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May 22, 2020

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

We have reviewed the audit report of Perry County Memorial Hospital which was opined upon by BKD, LLP, Independent Public Accountants, for the period January 1, 2019 to December 31, 2019. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of the Perry County Memorial Hospital as of December 31, 2019, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

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

Paul D. Joyce, CPA
State Examiner

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Independent Auditor's Report and Financial Statements
December 31, 2019 and 2018



Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Perry County Memorial Hospital
Tell City, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Perry County Memorial Hospital, a component unit of Perry County, Indiana, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Perry County Memorial 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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Perry County Memorial Hospital as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated May 18, 2020, on our consideration of Perry County Memorial 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 Perry County Memorial 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 Perry County Memorial Hospital's internal control over financial reporting and compliance.

BKD, LLP

Louisville, Kentucky
May 18, 2020

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Management's Discussion and Analysis
Years Ended December 31, 2019 and 2018

Introduction

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

Financial Highlights

- Cash and investments increased in 2019 and 2018 by \$2,097,953 and \$2,142,828, or 17% and 24%, respectively.
- The Hospital's net position increased by \$2,346,891, or 10.0%, in 2019 as compared to 2018 and increased by \$290,986, or 1.3%, in 2018 as compared to 2017, respectively, from operating and nonoperating results.
- The Hospital reported operating income in 2019 of \$3,032,235 and 2018 of \$1,862,527. The operating income in 2019 increased by \$1,169,798, or 62.8%, as compared to 2018. The Hospital reported operating income in 2018 of \$1,862,527, which represents an improvement of \$3,289,288, or 230.5%, over the operating loss in 2017.
- Net nonoperating expenses decreased by \$886,107, or 56.4%, in 2019 compared to 2018 and increased by \$1,100,270, or 233.5%, in 2018 compared to 2017.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The Hospital's Net Position

The Hospital's net position is the difference between assets and liabilities reported in the statement of net position. The Hospital's net position increased by \$2,346,891 (10.0%) in 2019 over 2018 and increased by \$290,986 (1.3%) in 2018 over 2017, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2019	2018	2017
Assets			
Patient accounts receivable, net	\$ 4,865,049	\$ 4,548,337	\$ 4,696,292
Other current assets	14,554,245	11,844,839	9,694,054
Capital assets, net	45,564,674	47,787,841	50,030,806
Other noncurrent assets	1,845,000	1,845,000	2,195,868
Total assets	<u>\$ 66,828,968</u>	<u>\$ 66,026,017</u>	<u>\$ 66,617,020</u>
Liabilities			
Long-term debt	\$ 36,693,000	\$ 37,334,000	\$ 37,958,000
Current liabilities	4,298,708	5,201,648	5,459,637
Total liabilities	<u>40,991,708</u>	<u>42,535,648</u>	<u>43,417,637</u>
Net Position			
Net investment in capital assets	8,230,674	9,829,841	11,467,806
Restricted	1,820,000	1,820,000	1,820,000
Unrestricted	15,786,586	11,840,528	9,911,577
Total net position	<u>25,837,260</u>	<u>23,490,369</u>	<u>23,199,383</u>
Total liabilities and net position	<u>\$ 66,828,968</u>	<u>\$ 66,026,017</u>	<u>\$ 66,617,020</u>

Perry County Memorial Hospital
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A significant change in the Hospital's financial position in 2019 was the increase in cash and investments. Cash and investments increased by \$2,097,953, which was primarily the result of improved Hospital operations.

The most significant change in the Hospital's financial position in 2018 was the increase in cash and investments. Cash and investments increased by \$2,412,828, which was primarily the result of improved Hospital operations that resulted in an increase in cash provided by operating activities.

Operating Results and Changes in the Hospital's Net Position

In 2019, the Hospital's net position increased by \$2,346,891, or 10.0%, from operating and nonoperating results, as shown in Table 2. This increase is made up of several different components and represents an improvement of \$2,055,905 as compared with the change in net position for 2018 of \$290,986. The Hospital's net position increased by \$290,986 from 2017 to 2018.

Table 2: Operating Results and Changes in Net Position

	2019	2018	2017
Operating Revenues			
Net patient service revenue	\$ 40,577,572	\$ 38,569,476	\$ 35,950,724
Other operating revenues	<u>2,496,711</u>	<u>2,670,592</u>	<u>2,382,208</u>
Total operating revenues	<u>43,074,283</u>	<u>41,240,068</u>	<u>38,332,932</u>
Operating Expenses			
Salaries, wages and employee benefits	19,516,865	19,356,041	20,232,062
Purchased services and professional fees	8,461,336	9,420,703	8,185,122
Depreciation and amortization	2,630,115	2,650,868	2,747,481
Provider tax expense	1,350,625	891,066	1,113,593
Other operating expenses	<u>8,083,017</u>	<u>7,058,863</u>	<u>7,481,435</u>
Total operating expenses	<u>40,041,958</u>	<u>39,377,541</u>	<u>39,759,693</u>
Operating Income (Loss)	<u>3,032,325</u>	<u>1,862,527</u>	<u>(1,426,761)</u>
Nonoperating Revenues (Expenses)			
Investment income	527,834	(212,223)	754,727
Interest expense	(1,171,672)	(1,200,484)	(1,195,254)
Gain on investment in equity investee	-	39,556	54,485
Loss on disposal of capital assets	<u>(41,596)</u>	<u>(198,390)</u>	<u>(85,229)</u>
	<u>(685,434)</u>	<u>(1,571,541)</u>	<u>(471,271)</u>
Change in Net Position	<u><u>\$ 2,346,891</u></u>	<u><u>\$ 290,986</u></u>	<u><u>\$ (1,898,032)</u></u>

