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June 6, 2022

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

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2021 to December 31, 2021. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of the Sullivan County Community Hospital, as of December 31, 2021, 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 black ink that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner

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

Independent Auditor's Report and Financial Statements
December 31, 2021 and 2020

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
December 31, 2021 and 2020

Table of Contents

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis	4
Financial Statements	
Balance Sheets.....	9
SCCH Fitness Center, Inc. - Statements of Financial Position.....	10
Statements of Revenues, Expenses and Changes in Net Position	11
SCCH Fitness Center, Inc. - Statements of Activities	12
Statements of Cash Flows	13
Notes to Financial Statements	15
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> - Independent Auditor’s Report.....	38

Independent Auditor's Report

Board of Trustees
Sullivan County Community Hospital
Sullivan, Indiana

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the discretely presented component unit of Sullivan County Community Hospital (Hospital), collectively, a component unit of Sullivan County, Indiana as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Hospital as of December 31, 2021 and 2020, and the respective changes in its financial position, and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis (MD&A) be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 have also issued our report dated May 26, 2022, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
May 26, 2022

Sullivan County Community Hospital

A Component Unit of Sullivan County, Indiana

Management's Discussion and Analysis

Years Ended December 31, 2021 and 2020

Introduction

This management's discussion and analysis of the financial performance of Sullivan County Community Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2021 and 2020. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2021 by \$4,784,406 or 21.9% compared to an increase in 2020 by \$6,879,608 or 45.8%.
- The Hospital's net position increased in 2021 by \$11,264,422 or 36.1% compared to an increase in 2020 of \$1,661,204 or 5.6%.
- The Hospital reported operating income in 2021 of \$2,831,107 compared to operating income of \$241,300 during 2020. The operating results in 2021 increased by \$2,589,807 over the operating results reported in 2020. The operating results in 2020 improved by \$195,033 or 421.5% from the operating results reported in 2019.
- Net nonoperating results increased by \$6,837,839 in 2021 compared to 2020, and increased by \$1,382,439 in 2020 compared to 2019.

Using This Annual Report

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

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

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

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

The Statements of Cash Flows

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

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheets. The Hospital's net position increased by \$11,264,422 or 36.1% in 2021 compared to an increase of \$1,661,204 or 5.6% in 2020.

Table 1: Assets, Liabilities and Net Position

	2021	2020	2019
Assets			
Patient accounts receivable, net	\$ 5,929,329	\$ 4,639,908	\$ 4,212,881
Other current assets	24,312,584	14,990,732	5,429,210
Capital assets, net	16,746,550	17,629,772	18,016,526
Other noncurrent assets	4,460,780	9,392,380	11,617,032
Total assets	<u>\$ 51,449,243</u>	<u>\$ 46,652,792</u>	<u>\$ 39,275,649</u>
Liabilities			
Long-term debt	\$ 4,341,471	\$ 8,792,793	\$ 5,596,001
Other current liabilities	4,657,400	6,674,049	4,154,902
Total liabilities	<u>8,998,871</u>	<u>15,466,842</u>	<u>9,750,903</u>
Net Position			
Net investment in capital assets	12,405,079	12,591,779	12,298,183
Restricted	237,317	284,538	229,735
Unrestricted	29,807,976	18,309,633	16,996,828
Total net position	<u>42,450,372</u>	<u>31,185,950</u>	<u>29,524,746</u>
Total liabilities and net position	<u>\$ 51,449,243</u>	<u>\$ 46,652,792</u>	<u>\$ 39,275,649</u>

A significant change in the Hospital's assets in both 2021 and 2020 is the increase in other current assets, which increased by \$9,321,852 (or 62.2%) in 2021 and \$9,561,522 (or 176.1%) in 2020. Substantially, all of these yearly increases relate to cash, which is primarily attributable to strong operational and overall performance, as well as the receipt of funds from the U.S. Department of Health and Human Services (HHS) Provider Relief Fund (PRF) and the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP), both as authorized in the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act). In 2021, the Hospital also liquidated various investments, upon maturity, previously held in certificates of deposit. This further increased cash and decreased other noncurrent assets.

