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June 10, 2021

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, 2020 to December 31, 2020. 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, 2020, 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, 2020 and 2019



Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
December 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 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 26, 2021, 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 26, 2021

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Management's Discussion and Analysis
Years Ended December 31, 2020 and 2019

Introduction

This management's discussion and analysis of the financial performance of Perry County Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2020 and 2019. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2020 and 2019 by \$6,346,036 and \$2,097,953, or 44% and 17%, respectively.
- The Hospital's net position increased by \$3,823,411, or 14.8%, in 2020, as compared to 2019, and increased by \$2,346,891, or 10.0%, in 2019, as compared to 2018, respectively, from operating and nonoperating results.
- The Hospital reported operating income in 2020 of \$439,756 and 2019 of \$3,032,235. The operating income in 2020 decreased by \$2,592,569, or 85.5%, as compared to 2019. The Hospital reported operating income in 2019 of \$3,032,325, which represents an increase of \$1,169,798, or 62.8%, over the operating income in 2018.
- Net nonoperating revenues (expenses) in 2020 of \$3,383,655, as compared to 2019, of \$(685,434), and net nonoperating expenses decreased by \$886,107, or 56.4%, in 2019 compared to 2018.

Using This Annual Report

The Hospital's financial statements consist of three statements—a statement of net position, a statement of revenues, expenses and changes in net position and a 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
A Component Unit of Perry County, Indiana
Management’s Discussion and Analysis
Years Ended December 31, 2020 and 2019

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 \$3,823,411 (14.8%) in 2020 over 2019 and increased by \$2,346,891 (10.0%) in 2019 over 2018, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2020	2019	2018
Assets			
Patient accounts receivable, net	\$ 5,351,611	\$ 4,865,049	\$ 4,548,337
Other current assets	20,643,640	14,554,245	11,844,839
Capital assets, net	44,052,728	45,564,674	47,787,841
Other noncurrent assets	<u>1,845,000</u>	<u>1,845,000</u>	<u>1,845,000</u>
Total assets	<u>\$ 71,892,979</u>	<u>\$ 66,828,968</u>	<u>\$ 66,026,017</u>
Liabilities			
Long-term debt	\$ 36,336,906	\$ 36,693,000	\$ 37,334,000
Current liabilities	<u>5,895,402</u>	<u>4,298,708</u>	<u>5,201,648</u>
Total liabilities	<u>42,232,308</u>	<u>40,991,708</u>	<u>42,535,648</u>
Net Position			
Net investment in capital assets	6,969,718	8,230,674	9,829,841
Restricted	1,820,000	1,820,000	1,820,000
Unrestricted	<u>20,870,953</u>	<u>15,786,586</u>	<u>11,840,528</u>
Total net position	<u>29,660,671</u>	<u>25,837,260</u>	<u>23,490,369</u>
Total liabilities and net position	<u>\$ 71,892,979</u>	<u>\$ 66,828,968</u>	<u>\$ 66,026,017</u>

Perry County Memorial Hospital
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Management's Discussion and Analysis
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A significant change in the Hospital's financial position in 2020 was the increase in cash and investments. Cash and investments increased by \$6,346,036, which was primarily related to the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act) provider relief funding of \$4,786,593 received in 2020.

The most 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 that resulted in an increase in cash provided by operating activities.

Operating Results and Changes in the Hospital's Net Position

In 2020, the Hospital's net position increased by \$3,823,411, or 14.8%, from operating and nonoperating results, as shown in Table 2. This increase is made up of several different components and represents an increase of \$1,476,520 as compared with the change in net position for 2019 of \$2,346,891. The Hospital's net position increased by \$2,346,891 from 2018 to 2019.