Perry County Memorial Hospital
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Management's Discussion and Analysis
Years Ended December 31, 2019 and 2018

Operating Income

The first component of the overall change in the Hospital's net position is its operating income or loss, identified as the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital was formed and is operated primarily to serve residents of Perry County, Indiana, and the surrounding area. In 2019 and 2018, the Hospital reported operating income.

The operating income for 2019 was an improvement of \$1,169,798, or 62.8%, as compared to the operating income for 2018. The primary components of change in operating results are:

- An increase in net patient service revenue of \$2,008,096, or 5.2%
- A decrease in purchased services and professional fees of \$959,367, or 10.2%
- An increase in provider tax expense of \$459,559, or 51.6%
- An increase in other operating expenses of \$1,024,154, or 14.5%

Net patient service revenue increased due to increased volumes in 2019 as compared to 2018. The decrease in purchased services and professional fees was primarily due to a decrease in management fees paid in 2019 as compared to 2018. The increase in provider tax expense was a result of increases in volumes for 2019 as compared to 2018. The increase in other expenses was related to additional expenses related to the skilled nursing facility that was closed in April 2019.

The operating income for 2018 was an improvement of \$3,289,288 as compared to the to the operating loss of \$1,426,761 for 2017. Net patient service revenue increase in 2018 as compared to 2017 due to increased volumes in 2018 as compared to 2017. There was an increase in other operating revenues due to increased utilization of the 340B drug pricing program. Employee salaries and benefits decreased in 2018 as compared to 2017 due to lower cost associated with the employee health insurance program. Purchased services and professional fees increased due to higher utilization of contracted services in 2018 as compared to 2017.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with the changes in operating gains and nonoperating revenues and expenses for 2019 compared to 2018 discussed earlier with one exception. Cash provided by operating activities decreased as compared with the increase in operating income due to the changes in estimated amounts due to/from third party payors that included payment of the 2018 Medicare cost report and decreased current year receipts of disproportionate share hospital (DSH) payments. The changes in the Hospital's cash flows were consistent with the changes in operating gains and nonoperating revenues and expenses for 2018 as compared to 2017.

Perry County Memorial Hospital
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Capital Asset and Debt Administration

Capital Assets

At the end of 2019, the Hospital had \$45,564,674 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2019, the Hospital purchased cash assets costing \$448,544.

Debt

At December 31, 2019, the Hospital had \$37,334,000 in lease revenue bonds. The Hospital issued no new debt in 2019 or 2018.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the chief financial officer by telephoning 814.547.0170.

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Statements of Net Position December 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash	\$ 6,064,466	\$ 6,205,960
Short-term investments	6,551,688	4,312,241
Patient accounts receivable, net of allowance; 2019 – \$1,540,000; 2018 – \$1,138,000	4,865,049	4,548,337
Other receivables	153,343	155,913
Supplies	899,185	789,771
Prepaid expenses and other current assets	465,064	380,954
Estimated amounts due from third-party payors	420,499	-
Total current assets	19,419,294	16,393,176
Noncurrent Cash and Investments		
Held by trustee for debt service	1,820,000	1,820,000
Capital Assets, Net	45,564,674	47,787,841
Other Assets	25,000	25,000
Total assets	\$ 66,828,968	\$ 66,026,017

Liabilities and Net Position

Current Liabilities		
Current portion of long-term debt	\$ 641,000	\$ 624,000
Accounts payable	1,205,901	1,247,148
Payable to employees (including payroll taxes and benefits)	1,030,888	1,164,647
Accrued expenses	999,836	951,890
Estimated amounts due to third-party payors	421,083	1,213,963
Total current liabilities	4,298,708	5,201,648
Long-Term Debt	36,693,000	37,334,000
Total liabilities	40,991,708	42,535,648
Net Position		
Net investment in capital assets	8,230,674	9,829,841
Restricted-expendable for debt service and capital improvements	1,820,000	1,820,000
Unrestricted	15,786,586	11,840,528
Total net position	25,837,260	23,490,369
Total liabilities and net position	\$ 66,828,968	\$ 66,026,017

