718
<b>Operating Expenses</b>		
Salaries and wages	15,187,402	15,255,538
Employee benefits	4,953,686	4,613,000
Purchased services and professional fees	4,612,758	4,539,645
Supplies	2,668,306	2,936,431
Utilities	512,778	489,787
Repair and maintenance	1,197,731	1,385,715
Leases and rentals	309,991	336,807
Insurance	313,516	393,060
Depreciation and amortization	1,841,134	1,776,727
Other	637,634	766,564
Provider hospital assessment fee	1,147,659	822,134
Total operating expenses	33,382,595	33,315,408
<b>Operating Loss</b>	(1,187,920)	(1,407,690)
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	157,065	73,769
Interest expense	(195,116)	(21,116)
Other	(44,062)	26,927
Total nonoperating revenues (expenses)	(82,113)	79,580
<b>Decrease in Net Position</b>	(1,270,033)	(1,328,110)
<b>Net Position, Beginning of Year</b>	30,522,347	31,850,457
<b>Net Position, End of Year</b>	\$ 29,252,314	\$ 30,522,347

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**SCCH Fitness Center, Inc.**  
**Statements of Activities**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Revenues, Gains and Other Support</b>		
Membership, training, class and other revenue	\$ 246,632	\$ 235,461
Operating support from the Hospital	208,383	214,764
Total revenues, gains and other support	455,015	450,225
<b>Expenses</b>		
Salaries and wages	240,839	247,065
Employee benefits	111,205	134,794
Purchased services	36,892	34,676
Supplies	1,895	6,059
Utilities	20,211	20,342
Repair and maintenance	15,482	4,000
Depreciation	63,919	58,495
Other	13,311	14,191
Total expenses	503,754	519,622
<b>Decrease in Net Assets</b>	(48,739)	(69,397)
<b>Unrestricted Net Assets, Beginning of Year</b>	324,980	394,377
<b>Unrestricted Net Assets, End of Year</b>	\$ 276,241	\$ 324,980

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 30,112,264	\$ 30,927,286
Payments to suppliers and contractors	(9,925,676)	(10,285,067)
Payments to employees	(20,283,262)	(19,707,012)
Other payments, net	651,166	86,470
Net cash provided by operating activities	554,492	1,021,677
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(1,379,907)	(5,778,662)
Proceeds from issuance of long-term debt	-	5,400,000
Principal payments made on long-term debt	(314,561)	(190,154)
Principal payments made on capital leases	(110,145)	-
Interest payments on long-term debt and capital leases	(195,116)	(21,116)
Net cash used in capital and related financing activities	(1,999,729)	(589,932)
<b>Investing Activities</b>		
Interest and dividends on investments	157,065	73,769
Purchase of investments	(9,763,536)	(10,178,202)
Proceeds from disposition of investments	9,610,777	10,111,291
Other investing activities	(44,062)	(140,432)
Net cash used in investing activities	(39,756)	(133,574)
<b>Increase (Decrease) in Cash</b>	(1,484,993)	298,171
<b>Cash, Beginning of Year</b>	4,154,507	3,856,336
<b>Cash, End of Year</b>	\$ 2,669,514	\$ 4,154,507
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash	\$ 2,669,514	\$ 3,243,224
Restricted cash	-	911,283
Total cash	\$ 2,669,514	\$ 4,154,507

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Reconciliation of Operating Loss to Net Cash Provided by</b>		
<b>Operating Activities</b>		
Operating loss	\$ (1,187,920)	\$ (1,407,690)
Depreciation and amortization	1,841,134	1,776,727
Provision for uncollectible accounts	1,829,666	1,625,744
Changes in operating assets and liabilities:		-
Patient accounts receivable	(1,926,985)	(1,761,149)
Estimated amounts due to/from third-party payers	451,367	830,141
Accounts payable and accrued expenses	(475,701)	360,625
Other assets	22,931	(402,721)
Net cash provided by operating activities	\$ 554,492	\$ 1,021,677
<b>Supplemental Cash Flow Information</b>		
Purchase of capital assets included in accounts payable	\$ 32,384	\$ 375,565
Capital assets acquired through capital leases	728,379	-

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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

***Nature of Operations and Reporting Entity***

Sullivan County Community Hospital (Hospital) is an acute care hospital located in Sullivan, Indiana. The Hospital is a component unit of Sullivan County (County) and the Board of County Commissioners appoints members to the Governing Board of the Hospital pursuant to the provisions of Indiana Code 16-22-2-2. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Sullivan County surrounding area. It also operates a home health agency in the same geographic area.