Table 2: Operating Results and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues			
Net patient service revenue	\$ 37,892,250	\$ 40,577,572	\$ 38,569,476
Other operating revenues	<u>2,215,206</u>	<u>2,496,711</u>	<u>2,670,592</u>
Total operating revenues	<u>40,107,456</u>	<u>43,074,283</u>	<u>41,240,068</u>
Operating Expenses			
Salaries, wages and employee benefits	19,582,522	19,516,865	19,356,041
Purchased services and professional fees	9,653,742	8,461,336	9,420,703
Depreciation and amortization	2,647,580	2,630,115	2,650,868
Provider tax expense	1,142,947	1,350,625	891,066
Other operating expenses	<u>6,640,909</u>	<u>8,083,017</u>	<u>7,058,863</u>
Total operating expenses	<u>39,667,700</u>	<u>40,041,958</u>	<u>39,377,541</u>
Operating Income	<u>439,756</u>	<u>3,032,325</u>	<u>1,862,527</u>
Nonoperating Revenues (Expenses)			
Investment income	367,736	527,834	(212,223)
Governmental grant income	4,160,651	-	-
Interest expense	(1,144,732)	(1,171,672)	(1,200,484)
Gain on investment in equity investee	-	-	39,556
Loss on disposal of capital assets	<u>-</u>	<u>(41,596)</u>	<u>(198,390)</u>
	<u>3,383,655</u>	<u>(685,434)</u>	<u>(1,571,541)</u>
Change in Net Position	<u>\$ 3,823,411</u>	<u>\$ 2,346,891</u>	<u>\$ 290,986</u>

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Management's Discussion and Analysis
Years Ended December 31, 2020 and 2019

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 2020 and 2019, the Hospital reported operating income.

Operating income for 2020 decreased by \$2,592,569, or 85.5%, as compared to the operating income for 2019. The primary components of change in operating results are:

- A decrease in net patient service revenue of \$2,685,322, or 6.6%
- A decrease in other operating revenue of \$281,505, or 11.3%
- An increase in purchased services and professional fees of \$1,192,406, or 14.1%
- A decrease in other operating expenses of \$1,442,108, or 17.8%

Net patient service revenue decreased due to decreased volumes in 2020, as compared to 2019, related to the COVID-19 pandemic, as further discussed in Note 16. The increase in purchased services and professional fees in 2020, as compared to 2019, was primarily due to an increase in purchased services related to the COVID-19 pandemic, as further discussed in Note 16. The decrease in other expenses was related to additional expenses related to the skilled nursing facility that was closed in April 2019.

The operating income for 2019 increased by \$1,289,288, as compared to the to the operating income for 2018. Net patient service revenue increased due to increased volumes in 2019, as compared to 2018. The decrease in purchased services and professional services 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 in 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 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 2020, compared to 2019, discussed earlier with one exception. Cash provided by operating activities decreased less than the decrease in operating income due to the changes in estimated amounts due to/from third-party payors that included the payment of the 2019 Medicare cost report. The changes in the Hospital's cash flows were consistent with the changes in operating gains and nonoperating revenues and expenses for 2019 as 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 Medicaid cost report and decreased current year receipts of disproportionate share hospital payments.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana
Management's Discussion and Analysis
Years Ended December 31, 2020 and 2019

Capital Asset and Debt Administration

Capital Assets

At the end of 2020, the Hospital had \$44,052,728 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2020, the Hospital purchased cash assets costing \$1,135,634.

Debt

At December 31, 2020, the Hospital had \$36,693,000 in lease revenue bonds. The Hospital entered into a capital lease agreement for \$419,029 in 2020. The Hospital issued no new debt in 2019.

Other Economic Factors

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 as a global pandemic. For health care providers, patient volumes and related revenues were affected by COVID-19, as various policies were implemented by federal, state and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities. While some of these policies have been eased and states have lifted moratoriums on nonemergent procedures, some restrictions remain in place. There is still considerable uncertainty around the duration and ultimate financial impacts of the COVID-19 pandemic. The Hospital continues to monitor the direct and indirect impacts of the pandemic and develop responses accordingly to maintain its operational and financial flexibility.