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

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 – \$2,672,744; 2018 – \$2,476,226	\$ 40,577,572	\$ 38,569,476
Other	<u>2,496,711</u>	<u>2,670,592</u>
Total operating revenues	<u>43,074,283</u>	<u>41,240,068</u>
Operating Expenses		
Salaries and benefits	19,516,865	19,356,041
Purchased services and professional fees	8,461,336	9,420,703
Supplies	4,842,452	4,451,201
Provider tax expense	1,350,625	891,066
Depreciation and amortization	2,630,115	2,650,868
Other expenses	<u>3,240,565</u>	<u>2,607,662</u>
Total operating expenses	<u>40,041,958</u>	<u>39,377,541</u>
Operating Income	<u>3,032,325</u>	<u>1,862,527</u>
Nonoperating Revenues (Expenses)		
Investment income	527,834	(212,223)
Interest expense	(1,171,672)	(1,200,484)
Gain on investment in equity investee	-	39,556
Loss on disposal of capital assets	<u>(41,596)</u>	<u>(198,390)</u>
Total nonoperating expenses	<u>(685,434)</u>	<u>(1,571,541)</u>
Increase in Net Position	2,346,891	290,986
Net Position, Beginning of Year	<u>23,490,369</u>	<u>23,199,383</u>
Net Position, End of Year	<u><u>\$ 25,837,260</u></u>	<u><u>\$ 23,490,369</u></u>

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 39,047,481	\$ 40,286,893
Payments to suppliers and contractors	(18,072,053)	(17,703,978)
Payments to employees	(19,650,624)	(19,485,173)
Other receipts, net	<u>2,499,281</u>	<u>1,939,086</u>
Net cash provided by operating activities	<u>3,824,085</u>	<u>5,036,828</u>
Capital and Related Financing Activities		
Principal payments on long-term debt	(624,000)	(605,000)
Interest paid on long-term debt	(1,181,422)	(1,200,484)
Purchase of capital assets	<u>(448,544)</u>	<u>(606,293)</u>
Net cash used in capital and related financing activities	<u>(2,253,966)</u>	<u>(2,411,777)</u>
Investing Activities		
Purchase of investments	(5,299,424)	(3,897,753)
Proceeds from disposition of investments	3,440,770	4,641,468
Interest and dividend on investments	<u>147,041</u>	<u>74,557</u>
Net cash provided by (used in) investing activities	<u>(1,711,613)</u>	<u>818,272</u>
Increase (Decrease) in Cash and Cash Equivalents	(141,494)	3,443,323
Cash, Beginning of Year	<u>6,205,960</u>	<u>2,762,637</u>
Cash, End of Year	<u><u>\$ 6,064,466</u></u>	<u><u>\$ 6,205,960</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 3,032,325	\$ 1,862,527
Depreciation and amortization	2,630,115	2,650,868
Provision for uncollectible accounts	2,672,744	2,476,226
Changes in operating assets and liabilities		
Patient accounts receivable	(2,989,456)	(2,328,271)
Estimated amounts due to/from third-party payors	(1,213,379)	1,569,462
Accounts payable and accrued expenses	(117,310)	(1,490,952)
Prepaid assets, supplies and other assets	<u>(190,954)</u>	<u>296,968</u>
Net cash provided by operating activities	<u><u>\$ 3,824,085</u></u>	<u><u>\$ 5,036,828</u></u>

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2019 and 2018

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

Nature of Operations and Reporting Entity

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

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

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

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

Perry County Memorial Hospital also operated a long-term care facility through a lease and management agreement. The facility provided inpatient and therapy services throughout its geographic area and supported Perry County Memorial Hospital's mission to provide quality care and services to the patients of the facility. The facility was managed by a third party under a management agreement. The revenues from operations are the property of Perry County Memorial Hospital and Perry County Memorial Hospital was responsible for the associated expenses and working capital requirements. In April 2019, the long-term care facility was closed and ceased operations.

Basis of Accounting and Presentation

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

Perry County Memorial Hospital

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Notes to Financial Statements

December 31, 2019 and 2018

Use of Estimates

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

Risk Management

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

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

Investments and Investment Income

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

Noncurrent cash includes assets held by trustees under debt agreements.

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

Patient Accounts Receivable

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

Perry County Memorial Hospital

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Notes to Financial Statements

December 31, 2019 and 2018

Supplies

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

Capital Assets

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

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

Capital and Lease Asset Impairment

The Hospital evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease asset has occurred. If a capital or lease asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Compensated Absences

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

Perry County Memorial Hospital

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Notes to Financial Statements

December 31, 2019 and 2018

Net Position

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

Net Patient Service Revenue

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

Charity Care

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

Operating Activities

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

Income Taxes

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

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

Note 2: Net Patient Service Revenue

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

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

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

The Hospital participates in a state specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$1,351,000 and \$891,000 of fees related to the program in 2019 and 2018, respectively, which is recorded as an operating expense. The provider assessment fee program is subject to retroactive rate setting by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital. There is no assurance this program will continue to be implemented in the future.

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

Approximately 55% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for each of the years ended December 31, 2019 and 2018. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The long-term care operations of the Hospital, which was closed in April 2019, qualified for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital was responsible for funding the IGT for the long-term care operations. Revenue associated with the UPL program was recorded net of IGT payments made to the program

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and are included in net patient service revenue. The Hospital recognized approximately \$53,000 and \$492,000 related to this supplemental payment program for the years ended December 31, 2019 and 2018, respectively.