Operating Results and Changes in the Hospital's Net Position

In 2021, the Hospital's total net position increased by \$11,264,422 or 36.1% as shown in Table 2. The overall increase in net position is made up of several different components and represents an improvement of 678.1% compared with the increase in net position for 2020 of \$1,661,204. In 2020, the increase in net position of \$1,661,204 represented an improvement of 388.3% compared with the increase in net position for 2019 of \$340,192.

Table 2: Operating Results and Changes in Net Position

	2021	2020	2019
Operating Revenues			
Net patient service revenue	\$ 45,315,658	\$ 37,275,679	\$ 34,445,696
Other operating revenues	2,787,986	2,562,962	1,873,384
Total operating revenues	<u>48,103,644</u>	<u>39,838,641</u>	<u>36,319,080</u>
Operating Expenses			
Salaries and wages and employee benefits	27,948,905	24,237,571	21,501,501
Purchased services and professional fees	5,568,090	5,381,482	5,194,140
Depreciation and amortization	1,928,127	1,835,908	1,800,866
Other operating expenses	9,827,415	8,142,380	7,776,306
Total operating expenses	<u>45,272,537</u>	<u>39,597,341</u>	<u>36,272,813</u>
Operating Income	<u>2,831,107</u>	<u>241,300</u>	<u>46,267</u>
Nonoperating Revenues (Expenses)			
Investment income	79,188	263,376	310,886
Interest expense	(140,819)	(217,070)	(191,534)
Noncapital governmental grant	4,588,260	1,650,000	-
Paycheck Protection Program loan forgiveness	3,754,800	-	-
Other	232,774	(19,942)	174,573
Total nonoperating revenues (expenses)	<u>8,514,203</u>	<u>1,676,364</u>	<u>293,925</u>
Joint Venture Distributions	<u>(80,888)</u>	<u>(256,460)</u>	<u>-</u>
Increase in Net Position	<u>\$ 11,264,422</u>	<u>\$ 1,661,204</u>	<u>\$ 340,192</u>

Operating Income (Loss)

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

Operating income was \$2,831,107 for 2021 compared to operating income of \$241,300 for 2020, which equates to an increase in operating results of \$2,589,807, while the operating results for 2020 equate to an increase of \$195,033 or 421.5% compared to 2019. The primary components of the change in operating income in 2021 are:

- Net patient service revenue for the Hospital was \$45,315,658 in 2021 compared to \$37,275,679 in 2020, which represents an increase of \$8,039,979 or 21.6%
- Other operating revenue for the Hospital was \$2,787,986 in 2021 compared to \$2,562,962 in 2020, which represents an increase of \$225,024 or 8.8% and is the result of the Hospital's continued participation in the 340b drug discount program and shared savings from the Hospital's participation in its Accountable Care Organization
- Salaries, wages and employee benefits for the Hospital were \$27,948,905 in 2021 compared to \$24,237,571 in 2020, which represents an increase of \$3,711,334 or 15.3%

The increase in net patient service revenue is a result of various factors, including but not limited to improved case mix; increased volumes, particularly those associated with outpatient services, including lab procedures and pharmacy scripts; and increased activity at the Hospital and clinics related to pain management services. The increases in salaries, wages and employee benefits, along with other changes in operating costs, are attributed to these improved volumes, various bonuses and incentives paid out to employees related to performance and/or COVID-19, and other price increases related to the impact of the pandemic on labor, purchasing and other markets.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense, rental income on Hospital-owned property and payments made to subsidize the Hospital's discretely presented component unit. In 2021 and 2020, nonoperating revenues and expenses also include revenue recognized from the Provider Relief Fund (PRF) and other grant funding related to COVID-19. These PRF distributions are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS). Amounts recognized as nonoperating revenues in 2021 and 2020 related to PRF and other COVID-19 grants totaled \$4,588,260 and \$1,650,000, respectively. Also in 2021, the Hospital received legal notice that the \$3,754,800 PPP loan was forgiven in its entirety, and the Hospital recognized the gain from extinguishment as nonoperating income. Investment income decreased by \$184,188 or 69.9% in 2021 compared to 2020 as a result of market performance, market timing and declining interest rates. Interest expense decreased by \$76,251 or 35.1% in 2021 compared to 2020 as a result of the Hospital's stable borrowings. The Hospital's subsidy of its discretely presented component unit decreased by \$48,324 to \$63,002 in 2021.