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

During 2016, the Hospital purchased a 51% ownership in Sullivan County Community Hospital Pain Management, LLC (Pain Management), which was organized to offer pain management services in the Hospital's primary service area. The Hospital's ownership interest is accounted for under the equity method. Separate audited financial statements are not issued for Pain Management.

During 2017, the Hospital purchased a 10% ownership in Solidago Dialysis, LLC (Dialysis), which was organized to provide dialysis services in the Hospital's primary service area. The Hospital's ownership interest is accounted for under the equity method. Separate audited financial statements are not issued for Dialysis.

***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions.

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***Use of Estimates***

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

***Risk Management***

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

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

***Investments and Investment Income***

Investments in nonnegotiable certificates of deposit are carried at amortized cost. The investments in equity investees are reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income and the net change for the year in the fair value of investments carried at fair value.

***Patient Accounts Receivable***

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

***Supplies***

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

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**Capital Assets**

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

Land improvements	5 - 20 years
Buildings and leasehold improvements	10 - 20 years
Equipment	3 - 10 years

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

	<u>2018</u>	<u>2017</u>
Interest costs capitalized	\$ 19,059	\$ 109,529
Interest costs charged to expense	<u>195,116</u>	<u>21,116</u>
Total interest incurred	<u>\$ 214,175</u>	<u>\$ 130,645</u>

**Compensated Absences**

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. The estimated compensated absences liability are expected to be paid within one year of the balance sheet date and is therefore included in current liabilities.

**Net Position**

Net position of the Hospital is classified in two components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position are remaining assets, less remaining liabilities that do not meet the definition of net investment in capital assets or restricted net position.

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***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$747,278 for 2018 compared to \$826,286 for 2017.

***SCCH Fitness Center***

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

During the years ended December 31, 2018 and 2017, the Hospital provided \$208,383 and \$214,764, respectively, of support to the Fitness Center for operations.

***Income Taxes***

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

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

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

**Note 2: Net Patient Service Revenue**

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

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

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

Approximately 62% and 53% percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately \$764,000 annually within net patient service revenue related to this supplemental payment program for the years ended December 31, 2018 and 2017, respectively. Net deferred revenue at December 31, 2018 related to advance funding of payments totaled \$76,000 and was included in estimated amounts due to third-party payers. Amounts outstanding at December 31, 2017 totaled \$382,000 and are included in estimated amounts due from third-party payers.

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The Hospital participates in a state specific provider assessment fee program to increase Medicaid payments to hospitals. The Hospital incurred fees approximating \$1,148,000 and \$822,000 related to this program for 2018 and 2017, respectively, which are recorded as an operating expense in the statements of revenues, expenses and changes in net position. In January 2017, the Hospital received notice that its Medicaid Inpatient Utilization Rate (MIUR) exceeded state-wide thresholds, as defined by state regulation. A benefit of having a MIUR exceeding this threshold includes a 25% reduction in the provider assessment fee for the period July 1, 2015 through June 30, 2017, which was applied retrospectively when rates were finalized. Amounts due to the Hospital related to the fee reduction were \$199,000 at December 31, 2017 and are included in estimated amounts due from third-party payers. Amounts outstanding under the assessment fee program at December 31, 2018 were not significant. The Hospital qualified for this continued fee reduction for the period July 1, 2017 through June 30, 2019 with its eligibility notice received in November 2018. The provider assessment fee program is subject to further retroactive rate settings by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital, including the 25% benefit, through December 31, 2018.

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

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

**Note 3: Deposits, Investments and Investment Income**

***Deposits***

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

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

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**Investments**

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

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

**Credit Risk** - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital's policy to limit its investments in certain bond and mutual funds to the American Hospital Association's Investment Fund and other portfolios with AAA or government-backed ratings.

**Custodial Credit Risk** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's investment policy does not address how securities underlying repurchase agreements are to be held.