Note 3: Deposits, Investments and Investment Income

Deposits

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

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

At December 31, 2019, all bank balances were insured through FDIC and IPDIF. At December 31, 2018, \$145,007 of the Hospital's bank balances of \$395,007 held at one financial institution are exposed to custodial credit risk and are uninsured and uncollateralized.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury, U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds, equity securities, money market mutual funds, mutual funds and certificates of deposit. At December 31, 2019 and 2018, the Hospital had the following investments and maturities:

Type	2019				
	Fair Value	Maturities in Years			
		Less Than One	One to Five	Six to Ten	More Than Ten
Money market mutual funds	\$ 128,453	\$ 128,453	\$ -	\$ -	\$ -
Negotiable certificates of deposit	2,133,468	2,133,468	-	-	-
	2,261,921	<u>\$ 2,261,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual funds	<u>2,411,975</u>				
	<u><u>\$ 4,673,896</u></u>				

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Type	2018				
	Fair Value	Maturities in Years			
		Less Than One	One to Five	Six to Ten	More Than Ten
Money market mutual funds	\$ 503,126	\$ 503,126	\$ -	\$ -	\$ -
Negotiable certificates of deposit	1,439,446	1,439,446	-	-	-
	1,942,572	<u>\$ 1,942,572</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual funds	<u>1,675,353</u>				
	<u>\$ 3,617,925</u>				

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

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital's policy to limit its investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSRO). At December 31, 2019 and 2018, the Hospital held no investments in corporate bonds.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At December 31, 2019 and 2018, the Hospital held no investments in the possession of an outside party.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. At December 31, 2019 and 2018, the Hospital held no investments in any one issuer.

Foreign Currency Risk – This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Hospital had no investments denominated in foreign currency at December 31, 2019 and 2018.

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Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statements of net position at December 31, 2019 and 2018, as follows:

	2019	2018
Carrying value		
Deposits	\$ 9,762,258	\$ 8,720,276
Investments	4,673,896	3,617,925
	<u>\$ 14,436,154</u>	<u>\$ 12,338,201</u>

Included in the following statement of net position captions:

	2019	2018
Cash and cash equivalents	\$ 6,064,466	\$ 6,205,960
Short-term investments	6,551,688	4,312,241
Noncurrent cash and investments	1,820,000	1,820,000
	<u>\$ 14,436,154</u>	<u>\$ 12,338,201</u>

Investment Income

Investment income for the years ended December 31, 2019 and 2018, consisted of:

	2019	2018
Interest and dividend income	\$ 147,041	\$ 74,557
Net unrealized gains (losses) on investments	398,322	(409,926)
Net realized gains (losses) on investments	(17,529)	123,146
	<u>\$ 527,834</u>	<u>\$ (212,223)</u>

The Hospital had \$3,697,792 and \$2,514,316 of non-negotiable certificates of deposit included in deposits for December 31, 2019 and 2018, respectively.

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Note 4: Concentration of Credit Risk

Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors at December 31, 2019 and 2018, was:

	2019	2018
Medicare	\$ 1,700,429	1,252,646
Medicaid	552,048	846,727
Commercial	2,146,087	2,074,960
Patients	2,006,568	1,511,963
	<u>6,405,132</u>	<u>5,686,296</u>
Less allowance for uncollectible accounts	<u>1,540,083</u>	<u>1,137,959</u>
	<u><u>\$ 4,865,049</u></u>	<u><u>\$ 4,548,337</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2019 and 2018, was:

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and improvements	\$ 3,815,753	\$ -	\$ -	\$ -	\$ 3,815,753
Buildings and leasehold improvements	43,923,393	6,607	-	241,695	44,171,695
Equipment	19,243,416	342,888	(291,079)	(241,695)	19,053,530
Construction in progress	-	99,049	-	-	99,049
Total capital assets	66,982,562	448,544	(291,079)	-	67,140,027
Less accumulated depreciation					
Land improvements	(214,016)	(7,231)	-	-	(221,247)
Buildings and leasehold improvements	(6,064,311)	(2,129,232)	-	-	(8,193,543)
Equipment	(12,916,394)	(493,652)	249,483	-	(13,160,563)
Total accumulated depreciation	(19,194,721)	(2,630,115)	249,483	-	(21,575,353)
Capital assets, net	\$ 47,787,841	\$(2,181,571)	\$ (41,596)	\$ -	\$ 45,566,674

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	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and improvements	\$ 3,815,753	\$ -	\$ -	\$ -	\$ 3,815,753
Buildings and leasehold improvements	43,914,493	8,900	-	-	43,923,393
Equipment	18,677,423	580,561	(262,887)	248,319	19,243,416
Construction in progress	231,487	16,832	-	(248,319)	-
Total capital assets	66,639,156	606,293	(262,887)	-	66,982,562
Less accumulated depreciation					
Land improvements	(206,921)	(7,095)	-	-	(214,016)
Buildings and leasehold improvements	(4,943,919)	(1,120,392)	-	-	(6,064,311)
Equipment	(11,457,510)	(1,523,381)	64,497	-	(12,916,394)
Total accumulated depreciation	(16,608,350)	(2,650,868)	64,497	-	(19,194,721)
Capital assets, net	<u>\$ 50,030,806</u>	<u>\$ (2,044,575)</u>	<u>\$ (198,390)</u>	<u>\$ -</u>	<u>\$ 47,787,841</u>

Note 6: Medical Malpractice Claims

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

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 \$65,000 through March 31, 2019, and \$75,000 thereafter. 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.