The Hospital's Cash Flows

The Hospital's cash provided by operating activities increased by \$4,294,231 in 2021 compared to 2020, primarily due to improved performance of the Hospital. The Hospital also experienced a year-over-year increase in cash provided by investing activities of \$2,534,530. This cash increase from investing is driven by the Hospital's liquidation of certain investments, as previously discussed in "The Hospital's Net Position" section.

Capital Asset and Debt Administration

Capital Assets

At the end of 2021, the Hospital had \$16,746,550 invested in capital assets, net of accumulated depreciation. In 2021 and 2020, the Hospital had capital acquisitions of approximately \$1,045,000 and \$1,449,000, respectively. The majority of capital acquisitions during 2021 are for medical equipment or relate to purchases towards the overall improvement and expansion of the Hospital. Please reference Note 5 of the audited financial statements for additional disclosures concerning capital asset activity.

Debt

At December 31, 2021, the Hospital had \$4,341,471 in revenue bonds and capital lease obligations. In June 2021, the Hospital's PPP note payable, which was categorized as debt at December 31, 2020, was formally forgiven and recorded into revenue. See Note 8 of the audited financial statements for more information regarding long-term debt.

Other Economic Factors

Management believes the health care industry's and Hospital's operating margins will continue to be under pressure due to continuing changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payment received for services rendered. The ongoing challenge facing the Hospital is to continue to provide quality patient care in a competitive environment, and to attain reasonable rates for services provided while managing costs.

Additionally, uncertainty and business disruption surrounding the COVID-19 pandemic have and could continue to impact the operations of the Hospital. The economic impact, contingent on the current and future ramifications of COVID-19, may negatively impact the Hospital's payor and service mix and overall operating expenses.

Contacting the Hospital's Financial Management

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

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Balance Sheets
December 31, 2021 and 2020

Assets

	2021	2020
Current Assets		
Cash	\$ 22,377,545	\$ 12,652,464
Patient accounts receivable, net of allowance: 2021 - \$2,651,915; 2020 - \$2,078,944	5,929,329	4,639,908
Supplies	686,687	753,218
Estimated amounts due from third-party payors	382,000	907,121
Prepaid expenses and other current assets	866,352	677,929
Total current assets	30,241,913	19,630,640
Noncurrent Investments - funded depreciation	4,291,523	9,232,198
Capital Assets, net	16,746,550	17,629,772
Other	169,257	160,182
Total assets	\$ 51,449,243	\$ 46,652,792

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 493,160	\$ 4,339,172
Accounts payable	1,041,040	945,570
Accrued expenses	2,904,360	2,340,343
Unearned grant revenue	100,000	3,161,376
Estimated amounts due to third-party payors	612,000	226,760
Total current liabilities	5,150,560	11,013,221
Long-Term Debt	3,848,311	4,453,621
Total liabilities	8,998,871	15,466,842
Net Position		
Net investment in capital assets	12,405,079	12,591,779
Restricted	237,317	284,538
Unrestricted	29,807,976	18,309,633
Total net position	42,450,372	31,185,950
Total liabilities and net position	\$ 51,449,243	\$ 46,652,792

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
SCCH Fitness Center, Inc.
Statements of Financial Position
December 31, 2021 and 2020