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

**Summary of Carrying Values**

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

	<b>2018</b>	<b>2017</b>
Carrying value:		
Deposits	<u>\$ 13,980,890</u>	<u>\$ 15,313,124</u>
Included in the following balance sheets captions:		
Cash	\$ 2,669,514	\$ 3,243,224
Restricted cash	-	911,283
Noncurrent investments - funded depreciation	<u>11,311,376</u>	<u>11,158,617</u>
	<u>\$ 13,980,890</u>	<u>\$ 15,313,124</u>

Non-negotiable certificates of deposit totaling \$11,311,376 and \$11,158,617 are included in deposit balances at December 31, 2018 and 2017, respectively.

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***Investment Income***

Investment income for the years ended December 31 consisted of:

	<b>2018</b>	<b>2017</b>
Interest and dividend income	\$ 157,065	\$ 73,769

**Note 4: Patient Accounts Receivable**

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	<b>2018</b>	<b>2017</b>
Medicare	\$ 1,362,520	\$ 1,286,831
Medicaid	413,964	462,517
Other third-party payers	1,402,406	1,405,557
Patients	1,467,975	1,627,990
	<u>4,646,865</u>	<u>4,782,895</u>
Less allowance for uncollectible accounts	937,957	1,171,306
	<u>\$ 3,708,908</u>	<u>\$ 3,611,589</u>

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**Note 5: Capital Assets**

Capital assets activity for the years ended December 31 was:

	<b>2018</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Hospital					
Land and improvements	\$ 1,032,727	\$ -	\$ -	\$ -	\$ 1,032,727
Buildings and leasehold improvements	22,220,155	60,339	-	2,488,623	24,769,117
Equipment	19,531,421	1,470,165	(3,389)	-	20,998,197
Construction in progress	2,411,897	234,601	-	(2,488,623)	157,875
	<u>45,196,200</u>	<u>1,765,105</u>	<u>(3,389)</u>	<u>-</u>	<u>46,957,916</u>
Less accumulated depreciation:					
Buildings and leasehold improvements	13,274,332	876,033	-	-	14,150,365
Equipment	13,322,360	965,101	(3,389)	-	14,284,072
	<u>26,596,692</u>	<u>1,841,134</u>	<u>(3,389)</u>	<u>-</u>	<u>28,434,437</u>
Total Hospital capital assets, net	<u>\$ 18,599,508</u>	<u>\$ (76,029)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,523,479</u>
<b>2017</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Hospital					
Land and improvements	\$ 1,042,227	\$ -	\$ (9,500)	\$ -	\$ 1,032,727
Buildings and leasehold improvements	19,179,644	45,826	-	2,994,685	22,220,155
Equipment	18,448,132	1,066,422	(30,275)	47,142	19,531,421
Construction in progress	745,123	4,708,601	-	(3,041,827)	2,411,897
	<u>39,415,126</u>	<u>5,820,849</u>	<u>(39,775)</u>	<u>-</u>	<u>45,196,200</u>
Less accumulated depreciation:					
Buildings and leasehold improvements	12,372,790	902,322	(780)	-	13,274,332
Equipment	12,654,309	874,405	(206,354)	-	13,322,360
	<u>25,027,099</u>	<u>1,776,727</u>	<u>(207,134)</u>	<u>-</u>	<u>26,596,692</u>
Total Hospital capital assets, net	<u>\$ 14,388,027</u>	<u>\$ 4,044,122</u>	<u>\$ 167,359</u>	<u>\$ -</u>	<u>\$ 18,599,508</u>

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**Note 6: Medical Malpractice Claims**

The Hospital purchases medical malpractice insurance up to coverage limits under the Indiana Malpractice Act (Act) under a claims-made policy on a fixed premium basis. The Hospital is also under the Act, which limits professional liability for claims prior to July 1, 2017 to a maximum recovery of \$1,250,000 per occurrence, \$250,000 of which would be paid through medical insurance coverage, while the remaining balance would be paid by the State of Indiana Patient Compensation Fund (Fund). For claims on or after July 1, 2017, the maximum recovery is \$1,650,000 per occurrence, \$400,000 of which would be paid through insurance coverage, with the remainder due from the Fund. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

**Note 7: Employee Health Claims**

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$1,000,000, and an individual policy maximum of \$95,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2018 and 2017 is summarized as follows:

	<b>2018</b>	<b>2017</b>
Balance, beginning of year	\$ 288,171	\$ 315,085
Current year claims incurred and changes in estimates for claims incurred in prior years	3,426,721	3,240,911
Claims and expenses paid	(3,385,933)	(3,267,825)
Balance, end of year	\$ 328,959	\$ 288,171