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

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 170,373	\$ 496,743
Current year claims incurred and changes in estimates for claims incurred in prior years	2,552,390	2,330,079
Claims and expenses paid	<u>(2,292,084)</u>	<u>(2,656,449)</u>
Balance, end of year	<u>\$ 430,679</u>	<u>\$ 170,373</u>

Note 8: Long-Term Obligations

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

	<u>2019</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt					
USDA lease revenue bonds 2013 (A)	<u>\$ 37,958,000</u>	<u>\$ -</u>	<u>\$ 624,000</u>	<u>\$ 37,334,000</u>	<u>\$ 641,000</u>
Total long-term debt obligations	<u>\$ 37,958,000</u>	<u>\$ -</u>	<u>\$ 624,000</u>	<u>\$ 37,334,000</u>	<u>\$ 641,000</u>
	<u>2018</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt					
USDA lease revenue bonds 2013 (A)	<u>\$ 38,563,000</u>	<u>\$ -</u>	<u>\$ 605,000</u>	<u>\$ 37,958,000</u>	<u>\$ 624,000</u>
Total long-term debt obligations	<u>\$ 38,563,000</u>	<u>\$ -</u>	<u>\$ 605,000</u>	<u>\$ 37,958,000</u>	<u>\$ 624,000</u>

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

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

Year Ending December 31	Total to be Paid	Principal	Interest
2020	\$ 1,802,766	\$ 641,000	\$ 1,161,766
2021	1,806,578	665,000	1,141,578
2022	1,806,625	686,000	1,120,625
2023	1,806,031	707,000	1,099,031
2023	1,803,750	727,000	1,076,750
2025–2029	9,026,125	4,001,000	5,025,125
2030–2034	9,029,781	4,676,000	4,353,781
2035–2039	9,031,531	5,462,000	3,569,531
2040–2044	9,029,391	6,376,000	2,653,391
2045–2049	9,031,969	7,448,000	1,583,969
2050–2053	6,322,375	5,945,000	377,375
	<u>\$ 60,496,922</u>	<u>\$ 37,334,000</u>	<u>\$ 23,162,922</u>

Note 9: Disclosures About Fair Value of Assets and Liabilities

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

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

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Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Money market mutual funds	\$ 128,453	\$ 128,453	\$ -	\$ -
Negotiable certificates of deposit	2,133,468	-	2,133,468	-
Mutual funds	2,411,975	2,411,975	-	-
	<u>\$ 4,673,896</u>	<u>\$ 2,540,428</u>	<u>\$ 2,133,468</u>	<u>\$ -</u>
December 31, 2018				
Money market mutual funds	\$ 503,126	\$ 503,126	\$ -	\$ -
Negotiable certificates of deposit	1,439,446	-	1,439,446	-
Mutual funds	1,675,353	1,675,353	-	-
	<u>\$ 3,617,925</u>	<u>\$ 2,178,479</u>	<u>\$ 1,439,446</u>	<u>\$ -</u>

Investments

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

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Note 10: Defined Contribution Plan

The Perry County Memorial Hospital Employee Retirement Plan is a defined contribution retirement plan that provides benefits to substantially all of the Hospital's employees and is authorized by Indiana Code 16-22-3-11. The plan is administered by the board of trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Employee contributions are allowed up to the maximum allowable by law. The Hospital's discretionary contribution is up to 3% matching contributions for eligible salaries for 2019 and 2018 plus an optional 3% for 2018. For the years ended December 31, 2019 and 2018, the Hospital made \$210,000 and \$400,000, respectively, of contributions to the plan.

Note 11: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

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

Malpractice Claims

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

Incurred, but Not Reported, Employee Health Insurance Claims

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

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Note 12: Risk, Uncertainties and Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance discussed elsewhere in these notes; 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 counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 13: Commitments

Management Contracts

The Hospital contracted with Ascension St. Vincent to operate, manage and supervise day-to-day activities of the Hospital. Under the terms of the contract, the fee is adjusted annually by an agreed-upon inflationary adjustment. There were no management and consulting fees paid to Ascension St. Vincent during the year ended December 31, 2019. In 2018, the Hospital terminated its contract with Alliant Management Services (Alliant) and had total management and consulting fees paid during the year ended December 31, 2018, of approximately \$682,000.