Aside from COVID-19, the health care industry and the Hospital's operating margins may continue to be under pressure with ongoing health care reform and how it will impact the overall care delivery model for hospitals, physicians and other health care providers. Uncertainty with the fate of programs, such as the *Affordable Care Act*, requires health care organizations to remain vigilant and flexible. The ongoing challenge facing the Hospital is to continue to provide quality patient care in a competitive environment and to attain reasonable rates for services provided while managing costs.

Contacting the Hospital's Financial Management

This financial report is designed to provide 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 calling 812.547.0170.

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana

Statements of Net Position
December 31, 2020 and 2019

Assets

	2020	2019
Current Assets		
Cash	\$ 12,078,813	\$ 6,064,466
Short-term investments	6,883,377	6,551,688
Patient accounts receivable, net of allowance; 2020 – \$1,667,000; 2019 – \$1,540,000	5,351,611	4,865,049
Other receivables	157,178	153,343
Supplies	726,796	899,185
Prepaid expenses and other current assets	376,977	465,064
Estimated amounts due from third-party payors	420,499	420,499
Total current assets	25,995,251	19,419,294
Noncurrent Cash and Investments		
Held by trustee for debt service	1,820,000	1,820,000
Capital Assets, Net		
	44,052,728	45,564,674
Other Assets		
	25,000	25,000
Total assets	\$ 71,892,979	\$ 66,828,968

Liabilities and Net Position

Current Liabilities		
Current portion of long-term debt	\$ 746,104	\$ 641,000
Accounts payable	1,283,100	1,205,901
Payable to employees (including payroll taxes and benefits)	1,468,098	1,030,888
Accrued expenses	961,084	999,836
Unearned grant revenue	790,246	-
Estimated amounts due to third-party payors	646,770	421,083
Total current liabilities	5,895,402	4,298,708
Long-Term Debt		
	36,336,906	36,693,000
Total liabilities	42,232,308	40,991,708
Net Position		
Net investment in capital assets	6,969,718	8,230,674
Restricted-expendable for debt service and capital improvements	1,820,000	1,820,000
Unrestricted	20,870,953	15,786,586
Total net position	29,660,671	25,837,260
Total liabilities and net position	\$ 71,892,979	\$ 66,828,968

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

	2020	2019
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2020 – \$2,429,170; 2019 – \$2,672,744	\$ 37,892,250	\$ 40,577,572
Other	2,215,206	2,496,711
Total operating revenues	40,107,456	43,074,283
Operating Expenses		
Salaries and benefits	19,582,522	19,516,865
Purchased services and professional fees	9,653,742	8,461,336
Supplies	4,173,641	4,842,452
Provider tax expense	1,142,947	1,350,625
Depreciation and amortization	2,647,580	2,630,115
Other expenses	2,467,268	3,240,565
Total operating expenses	39,667,700	40,041,958
Operating Income	439,756	3,032,325
Nonoperating Revenues (Expenses)		
Investment income	367,736	527,834
Governmental grant income	4,160,651	-
Interest expense	(1,144,732)	(1,171,672)
Loss on disposal of capital assets	-	(41,596)
Total nonoperating expenses	3,383,655	(685,434)
Increase in Net Position	3,823,411	2,346,891
Net Position, Beginning of Year	25,837,260	23,490,369
Net Position, End of Year	\$ 29,660,671	\$ 25,837,260