Assets

	2021	2020
Property and equipment, net of accumulated depreciation of \$1,156,209 and \$1,100,101 for 2021 and 2020, respectively	\$ 144,263	\$ 200,371
Total assets	\$ 144,263	\$ 200,371

Liabilities and Net Assets

Liabilities		
Accrued expenses	\$ 23,300	\$ 23,300
Net Assets - unrestricted	120,963	177,071
Total liabilities and net assets	\$ 144,263	\$ 200,371

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of \$2,468,665 and \$2,435,943 for 2021 and 2020, respectively	\$ 45,315,658	\$ 37,275,679
Other	2,787,986	2,562,962
Total operating revenues	48,103,644	39,838,641
Operating Expenses		
Salaries and wages	22,110,448	18,393,840
Employee benefits	5,838,457	5,843,731
Purchased services and professional fees	5,568,090	5,381,482
Supplies	4,628,634	3,696,016
Utilities	558,631	510,270
Repair and maintenance	1,614,587	1,390,208
Leases and rentals	366,632	364,082
Insurance	383,715	527,435
Depreciation and amortization	1,928,127	1,835,908
Other	841,960	590,311
Provider hospital assessment fee	1,433,256	1,064,058
Total operating expenses	45,272,537	39,597,341
Operating Income	2,831,107	241,300
Nonoperating Revenues (Expenses)		
Investment income	79,188	263,376
Interest expense	(140,819)	(217,070)
Noncapital governmental grant	4,588,260	1,650,000
Paycheck Protection Program loan forgiveness	3,754,800	-
Other	232,774	(19,942)
Total nonoperating revenues (expenses)	8,514,203	1,676,364
Income Before Joint Venture Distributions	11,345,310	1,917,664
Joint Venture Distributions	(80,888)	(256,460)
Increase in Net Position	11,264,422	1,661,204
Net Position, Beginning of Year	31,185,950	29,524,746
Net Position, End of Year	\$ 42,450,372	\$ 31,185,950

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
SCCH Fitness Center, Inc.
Statements of Activities
Years Ended December 31, 2021 and 2020

	2021	2020
Revenues, Gains and Other Support		
Membership, training, class and other revenue	\$ 200,802	\$ 153,751
Operating support from the Hospital	63,002	111,326
Total revenues, gains and other support	263,804	265,077
Expenses		
Salaries and wages	144,072	152,351
Employee benefits	38,000	47,000
Purchased services	25,286	22,779
Supplies	3,439	5,483
Utilities	24,668	19,953
Repair and maintenance	14,840	7,081
Depreciation	56,108	59,605
Other	13,499	13,472
Total expenses	319,912	327,724
Decrease in Net Assets	(56,108)	(62,647)
Unrestricted Net Assets, Beginning of Year	177,071	239,718
Unrestricted Net Assets, End of Year	\$ 120,963	\$ 177,071

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Receipts from and on behalf of patients	\$ 43,503,342	\$ 34,836,354
Payments to suppliers and contractors	(13,146,711)	(11,950,826)
Payments to employees	(27,441,755)	(24,291,508)
Other payments, net	1,946,026	1,972,651
Net cash provided by operating activities	4,860,902	566,671
Noncapital Financing Activities		
Noncapital governmental grant	1,526,884	4,811,376
Proceeds from Paycheck Protection Program loan payable	-	3,754,800
Joint venture distributions	(80,888)	(256,460)
Net cash provided by noncapital financing activities	1,445,996	8,309,716
Capital and Related Financing Activities		
Purchase of capital assets	(1,044,905)	(1,571,496)
Principal payments made on long-term debt	(320,137)	(308,913)
Principal payments made on capital leases	(376,385)	(249,095)
Interest payments on long-term debt and capital leases	(83,952)	(191,473)
Net cash used in capital and related financing activities	(1,825,379)	(2,320,977)
Investing Activities		
Interest and dividends on investments	87,553	263,376
Purchase of investments	(5,591,877)	(1,780,313)
Proceeds from disposition of investments	10,524,187	4,165,147
Other investing activities	223,699	60,822
Net cash provided by investing activities	5,243,562	2,709,032
Increase in Cash	9,725,081	9,264,442
Cash, Beginning of Year	12,652,464	3,388,022
Cash, End of Year	\$ 22,377,545	\$ 12,652,464