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Note 14: Condensed Combining Information

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

	December 31, 2019				
	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Assets					
Current Assets					
Cash	\$ 5,951,572	\$ -	\$ 112,894	\$ -	\$ 6,064,466
Short-term investments	3,891,615	-	2,660,073	-	6,551,688
Patient accounts receivable, net of allowance	4,865,049	-	-	-	4,865,049
Other receivables	153,343	-	-	-	153,343
Supplies	899,185	-	-	-	899,185
Prepaid expenses and other current assets	465,064	-	-	-	465,064
Estimated amounts due from third-party payors	420,499	-	-	-	420,499
Total current assets	16,646,327	-	2,772,967	-	19,419,294
Noncurrent Cash and Investments					
Held by trustee for debt service	1,820,000	-	-	-	1,820,000
Capital Assets, Net	5,702,309	39,862,365	-	-	45,564,674
Other Assets	25,000	-	-	-	25,000
Total assets	<u>\$ 24,193,636</u>	<u>\$ 39,862,365</u>	<u>\$ 2,772,967</u>	<u>\$ -</u>	<u>\$ 66,828,968</u>
Liabilities and Net Position					
Current Liabilities					
Current portion of long-term debt	\$ -	\$ 641,000	\$ -	\$ -	\$ 641,000
Accounts payable	1,205,901	-	-	-	1,205,901
Payable to employees (including payroll taxes and benefits)	1,030,888	-	-	-	1,030,888
Accrued expenses	457,251	542,585	-	-	999,836
Estimated amounts due to third-party payors	421,083	-	-	-	421,083
Total current liabilities	3,115,123	1,183,585	-	-	4,298,708
Long-Term Debt	-	36,693,000	-	-	36,693,000
Total liabilities	<u>3,115,123</u>	<u>37,876,585</u>	<u>-</u>	<u>-</u>	<u>40,991,708</u>
Net Position					
Net investment in capital assets	5,702,309	2,528,365	-	-	8,230,674
Restricted-expendable for debt service and capital improvements	1,820,000	-	-	-	1,820,000
Unrestricted	13,556,204	(542,585)	2,772,967	-	15,786,586
Total net position	<u>21,078,513</u>	<u>1,985,780</u>	<u>2,772,967</u>	<u>-</u>	<u>25,837,260</u>
Total liabilities and net position	<u>\$ 24,193,636</u>	<u>\$ 39,862,365</u>	<u>\$ 2,772,967</u>	<u>\$ -</u>	<u>\$ 66,828,968</u>

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	December 31, 2018				
	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Assets					
Current Assets					
Cash	\$ 5,664,713	\$ -	\$ 541,247	\$ -	\$ 6,205,960
Short-term investments	2,512,394	-	1,799,847	-	4,312,241
Patient accounts receivable, net of allowance	4,548,337	-	-	-	4,548,337
Other receivables	155,913	-	-	-	155,913
Supplies	789,771	-	-	-	789,771
Prepaid expenses and other current assets	380,954	-	-	-	380,954
Total current assets	14,052,082	-	2,341,094	-	16,393,176
Noncurrent Cash and Investments					
Held by trustee for debt service	1,820,000	-	-	-	1,820,000
Capital Assets, Net	5,936,608	41,851,233	-	-	47,787,841
Other Assets	25,000	-	-	-	25,000
Total assets	<u>\$ 21,833,690</u>	<u>\$ 41,851,233</u>	<u>\$ 2,341,094</u>	<u>\$ -</u>	<u>\$ 66,026,017</u>
Liabilities and Net Position					
Current Liabilities					
Current portion of long-term debt	\$ -	\$ 624,000	\$ -	\$ -	\$ 624,000
Accounts payable	1,247,148	-	-	-	1,247,148
Payable to employees (including payroll taxes and benefits)	1,164,647	-	-	-	1,164,647
Accrued expenses	399,555	552,335	-	-	951,890
Estimated amounts due from third-party payors	1,213,963	-	-	-	1,213,963
Total current liabilities	4,025,313	1,176,335	-	-	5,201,648
Long-Term Debt	-	37,334,000	-	-	37,334,000
Total liabilities	4,025,313	38,510,335	-	-	42,535,648
Net Position					
Net investment in capital assets	5,936,608	3,893,233	-	-	9,829,841
Restricted-expendable for debt service and capital improvements	1,820,000	-	-	-	1,820,000
Unrestricted	10,051,769	(552,335)	2,341,094	-	11,840,528
Total net position	17,808,377	3,340,898	2,341,094	-	23,490,369
Total liabilities and net position	<u>\$ 21,833,690</u>	<u>\$ 41,851,233</u>	<u>\$ 2,341,094</u>	<u>\$ -</u>	<u>\$ 66,026,017</u>

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The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component units as of December 31, 2019 and 2018:

	Year Ended December 31, 2019				
	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts	\$ 40,577,572	\$ -	\$ -	\$ -	\$ 40,577,572
Other	2,386,900	-	109,811	-	2,496,711
Total operating revenues	42,964,472	-	109,811	-	43,074,283
Operating Expenses					
Salaries and benefits	19,516,865	-	-	-	19,516,865
Purchased services and professional fees	8,461,336	-	-	-	8,461,336
Supplies	4,842,452	-	-	-	4,842,452
Provider tax expense	1,350,625	-	-	-	1,350,625
Depreciation and amortization	641,247	1,988,868	-	-	2,630,115
Other expenses	3,073,144	-	167,421	-	3,240,565
Total operating expenses	37,885,669	1,988,868	167,421	-	40,041,958
Operating Income (Loss)	5,078,803	(1,988,868)	(57,610)	-	3,032,325
Nonoperating Revenues (Expenses)					
Investment income	38,351	-	489,483	-	527,834
Interest expense	-	(1,171,672)	-	-	(1,171,672)
Loss on disposal of capital assets	(41,596)	-	-	-	(41,596)
Total nonoperating revenues (expenses)	(3,245)	(1,171,672)	489,483	-	(685,434)
Increase (Decrease) in Net Position Before Transfers	5,075,558	(3,160,540)	431,873	-	2,346,891
Transfers	(1,805,422)	1,805,422	-	-	-
Increase (Decrease) in Net Position	3,270,136	(1,355,118)	431,873	-	2,346,891
Net Position, Beginning of Year	17,808,377	3,340,898	2,341,094	-	23,490,369
Net Position, End of Year	\$ 21,078,513	\$ 1,985,780	\$ 2,772,967	\$ -	\$ 25,837,260

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements December 31, 2019 and 2018

	Year Ended December 31, 2018				
	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts	\$ 38,569,476	\$ -	\$ -	\$ -	\$ 38,569,476
Other	2,586,874	-	83,718	-	2,670,592
Total operating revenues	41,156,350	-	83,718	-	41,240,068
Operating Expenses					
Salaries and benefits	19,356,041	-	-	-	19,356,041
Purchased services and professional fees	9,420,703	-	-	-	9,420,703
Supplies	4,451,201	-	-	-	4,451,201
Provider tax expense	891,066	-	-	-	891,066
Depreciation and amortization	662,000	1,988,868	-	-	2,650,868
Other expenses	2,566,342	-	41,320	-	2,607,662
Total operating expenses	37,347,353	1,988,868	41,320	-	39,377,541
Operating Income (Loss)	3,808,997	(1,988,868)	42,398	-	1,862,527
Nonoperating Revenues (Expenses)					
Investment income	13,223	-	(225,446)	-	(212,223)
Interest expense	-	(1,200,484)	-	-	(1,200,484)
Gain on investment in equity investee	39,556	-	-	-	39,556
Loss on disposal of capital assets	(198,390)	-	-	-	(198,390)
Total nonoperating revenues (expenses)	(145,611)	(1,200,484)	(225,446)	-	(1,571,541)
Increase (Decrease) in Net Position Before Transfers	3,663,386	(3,189,352)	(183,048)	-	290,986
Transfers	(1,794,826)	1,794,826	-	-	-
Increase (Decrease) in Net Position	1,868,560	(1,394,526)	(183,048)	-	290,986
Net Position, Beginning of Year, as Restated	15,939,817	4,735,424	2,524,142	-	23,199,383
Net Position, End of Year	\$ 17,808,377	\$ 3,340,898	\$ 2,341,094	\$ -	\$ 23,490,369

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2019 and 2018

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

	Year Ended December 31, 2019				
	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Operating Activities					
Receipts from and on behalf of patients	\$ 39,047,481	\$ -	\$ -	\$ -	\$ 39,047,481
Payments to suppliers and contractors	(17,904,632)	-	(167,421)	-	(18,072,053)
Payments to employees	(19,650,624)	-	-	-	(19,650,624)
Other receipts, net	2,389,470	-	109,811	-	2,499,281
Net cash provided by (used in) operating activities	3,881,695	-	(57,610)	-	3,824,085
Capital and Related Financing Activities					
Principal payments on long-term debt	-	(624,000)	-	-	(624,000)
Interest paid on long-term debt	-	(1,181,422)	-	-	(1,181,422)
Purchase of capital assets	(448,544)	-	-	-	(448,544)
Net cash used in capital and related financing activities	(448,544)	(1,805,422)	-	-	(2,253,966)
Investing Activities					
Purchase of investments	(4,574,613)	-	(724,811)	-	(5,299,424)
Proceeds from disposition of investments	3,195,440	-	245,330	-	3,440,770
Interest and dividend on investments	38,303	-	108,738	-	147,041
Transfer (to) from affiliates	(1,805,422)	1,805,422	-	-	-
Net cash provided by (used in) investing activities	(3,146,292)	1,805,422	(370,743)	-	(1,711,613)
Increase (Decrease) in Cash and Cash Equivalents	286,859	-	(428,353)	-	(141,494)
Cash, Beginning of Year	5,664,713	-	541,247	-	6,205,960
Cash, End of Year	<u>\$ 5,951,572</u>	<u>\$ -</u>	<u>\$ 112,894</u>	<u>\$ -</u>	<u>\$ 6,064,466</u>
Reconciliation of Operating Income (Loss) to Note Cash Provided by (Used in) Operating Activities					
Operating income (loss)	\$ 5,078,803	\$ (1,988,868)	\$ (57,610)	\$ -	\$ 3,032,325
Depreciation and amortization	641,247	1,988,868	-	-	2,630,115
Provision for uncollectible accounts	2,672,744	-	-	-	2,672,744
Changes in operating assets and liabilities					
Patient accounts receivable	(2,989,456)	-	-	-	(2,989,456)
Estimated amounts due to/from third-party payors	(1,213,379)	-	-	-	(1,213,379)
Accounts payable and accrued expenses	(117,310)	-	-	-	(117,310)
Prepaid assets, supplies and other assets	(190,954)	-	-	-	(190,954)
Net cash provided by (used in) operating activities	<u>\$ 3,881,695</u>	<u>\$ -</u>	<u>\$ (57,610)</u>	<u>\$ -</u>	<u>\$ 3,824,085</u>