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

	2020	2019
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	\$ 37,631,375	\$ 39,047,481
Payments to suppliers and contractors	(17,121,641)	(18,072,053)
Payments to employees	(19,145,312)	(19,650,624)
Other receipts, net	2,211,371	2,499,281
Net cash provided by operating activities	3,575,793	3,824,085
Cash Flows from Noncapital Financing Activities		
Governmental grant revenue	4,950,897	-
Net cash provided by noncapital financing activities	4,950,897	-
Cash Flows from Capital and Related Financing Activities		
Principal payments on long-term debt	(670,019)	(624,000)
Interest paid on long-term debt	(1,161,766)	(1,181,422)
Purchase of capital assets	(716,605)	(448,544)
Net cash used in capital and related financing activities	(2,548,390)	(2,253,966)
Cash Flows from Investing Activities		
Purchase of investments	(2,916,805)	(5,299,424)
Proceeds from disposition of investments	2,806,238	3,440,770
Interest and dividend on investments	146,614	147,041
Net cash provided by (used in) investing activities	36,047	(1,711,613)
Increase (Decrease) in Cash	6,014,347	(141,494)
Cash, Beginning of Year	6,064,466	6,205,960
Cash, End of Year	\$ 12,078,813	\$ 6,064,466
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 439,756	\$ 3,032,325
Depreciation and amortization	2,647,580	2,630,115
Provision for uncollectible accounts	2,429,170	2,672,744
Changes in operating assets and liabilities		
Patient accounts receivable	(2,915,732)	(2,989,456)
Estimated amounts due to/from third-party payors	225,687	(1,213,379)
Accounts payable and accrued expenses	492,691	(117,310)
Prepaid assets, supplies and other assets	256,641	(190,954)
Net cash provided by operating activities	\$ 3,575,793	\$ 3,824,085
Supplemental Cash Flows Information		
Capital leases incurred for equipment	\$ 419,029	\$ -

See Notes to Financial Statements

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2020 and 2019

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

Nature of Operations and Reporting Entity

Perry County Memorial Hospital (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 the 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 the Hospital and, therefore, is a blended component unit of the Hospital.

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.

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.

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2020 and 2019

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. The Hospital does consider uninvested cash held in investment accounts as cash or cash equivalents.

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 (CDs). The investments in equity investees are reported on the equity method of accounting. Non-negotiable CDs 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.

Supplies

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

Perry County Memorial Hospital
A Component Unit of Perry County, Indiana

Notes to Financial Statements
December 31, 2020 and 2019

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 Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2020 and 2019.

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.

Unearned Grant Revenue

Unearned grant revenue is recognized when the Hospital has met all the applicable eligibility requirements.

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2020 and 2019

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, the 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 the 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 \$1,143,000 and \$1,351,000 of fees related to the program in 2020 and 2019, 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 57% and 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, 2020 and 2019, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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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, 2020 and 2019, all bank balances were insured through FDIC and IPDIF.

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 CDs. At December 31, 2020 and 2019, the Hospital had the following investments and maturities:

Type	2020				
	Fair Value	Maturities in Years			
		Less Than One	One to Five	Six to Ten	More Than 10
Money market mutual funds	\$ 981,746	\$ 981,746	\$ -	\$ -	\$ -
Negotiable CDs	180,470	180,470	-	-	-
	1,162,216	<u>\$1,162,216</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual funds	<u>2,971,161</u>				
	<u>\$4,133,377</u>				

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Type	2019				
	Fair Value	Maturities in Years			
		Less Than One	One to Five	Six to Ten	More Than 10
Money market mutual funds	\$ 128,453	\$ 128,453	\$ -	\$ -	\$ -
Negotiable CDs	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>\$4,673,896</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 organization. At December 31, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019.

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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, 2020 and 2019, as follows:

	2020	2019
Carrying value		
Deposits	\$ 16,648,813	\$ 9,762,258
Investments	4,133,377	4,673,896
	\$ 20,782,190	\$ 14,436,154

Included in the following statement of net position captions:

	2020	2019
Cash	\$ 12,078,813	\$ 6,064,466
Short-term investments	6,883,377	6,551,688
Noncurrent cash and investments	1,820,000	1,820,000
	\$ 20,782,190	\$ 14,436,154

Investment Income

Investment income for the years ended December 31, 2020 and 2019, consisted of:

	2020	2019
Interest and dividend income	\$ 146,614	\$ 147,041
Net unrealized gains on investments	186,509	398,322
Net realized gains (losses) on investments	34,613	(17,529)
	\$ 367,736	\$ 527,834