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**Note 8: Long-Term Obligations**

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2018 and 2017:

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

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Health facility revenue bonds, Series 2017A	\$ -	\$ 3,900,000	\$ (140,820)	\$ 3,759,180	\$ 177,442
Taxable health facility revenue bonds, Series 2017B	-	1,500,000	(49,334)	1,450,666	62,351
Total long-term debt	<u>\$ -</u>	<u>\$ 5,400,000</u>	<u>\$ (190,154)</u>	<u>\$ 5,209,846</u>	<u>\$ 239,793</u>

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

During 2017, the Hospital issued bonds to fund certain capital expansions of the Hospital. The Series 2017A revenue bonds consist of nontaxable revenue bonds in the original amount of \$3,900,000 dated April 5, 2017, which bear interest at 2.865%. The Series 2017B revenue bonds consist of taxable revenue bonds in the original amount of \$1,500,000 dated April 5, 2017, which bear interest at 4.100%. Beginning July of 2017, the bonds are payable quarterly through April 1, 2032. The bonds are secured by all existing and future net revenues and accounts of the Hospital. Unspent proceeds from the issuance as of December 31, 2017 are held by the trustee and restricted for the ongoing capital expansion project, and are included within restricted cash on the balance sheet. All remaining proceeds were spent during 2018.

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

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The debt service requirements as of December 31, 2018 are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2019	\$ 455,007	\$ 299,162	\$ 155,845
2020	455,007	308,412	146,595
2021	455,007	318,791	136,216
2022	455,007	329,105	125,902
2023	455,007	339,762	115,245
2024 - 2028	2,275,033	1,871,055	403,978
2029 - 2032	1,592,522	1,428,998	163,524
	<u>\$ 6,142,590</u>	<u>\$ 4,895,285</u>	<u>\$ 1,247,305</u>

**Capital Lease Obligations**

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

2019	\$ 176,812
2020	176,812
2021	176,812
2022	161,768
2023	17,464
Total minimum lease payments	<u>709,668</u>
Less amount representing interest	<u>(91,434)</u>
Present value of future minimum lease payments	<u>\$ 618,234</u>

**Note 9: Pension Plan**

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

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Plan members may contribute up to \$18,000 of their annual covered salary. The Hospital and MSO Clinics are required to match one-half of the employee contribution up to 5% of employee's compensation. In addition, the Hospital contributes 2% of the annual covered payroll for all eligible active participants. The MSO Clinics may make a discretionary contribution as determined by its governing body. Expense related to employer contributions to the plans was \$644,941 for 2018 and \$427,017 for 2017. The Hospital had accrued benefits payable to the plan of \$205,206 at December 31, 2018 compared to \$227,136 as of December 31, 2017.

**Note 10: Operating Leases**

A noncancellable operating lease for primary care outpatient office space began in October 2013 and was renewed in 2018 for a five-year period ending December 2023. The lease contains two additional renewal options for five-year periods and requires the Hospital to pay all executory costs (property taxes, maintenance and insurance). Rental expense for operating leases during 2018 and 2017 were \$309,991 and \$336,807, respectively. Future minimum lease payments at December 31, 2018 were:

2019	\$ 225,027
2020	225,027
2021	225,027
2022	225,027
2023	225,027
Future minimum lease payments	\$ 1,125,135

**Note 11: Contingencies**

***Litigation***

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations may be in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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**Note 12: Investment in Equity Investee**

The Hospital invested \$51,000 for a 51% ownership of Sullivan County Community Hospital Pain Management, LLC (Pain Management). The Hospital's investment in Pain Management was \$(89,536) and \$(47,643) at December 31, 2018 and 2017, respectively, which represents its share of operating losses and is recorded in prepaid expenses and other current assets. The Hospital provides support to the joint venture through labor and supply costs which are billed to Pain Management on a monthly basis. The Hospital also provides billing and collection services for Pain Management and remits patient collections to the joint venture to satisfy operating expenses. Net amounts due from Pain Management totaled \$65,791 at December 31, 2018 and are included in prepaid expenses and other current assets. Amounts due from Pain Management totaling \$220,451 at December 31, 2017, respectively, are included in prepaid expenses and other current assets. Amounts due to Pain Management totaling \$207,443 at December 31, 2017, are included in accrued expenses. Financial position and results of operations of the investee are summarized below.