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

	2021	2020
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Operating income	\$ 2,831,107	\$ 241,300
Depreciation and amortization	1,928,127	1,835,908
Provision for uncollectible accounts	2,468,665	2,435,943
Changes in operating assets and liabilities:		
Patient accounts receivable	(3,758,086)	(2,862,970)
Estimated amounts due to/from third-party payors	910,361	(948,240)
Accounts payable and accrued expenses	602,620	(122,244)
Other assets	(121,892)	(13,026)
	<u>\$ 4,860,902</u>	<u>\$ 566,671</u>

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

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

Nature of Operations and Reporting Entity

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

In accordance with GASB Statement No. 61, the financial statements include the financial statements of MSO Clinics, Inc. (MSO Clinics), reported as a blended component unit. The primary government appoints a voting majority of the MSO Clinics' board of directors and a financial benefit/burden relationship exists between the Hospital and MSO Clinics. Although it is legally separate from the Hospital, MSO Clinics is reported as if it were a part of the Hospital as it provides services entirely or almost entirely for the benefit of the Hospital. All significant intercompany transactions have been eliminated for financial reporting purposes. During 2020, the Hospital transitioned operations of MSO Clinics through change of ownership filings, and subsequent to the change of ownership filings, the operating results of MSO Clinics are reported as departments of the Hospital. During 2021, MSO Clinics transferred any remaining assets to the Hospital. Separate audited financial statements are not issued for MSO Clinics.

The Hospital holds a 51% ownership interest in Sullivan County Community Hospital Pain Management, LLC (Pain Management), which was organized to offer pain management services in the Hospital's primary service area. Effective January 1, 2019, upon adoption of Governmental Accounting Standards Board (GASB) Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, the operations of Pain Management are reported as a blended component unit, as the Hospital holds a majority equity interest. Although it is legally separate from the Hospital, Pain Management is reported as if it were a part of the Hospital. All significant intercompany transactions have been eliminated for financial reporting purposes. During 2020, the minority owner enacted its contractual right requiring the Hospital to purchase its minority interest in Pain Management for an amount equal to 49% of the venture's appraised value. The purchase price is to be determined by an independent third party appraisal. In May 2022, the appraisal process was finalized with the determination of a purchase price of approximately \$1,760,000. Pain Management's operations terminated in January 2021 under the joint venture structure with the existing services provided solely by the Hospital. Separate audited financial statements are not issued for Pain Management.

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

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Activities

The Hospital defines operating activities, as reported in the statements of revenues, expenses and changes in net position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received, as well as program-specific, government-mandated nonexchange transactions. Nearly all of the Hospital's expenses are from exchange transactions. Certain revenues relied upon for operations, such as investment income, are recorded as nonoperating revenues in accordance with GASB Statement No. 35. Other government-mandated or voluntary nonexchange transactions that are not program specific, and interest on capital asset-related debt are also included in nonoperating revenues and expenses.

Use of Estimates

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

Risk Management

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

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

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Investments and Investment Income

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

Investment income includes dividend and interest income, 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 (FIFO) method, or market.

Capital Assets

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

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

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease asset has occurred. If a capital or lease asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2021 and 2020.

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment.

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

Unearned Grant Revenue

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

Net Position

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

Net Patient Service Revenue

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

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$628,830 for 2021, compared to \$577,980 for 2020.

SCCH Fitness Center

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

During the years ended December 31, 2021 and 2020, the Hospital provided \$63,002 and \$111,326, respectively, of support to the Fitness Center for operations.