The Hospital had \$4,570,000 and \$3,697,792 of non-negotiable CDs included in deposits at December 31, 2020 and 2019, 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, 2020 and 2019, was:

	2020	2019
Medicare	\$ 1,809,646	1,700,429
Medicaid	805,132	552,048
Commercial	2,522,393	2,146,087
Patients	1,881,192	2,006,568
	7,018,363	6,405,132
Less allowance for uncollectible accounts	1,666,752	1,540,083
	\$ 5,351,611	\$ 4,865,049

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2020 and 2019, was:

	2020				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land and improvements	\$ 3,815,753	\$ -	\$ -	\$ -	\$ 3,815,753
Buildings and leasehold improvements	44,171,695	-	-	-	44,171,695
Equipment	19,053,530	655,782	-	432,538	20,141,850
Construction in progress	99,049	479,852	-	(432,538)	146,363
Total capital assets	67,140,027	1,135,634	-	-	68,275,661
Less accumulated depreciation					
Land improvements	(221,247)	(7,231)	-	-	(228,478)
Buildings and leasehold improvements	(8,193,543)	(2,128,110)	-	-	(10,321,653)
Equipment	(13,160,563)	(512,239)	-	-	(13,672,802)
Total accumulated depreciation	(21,575,353)	(2,647,580)	-	-	(24,222,933)
Capital assets, net	\$ 45,564,674	\$(1,511,946)	\$ -	\$ -	\$ 44,052,728

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	2019				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
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	<u>66,982,562</u>	<u>448,544</u>	<u>(291,079)</u>	<u>-</u>	<u>67,140,027</u>
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	<u>(12,916,394)</u>	<u>(493,652)</u>	<u>249,483</u>	<u>-</u>	<u>(13,160,563)</u>
Total accumulated depreciation	<u>(19,194,721)</u>	<u>(2,630,115)</u>	<u>249,483</u>	<u>-</u>	<u>(21,575,353)</u>
Capital assets, net	<u>\$ 47,787,841</u>	<u>\$(2,181,571)</u>	<u>\$ (41,596)</u>	<u>\$ -</u>	<u>\$ 45,564,674</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 \$75,000.

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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 possible that the Hospital's estimate will change by a material amount in the near term.

	2020	2019
Balance, beginning of year	\$ 430,679	\$ 170,373
Current year claims incurred and changes in estimates for claims incurred in prior years	2,356,351	2,552,390
Claims and expenses paid	(2,448,583)	(2,292,084)
Balance, end of year	\$ 338,447	\$ 430,679

Note 8: Long-Term Obligations

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

	2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
U.S. Department of Agriculture (USDA) lease revenue bonds 2013 (A)	\$ 37,334,000	\$ -	\$ 641,000	\$ 36,693,000	\$ 665,000
Capital lease obligation (B)	-	419,029	29,019	390,010	81,104
Total long-term debt obligations	\$ 37,334,000	\$ 419,029	\$ 670,019	\$37,083,010	\$ 746,104

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

(A) USDA 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 amount of required principal and interest payments on long-term obligations at December 31, 2020, are as follows:

Year Ending December 31	Total to be Paid	Principal	Interest
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
2024	1,803,750	727,000	1,076,750
2025	1,805,859	752,000	1,053,859
2026–2030	9,027,094	4,128,000	4,899,094
2031–2035	9,029,516	4,823,000	4,206,516
2036–2040	9,030,500	5,633,000	3,397,500
2041–2045	9,030,578	6,578,000	2,452,578
2046–2050	9,031,406	7,682,000	1,349,406
2051–2053	4,516,219	4,312,000	204,219
	\$ 58,694,156	\$ 36,693,000	\$ 22,001,156

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(B) The Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital leases at December 31, 2020 and 2019, totaled \$419,029 and \$0, respectively, net of accumulated depreciation of \$21,744 and \$0, respectively. The following is a schedule by year of future minimum lease payments including interest at 1.6% together with the present value of the future minimum lease payments at December 31, 2020:

2021	\$ 86,974
2022	86,974
2023	86,974
2024	86,974
2025	<u>57,957</u>
 Total minimum lease payments	 405,853
 Less amount representing interest	 <u>15,843</u>
 Present value of future minimum lease payments	 <u><u>\$ 390,010</u></u>

The Hospital has established a revolving line-of-credit agreement, which provides for borrowings up to \$1,000,000. The agreement includes interest at the one-month London InterBank Offered Rate, plus 2.34% (2.48% at December 31, 2020) and matures August 28, 2021. The line is collateralized by substantially all of the Hospital's assets. There were no amounts outstanding on the line-of-credit agreement at December 31, 2020 and 2019.

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, 2020 and 2019:

	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, 2020				
Money market mutual funds	\$ 981,746	\$ 981,746	\$ -	\$ -
Negotiable CDs	180,470	-	180,470	-
Mutual funds	2,971,161	2,971,161	-	-
	<u>\$ 4,133,377</u>	<u>\$ 3,952,907</u>	<u>\$ 180,470</u>	<u>\$ -</u>
December 31, 2019				
Money market mutual funds	\$ 128,453	\$ 128,453	\$ -	\$ -
Negotiable CDs	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>

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 2020 and 2019. For each of the years ended December 31, 2020 and 2019, the Hospital made \$210,000 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.

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, *i.e.*, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting

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investigations to determine the validity of each potential claim. Based on 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 years ended December 31, 2020 and 2019.

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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, 2020 and 2019.

	December 31, 2020				
	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Assets					
Current Assets					
Cash	\$ 11,984,503	\$ -	\$ 94,310	\$ -	\$ 12,078,813
Short-term investments	3,929,138	-	2,954,239	-	6,883,377
Patient accounts receivable, net of allowance	5,351,611	-	-	-	5,351,611
Other receivables	157,178	-	-	-	157,178
Supplies	726,796	-	-	-	726,796
Prepaid expenses and other current assets	376,977	-	-	-	376,977
Estimated amounts due from third-party payors	420,499	-	-	-	420,499
Total current assets	22,946,702	-	3,048,549	-	25,995,251
Noncurrent Cash and Investments					
Held by trustee for debt service	1,820,000	-	-	-	1,820,000
Capital Assets, Net	6,179,231	37,873,497	-	-	44,052,728
Other Assets	25,000	-	-	-	25,000
Total assets	<u>\$ 30,970,933</u>	<u>\$ 37,873,497</u>	<u>\$ 3,048,549</u>	<u>\$ -</u>	<u>\$ 71,892,979</u>
Liabilities and Net Position					
Current Liabilities					
Current portion of long-term debt	\$ 81,104	\$ 665,000	\$ -	\$ -	\$ 746,104
Accounts payable	1,283,100	-	-	-	1,283,100
Payable to employees (including payroll taxes and benefits)	1,468,098	-	-	-	1,468,098
Accrued expenses	435,533	525,551	-	-	961,084
Unearned grant revenue	790,246	-	-	-	790,246
Estimated amounts due to third-party payors	646,770	-	-	-	646,770
Total current liabilities	4,704,851	1,190,551	-	-	5,895,402
Long-Term Debt	308,906	36,028,000	-	-	36,336,906
Total liabilities	<u>5,013,757</u>	<u>37,218,551</u>	<u>-</u>	<u>-</u>	<u>42,232,308</u>
Net Position					
Net investment in capital assets	5,789,221	1,180,497	-	-	6,969,718
Restricted-expendable for debt service and capital improvements	1,820,000	-	-	-	1,820,000
Unrestricted	18,347,955	(525,551)	3,048,549	-	20,870,953
Total net position	<u>25,957,176</u>	<u>654,946</u>	<u>3,048,549</u>	<u>-</u>	<u>29,660,671</u>
Total liabilities and net position	<u>\$ 30,970,933</u>	<u>\$ 37,873,497</u>	<u>\$ 3,048,549</u>	<u>\$ -</u>	<u>\$ 71,892,979</u>