	<u>2018</u>	<u>2017</u>
Current assets	\$ 26,081	\$ 26,081
Patient billings and receipts due from Sullivan County Community Hospital	626,999	207,433
Other assets	5,323	5,323
Total assets	<u>658,403</u>	<u>238,837</u>
Current liabilities	123,053	93,684
Advances payable to Sullivan County Community Hospital	692,790	220,451
Total liabilities	<u>815,843</u>	<u>314,135</u>
Net assets	<u>\$ (157,440)</u>	<u>\$ (75,298)</u>
Revenues	\$ 419,566	\$ 343,704
Deficiency of revenues over expenses	\$ (82,142)	\$ (50,152)

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The Hospital invested \$100,000 for a 10% ownership of Solidago Dialysis, LLC (Dialysis). The Hospital's investment in Dialysis were \$5,484 and \$73,753 at December 31, 2018 and 2017, respectively, which represents its share of the net assets of Dialysis, and is recorded in prepaid expenses and other current assets. Dialysis has a \$1.6 million bank loan outstanding, which the Hospital has guaranteed 10%. The Hospital entered into a lease agreement with Dialysis for operating space. The lease terminates in April 2027 and requires annual rental payments due to the Hospital of \$117,000 through April 2022 and \$129,000 for the remaining term. Financial positions and results of operations of the investee are summarized below.

	<b>2018</b>	<b>2017</b>
Current assets	\$ 124,435	\$ 724,940
Capital assets	1,689,597	1,742,728
Total assets	<u>1,814,032</u>	<u>2,467,668</u>
Current liabilities	33,661	4,605
Long-term liabilities	1,725,531	1,725,531
Total liabilities	<u>1,759,192</u>	<u>1,730,136</u>
Net assets	<u>\$ 54,840</u>	<u>\$ 737,532</u>
Revenues	\$ 560,657	\$ 2,006
Deficiency of revenues over expenses	\$ (682,692)	\$ (262,468)

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**Note 13: Combining Financial Statement Information**

The Hospital's combining financial statement information, including that of its blended component unit, was summarized as follows for the years ended December 31, 2018 and 2017:

**Combining Balance Sheets as of December 31, 2018 and 2017**

	2018			2017		
	Hospital	MSO Clinics	Total	Hospital	MSO Clinics	Total
<b>Assets</b>						
<b>Current Assets</b>						
Cash	\$ 2,308,666	\$ 360,848	\$ 2,669,514	\$ 2,554,631	\$ 688,593	\$ 3,243,224
Restricted cash	-	-	-	911,283	-	911,283
Patient accounts receivable, net of allowance 2018 - \$937,957, 2017 - \$1,171,306	3,303,191	405,717	3,708,908	3,317,376	294,213	3,611,589
Supplies	752,147	98,350	850,497	725,798	63,594	789,392
Estimated amounts due from third-party payers	-	-	-	540,346	-	540,346
Prepaid expenses and other current assets	768,670	78,942	847,612	848,851	82,797	931,648
Total current assets	7,132,674	943,857	8,076,531	8,898,285	1,129,197	10,027,482
<b>Noncurrent Investments - funded depreciation</b>	11,311,376	-	11,311,376	11,158,617	-	11,158,617
<b>Capital Assets</b>	17,491,000	1,032,479	18,523,479	17,497,598	1,101,910	18,599,508
Total assets	\$ 35,935,050	\$ 1,976,336	\$ 37,911,386	\$ 37,554,500	\$ 2,231,107	\$ 39,785,607
<b>Liabilities and Net Position</b>						
<b>Current Liabilities</b>						
Current maturities of long-term debt	\$ 436,377	\$ -	\$ 436,377	\$ 239,793	\$ -	\$ 239,793
Accounts payable	773,671	-	773,671	1,450,379	-	1,450,379
Accrued expenses	2,078,360	95,130	2,173,490	2,187,233	128,431	2,315,664
Estimated amounts due to third-party payers	198,392	-	198,392	287,371	-	287,371
Total current liabilities	3,486,800	95,130	3,581,930	4,164,776	128,431	4,293,207
<b>Long-Term Debt</b>	5,077,142	-	5,077,142	4,970,053	-	4,970,053
Total liabilities	8,563,942	95,130	8,659,072	9,134,829	128,431	9,263,260
<b>Net Position</b>						
Net investment in capital assets	11,977,481	1,032,479	13,009,960	13,199,035	1,101,910	14,300,945
Unrestricted	15,393,627	848,727	16,242,354	15,220,636	1,000,766	16,221,402
Total net position	27,371,108	1,881,206	29,252,314	28,419,671	2,102,676	30,522,347
Total liabilities and net position	\$ 35,935,050	\$ 1,976,336	\$ 37,911,386	\$ 37,554,500	\$ 2,231,107	\$ 39,785,607