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2019 and 2018

	Year Ended December 31, 2018				
	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Operating Activities					
Receipts from and on behalf of patients	\$ 40,286,893	\$ -	\$ -	\$ -	\$ 40,286,893
Payments to suppliers and contractors	(17,662,658)	-	(41,320)	-	(17,703,978)
Payments to employees	(19,485,173)	-	-	-	(19,485,173)
Other receipts, net	1,855,368	-	83,718	-	1,939,086
Net cash provided by operating activities	4,994,430	-	42,398	-	5,036,828
Capital and Related Financing Activities					
Principal payments on long-term debt	-	(605,000)	-	-	(605,000)
Interest paid on long-term debt	-	(1,200,484)	-	-	(1,200,484)
Purchase of capital assets	(606,293)	-	-	-	(606,293)
Net cash used in capital and related financing activities	(606,293)	(1,805,484)	-	-	(2,411,777)
Investing Activities					
Purchase of investments	(2,935,333)	-	(962,420)	-	(3,897,753)
Proceeds from disposition of investments	3,311,787	-	1,329,681	-	4,641,468
Interest and dividend on investments	25,630	-	48,927	-	74,557
Transfer (to) from affiliates	(1,794,826)	1,794,826	-	-	-
Net cash provided by (used in) investing activities	(1,392,742)	1,794,826	416,188	-	818,272
Increase (Decrease) in Cash and Cash Equivalents	2,995,395	(10,658)	458,586	-	3,443,323
Cash, Beginning of Year	2,669,318	10,658	82,661	-	2,762,637
Cash, End of Year	\$ 5,664,713	\$ -	\$ 541,247	\$ -	\$ 6,205,960
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities					
Operating income (loss)	\$ 3,808,997	\$ (1,988,868)	\$ 42,398	\$ -	\$ 1,862,527
Depreciation and amortization	662,000	1,988,868	-	-	2,650,868
Provision for uncollectible accounts	2,476,226	-	-	-	2,476,226
Changes in operating assets and liabilities					
Patient accounts receivable	(2,328,271)	-	-	-	(2,328,271)
Estimated amounts due to/from third-party payors	1,569,462	-	-	-	1,569,462
Accounts payable and accrued expenses	(1,490,952)	-	-	-	(1,490,952)
Prepaid assets, supplies and other assets	296,968	-	-	-	296,968
Net cash provided by operating activities	\$ 4,994,430	\$ -	\$ 42,398	\$ -	\$ 5,036,828

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2019 and 2018

Note 15: Future Changes in Accounting Principle

The Governmental Accounting Standards Board (GASB) amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The new standard is effective for annual periods beginning after June 15, 2021. The Hospital is evaluating the impact the standard will have on the financial statements; however, the standard may have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

GASB issued GASB 84, *Fiduciary Activities*, to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 establishes criteria for identifying fiduciary activities for all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The new standard is effective for annual periods beginning after December 15, 2019. The Hospital is evaluating the impact the standard will have on the financial statements.

Note 16: Prior Year Financial Statement Revision

The Hospital's financial statements as of December 31, 2018, have been revised for an immaterial correction within the disclosures about fair value of assets and liabilities footnote. The following line items within the footnote, were affected by the revision.

	As Revised	As Previously Reported	Effect of Change
Money market mutual funds	\$ 503,126	\$ 1,675,353	\$ (1,172,227)
Total	\$ 3,617,925	\$ 4,790,152	\$ (1,172,227)

Note 17: Subsequent Events

In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. Subsequent to year-end, the spread of COVID-19 began to cause some business disruption through reduced patient revenue, specifically related to elective procedures and physician office visits. Additionally, there has been significant volatility in the investment markets both nationally and globally since December 31, 2019, resulting in an overall market decline in certain market segments which has resulted in a substantial decline in the value of the investment portfolio.

Perry County Memorial Hospital
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Notes to Financial Statements

December 31, 2019 and 2018

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

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act (CARES Act)*, as part of the government's response to the spread of the SARS-CoV-2 virus and the incidence of COVID-19. The *CARES Act* provides for a provider relief fund to be used to support health care related expenses or lost revenue attributable to COVID-19. The Hospital received a payment of approximately \$636,000 in April 2020 and \$3,884,000 in May 2020 related to the *CARES Act*.

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

Independent Auditor's Report

Board of Trustees
Perry County Memorial Hospital
Tell City, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Perry County Memorial Hospital, a component unit of Perry County, Indiana, which comprise the statement of net position as of December 31, 2019, 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 18, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Perry County Memorial 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 Perry County Memorial Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of Perry County Memorial 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Perry County Memorial 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Louisville, Kentucky
May 18, 2020