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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 from 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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The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component units for the years ended December 31, 2020 and 2019:

	Year Ended December 31, 2020				
	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	\$ 37,892,250	\$ -	\$ -	\$ -	\$ 37,892,250
Other	2,116,785	-	98,421	-	2,215,206
Total operating revenues	<u>40,009,035</u>	<u>-</u>	<u>98,421</u>	<u>-</u>	<u>40,107,456</u>
Operating Expenses					
Salaries and benefits	19,582,522	-	-	-	19,582,522
Purchased services and professional fees	9,653,742	-	-	-	9,653,742
Supplies	4,173,641	-	-	-	4,173,641
Provider tax expense	1,142,947	-	-	-	1,142,947
Depreciation and amortization	658,712	1,988,868	-	-	2,647,580
Other expenses	2,310,657	-	156,611	-	2,467,268
Total operating expenses	<u>37,522,221</u>	<u>1,988,868</u>	<u>156,611</u>	<u>-</u>	<u>39,667,700</u>
Operating Income (Loss)	<u>2,486,814</u>	<u>(1,988,868)</u>	<u>(58,190)</u>	<u>-</u>	<u>439,756</u>
Nonoperating Revenues (Expenses)					
Investment income	33,964	-	333,772	-	367,736
Governmental grant income	4,160,651	-	-	-	4,160,651
Interest expense	(1)	(1,144,731)	-	-	(1,144,732)
Total nonoperating revenues (expenses)	<u>4,194,614</u>	<u>(1,144,731)</u>	<u>333,772</u>	<u>-</u>	<u>3,383,655</u>
Increase (Decrease) in Net Position Before Transfers	6,681,428	(3,133,599)	275,582	-	3,823,411
Transfers	<u>(1,802,765)</u>	<u>1,802,765</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	4,878,663	(1,330,834)	275,582	-	3,823,411
Net Position, Beginning of Year	<u>21,078,513</u>	<u>1,985,780</u>	<u>2,772,967</u>	<u>-</u>	<u>25,837,260</u>
Net Position, End of Year	<u>\$ 25,957,176</u>	<u>\$ 654,946</u>	<u>\$ 3,048,549</u>	<u>\$ -</u>	<u>\$ 29,660,671</u>

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements December 31, 2020 and 2019

	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, as Restated	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

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Notes to Financial Statements December 31, 2020 and 2019

The following tables include condensed combining statements of cash flow information for the Hospital and its blended component units for the years ended December 31, 2020 and 2019:

	Year Ended December 31, 2020				
	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Cash Flows from Operating Activities					
Receipts from and on behalf of patients	\$ 37,631,375	\$ -	\$ -	\$ -	\$ 37,631,375
Payments to suppliers and contractors	(16,965,030)	-	(156,611)	-	(17,121,641)
Payments to employees	(19,145,312)	-	-	-	(19,145,312)
Other receipts, net	2,112,950	-	98,421	-	2,211,371
Net cash provided by (used in) operating activities	3,633,983	-	(58,190)	-	3,575,793
Cash Flows from Noncapital Financing Activities					
Governmental grant revenue	4,950,897	-	-	-	4,950,897
Net cash provided by noncapital financing activities	4,950,897	-	-	-	4,950,897
Cash Flows from Capital and Related Financing Activities					
Principal payments on long-term debt and capital leases	(29,019)	(641,000)	-	-	(670,019)
Interest paid on long-term debt	(1)	(1,161,765)	-	-	(1,161,766)
Purchase of capital assets	(716,605)	-	-	-	(716,605)
Net cash used in capital and related financing activities	(745,625)	(1,802,765)	-	-	(2,548,390)
Cash Flows from Investing Activities					
Purchase of investments	(2,417,585)	-	(499,220)	-	(2,916,805)
Proceeds from disposition of investments	2,380,980	-	425,258	-	2,806,238
Interest and dividend on investments	33,046	-	113,568	-	146,614
Transfer (to) from affiliates	(1,802,765)	1,802,765	-	-	-
Net cash provided by (used in) investing activities	(1,806,324)	1,802,765	39,606	-	36,047
Increase (Decrease) in Cash	6,032,931	-	(18,584)	-	6,014,347
Cash, Beginning of Year	5,951,572	-	112,894	-	6,064,466
Cash, End of Year	\$ 11,984,503	\$ -	\$ 94,310	\$ -	\$ 12,078,813
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities					
Operating income (loss)	\$ 2,486,814	\$ (1,988,868)	\$ (58,190)	\$ -	\$ 439,756
Depreciation and amortization	658,712	1,988,868	-	-	2,647,580
Provision for uncollectible accounts	2,429,170	-	-	-	2,429,170
Changes in operating assets and liabilities					
Patient accounts receivable	(2,915,732)	-	-	-	(2,915,732)
Estimated amounts due to/from third-party payors	225,687	-	-	-	225,687
Accounts payable and accrued expenses	492,691	-	-	-	492,691
Prepaid assets, supplies and other assets	256,641	-	-	-	256,641
Net cash provided by (used in) operating activities	\$ 3,633,983	\$ -	\$ (58,190)	\$ -	\$ 3,575,793
Supplemental Cash Flows Information					
Capital leases incurred for equipment	\$ 419,029	\$ -	\$ -	\$ -	\$ 419,029