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Combining Statements of Revenues, Expenses and Changes in Net Position for the Years Ended December 31, 2018 and 2017**

	2018			2017		
	Hospital	MSO Clinics	Total	Hospital	MSO Clinics	Total
<b>Operating Revenues</b>						
Net patient service revenue, net of provision for uncollectible accounts of 2018 - \$1,829,666; 2017 - \$1,625,744	\$ 26,870,158	\$ 4,035,717	\$ 30,905,875	\$ 26,343,456	\$ 4,711,228	\$ 31,054,684
Other	414,009	874,791	1,288,800	339,535	513,499	853,034
Total operating revenues	<u>27,284,167</u>	<u>4,910,508</u>	<u>32,194,675</u>	<u>26,682,991</u>	<u>5,224,727</u>	<u>31,907,718</u>
<b>Operating Expenses</b>						
Salaries and wages	11,205,668	3,981,734	15,187,402	10,996,599	4,258,939	15,255,538
Employee benefits	3,957,417	996,269	4,953,686	3,588,528	1,024,472	4,613,000
Purchased services and professional fees	4,047,094	565,664	4,612,758	3,969,884	569,761	4,539,645
Supplies	2,086,124	582,182	2,668,306	2,385,485	550,946	2,936,431
Utilities	497,408	15,370	512,778	468,463	21,324	489,787
Repair and maintenance	1,187,737	9,994	1,197,731	1,379,625	6,090	1,385,715
Leases and rentals	107,879	202,112	309,991	111,767	225,040	336,807
Insurance	313,516	-	313,516	351,646	41,414	393,060
Depreciation	1,756,735	84,399	1,841,134	1,706,590	70,137	1,776,727
Other	596,971	40,663	637,634	686,362	80,202	766,564
Provider hospital assessment fee	1,147,659	-	1,147,659	822,134	-	822,134
Total operating expenses	<u>26,904,208</u>	<u>6,478,387</u>	<u>33,382,595</u>	<u>26,467,083</u>	<u>6,848,325</u>	<u>33,315,408</u>
<b>Operating Income (Loss)</b>	<u>379,959</u>	<u>(1,567,879)</u>	<u>(1,187,920)</u>	<u>215,908</u>	<u>(1,623,598)</u>	<u>(1,407,690)</u>
<b>Nonoperating Revenues (Expenses)</b>						
Investment income	157,065	-	157,065	73,769	-	73,769
Interest expense	(195,116)	-	(195,116)	(21,116)	-	(21,116)
Other	(44,062)	-	(44,062)	26,927	-	26,927
Total nonoperating revenues (expenses)	<u>(82,113)</u>	<u>-</u>	<u>(82,113)</u>	<u>79,580</u>	<u>-</u>	<u>79,580</u>
<b>Increase (Decrease) in Net Position</b>	297,846	(1,567,879)	(1,270,033)	295,488	(1,623,598)	(1,328,110)
<b>Transfer From (To) Affiliate</b>	(1,346,409)	1,346,409	-	(2,096,874)	2,096,874	-
<b>Net Position, Beginning of Year</b>	<u>28,419,671</u>	<u>2,102,676</u>	<u>30,522,347</u>	<u>30,221,057</u>	<u>1,629,400</u>	<u>31,850,457</u>
<b>Net Position, End of Year</b>	<u>\$ 27,371,108</u>	<u>\$ 1,881,206</u>	<u>\$ 29,252,314</u>	<u>\$ 28,419,671</u>	<u>\$ 2,102,676</u>	<u>\$ 30,522,347</u>

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Combining Statements of Cash Flows for the Years Ended December 31, 2018 and 2017**

	2018			2017		
	Hospital	MSO Clinics	Total	Hospital	MSO Clinics	Total
<b>Operating Activities</b>						
Receipts from and on behalf of patients	\$ 26,188,051	\$ 3,924,213	\$ 30,112,264	\$ 26,108,362	\$ 4,818,924	\$ 30,927,286
Payments to suppliers and contractors	(8,478,790)	(1,446,886)	(9,925,676)	(8,853,362)	(1,431,705)	(10,285,067)
Payments to employees	(15,271,958)	(5,011,304)	(20,283,262)	(14,443,356)	(5,263,656)	(19,707,012)
Other payments, net	(223,625)	874,791	651,166	(346,568)	433,038	86,470
Net cash provided by (used in) operating activities	2,213,678	(1,659,186)	554,492	2,465,076	(1,443,399)	1,021,677
<b>Noncapital Financing Activity -</b>						
transfer from (to) affiliate	(1,346,409)	1,346,409	-	(2,096,874)	2,096,874	-
<b>Capital and Related Financing Activities -</b>						
Purchase of capital assets	(1,364,939)	(14,968)	(1,379,907)	(5,778,662)	-	(5,778,662)
Interest payments on capital debt and leases	(195,116)	-	(195,116)	(21,116)	-	(21,116)
Principal payments made on LTD	(314,561)	-	(314,561)	(190,154)	-	(190,154)
Principal payments made on capital leases	(110,145)	-	(110,145)	-	-	-
Proceeds from issuance of LTD	-	-	-	5,400,000	-	5,400,000
Net cash used in financing activities	(1,984,761)	(14,968)	(1,999,729)	(589,932)	-	(589,932)
<b>Investing Activities</b>						
Interest and dividends on investments	157,065	-	157,065	73,769	-	73,769
Purchase of investments	(9,763,536)	-	(9,763,536)	(10,178,202)	-	(10,178,202)
Proceeds from disposition of investments	9,610,777	-	9,610,777	10,111,291	-	10,111,291
Other investing activities	(44,062)	-	(44,062)	(140,432)	-	(140,432)
Net cash used in investing activities	(39,756)	-	(39,756)	(133,574)	-	(133,574)
<b>Increase (Decrease) in Cash</b>	(1,157,248)	(327,745)	(1,484,993)	(355,304)	653,475	298,171
<b>Cash, Beginning of Year</b>	3,465,914	688,593	4,154,507	3,821,218	35,118	3,856,336
<b>Cash, End of Year</b>	\$ 2,308,666	\$ 360,848	\$ 2,669,514	\$ 3,465,914	\$ 688,593	\$ 4,154,507
<b>Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>						
Operating income (loss)	\$ 379,959	\$ (1,567,879)	\$ (1,187,920)	\$ 215,908	\$ (1,623,598)	\$ (1,407,690)
Depreciation	1,756,735	84,399	1,841,134	1,706,590	70,137	1,776,727
Provision for uncollectible accounts	1,810,517	19,149	1,829,666	1,585,119	40,625	1,625,744
Changes in operating assets and liabilities:						
Patient accounts receivable	(1,796,332)	(130,653)	(1,926,985)	(1,828,220)	67,071	(1,761,149)
Estimated amounts due to third-party payers	451,367	-	451,367	830,141	-	830,141
Accounts payable and accrued expenses	(442,400)	(33,301)	(475,701)	340,870	19,755	360,625
Other assets and liabilities	53,832	(30,901)	22,931	(385,332)	(17,389)	(402,721)
Net cash provided by (used in) operating activities	\$ 2,213,678	\$ (1,659,186)	\$ 554,492	\$ 2,465,076	\$ (1,443,399)	\$ 1,021,677

**Sullivan County Community Hospital**  
**A Component Unit of Sullivan County, Indiana**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 14: Future Accounting Standards**

In fiscal year 2020, the Hospital will implement GASB Statement No. 87, *Leases*. The statement provides a new framework for accounting for leases under the principle that leases are financings and lessees should recognize an intangible asset and a corresponding liability while the lessor will recognize a lease receivable and related deferred inflow of resources. The Hospital has not determined the impact of this new standard on their financial statements, however, it could have a material future impact.

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

**Independent Auditor's Report**

Board of Trustees  
Sullivan County Community Hospital  
Sullivan, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Sullivan County Community Hospital (Hospital), which comprise the statement of financial position as of December 31, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated May 23, 2019.

***Internal Control Over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

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

### ***Purpose of this Report***

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

**BKD, LLP**

Indianapolis, Indiana  
May 23, 2019