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2020 and 2019

	Year Ended December 31, 2019				
	Perry County Memorial Hospital	Perry County Memorial Hospital Association	Perry County Memorial Hospital Foundation	Eliminations	Total
Cash Flows from 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
Cash Flows from 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)
Cash Flows from 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	286,859	-	(428,353)	-	(141,494)
Cash, Beginning of Year	5,664,713	-	541,247	-	6,205,960
Cash, End of Year	\$ 5,951,572	\$ -	\$ 112,894	\$ -	\$ 6,064,466
Reconciliation of Operating Income (Loss) to Net 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	\$ 3,881,695	\$ -	\$ (57,610)	\$ -	\$ 3,824,085

Perry County Memorial Hospital

A Component Unit of Perry County, Indiana

Notes to Financial Statements

December 31, 2020 and 2019

Note 15: Future Changes in Accounting Principle

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 87, *Leases*. Under the new standard, lessees will now be required to recognize substantially all leases on the statement of net position as both a right-of-use asset and a liability. The new standard is effective for fiscal years beginning after June 15, 2021. The Hospital is evaluating the impact the standard will have on its financial statements; however, the standard may have a material impact on its financial statements, due to the recognition of additional assets and liabilities under leases currently reported as operating leases.

Note 16: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While some of these policies have been eased and states have lifted moratoriums on nonemergent procedures, some restrictions remain in place, and some state and local governments are re-imposing certain restrictions due to increasing rates of COVID-19 cases.

The Hospital's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Hospital has taken precautionary steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to its business, including the following:

- Implementation of targeted cost reduction initiatives
- Reduction of certain planned projects and capital expenditures

In addition, the Hospital received approximately \$4,787,000 in general and targeted Provider Relief Fund distributions, as provided for under the CARES Act.

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

Perry County Memorial Hospital

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Notes to Financial Statements

December 31, 2020 and 2019

Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the effect of the pandemic on the Hospital's business. Decreases in cash flows and results of operations may have an effect on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured and other patient accounts.

Provider Relief Fund

During the year ended December 31, 2020, the Hospital received \$4,786,593 of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Secretary of Health and Human Services.

The Hospital is accounting for such payments as conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2020, the Hospital recognized \$3,996,347, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue—governmental grant revenue in the 2020 statement of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions are recorded as part of unearned grant revenue in the accompanying 2020 statement of net position at December 31, 2020.

The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, the Hospital's ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Hospital's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

**Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of 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, 2020, 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 26, 2021.

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) as a basis for designing 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. 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 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 26, 2021