Income Taxes

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

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

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

Pain Management is not directly subject to income taxes under the provision of the Internal Revenue Code and applicable state laws. Taxable income or loss is allocated to its members in accordance with their respective percentage ownership for inclusion in their respective tax returns.

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Future Accounting Standards

In fiscal year 2022, the Hospital will implement GASB Statement No. 87, *Leases*. The statement provides a new framework for accounting for leases under the principal that leases are financings and lessees should recognize an intangible asset and a corresponding liability while the lessor will recognize a lease receivable and related deferred inflow of resources. The Hospital has not determined the impact of this new standard on its financial statements; however, it could have a material future impact.

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is designated by Medicare as a critical access hospital (CAH). Inpatient acute care and swing bed services, and most outpatient services, are reimbursed based on a cost reimbursement methodology. Interim per diem rates for inpatient services and percent of charges for outpatient services are reimbursed throughout the year, with final settlement determined after submission of the annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. At December 31, 2021, the Hospital recorded a payable for estimated cost report settlements of \$225,000, which is included in estimated amounts due to third-party payors. At December 31, 2020, the Hospital recorded a receivable for estimated cost report settlements of \$525,000, which is included in estimated amounts due from third-party payors.

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

Approximately 60% and 58% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2021 and 2020, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and are determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately \$764,000 annually within net patient service revenue related to this supplemental payment program for the years ended December 31, 2021 and 2020. Amounts outstanding at December 31, 2021 and 2020 approximated \$382,000 and are included in estimated amounts due from third-party payors.

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

The Hospital participates in a state specific provider assessment fee program to increase Medicaid payments to hospitals. The Hospital incurred fees approximating \$1,433,000 and \$1,064,000 related to this program for 2021 and 2020, respectively, which are recorded as an operating expense in the statements of revenues, expenses and changes in net position. Amounts outstanding under the assessment fee program were \$337,000 and \$183,000 as of December 31, 2021 and 2020, respectively, and the liability is included in estimated amounts due to third-party payors.

The Hospital's Medicaid Inpatient Utilization Rate (MIUR) exceeded state-wide thresholds, as defined by state regulation, during its most recent measurement period. A benefit of having a MIUR exceeding this threshold includes a 25% reduction in the provider assessment fee. The provider assessment fee program is subject to further retroactive rate settings by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital, including the 25% benefit, through December 31, 2021.

The state measures MIUR percentages no less than every four years and no more than every two years. At each measurement period, the state-defined MIUR threshold changes, which could affect the Hospital's eligibility status. Any change in MIUR eligibility would affect the Hospital's ability to receive the 25% provider assessment fee reduction. The State's most recent measurement is for the period ended June 30, 2021. Any change in the amount of tax due as a result of eligibility changes will be recorded in the period the state has made its determination.

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

Note 3: Deposits, Investments and Investment Income

Deposits

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

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

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest in certain deposit accounts, mutual funds, repurchase agreements and pooled investment funds as authorized by Indiana Code 16-22-3-20.

At December 31, 2021, the Hospital had the following investments and maturities:

Type	Fair Value	2021 Maturities in Years	
		Less Than 1	1-5
Fixed income securities - corporate bonds	\$ 743,925	\$ -	\$ 743,925
Equity mutual funds - domestic	559,568	559,568	-
Equity mutual funds - international	187,742	187,742	-
	<u>\$ 1,491,235</u>	<u>\$ 747,310</u>	<u>\$ 743,925</u>

At December 31, 2021, the Hospital also held investments in non-negotiable certificates of deposit totaling \$2,800,288. At December 31, 2020, the Hospital held investments in non-negotiable certifications of deposit totaling \$9,232,198. These investments are carried at amortized cost.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital’s investment policy limits investments to certificates of deposit and certain bonds and mutual funds. No more than 50% of the total Hospital portfolio (including deposits) should be invested in bonds and mutual funds.

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

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

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

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Summary of Carrying Values

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

	2021	2020
Carrying value:		
Deposits	\$ 25,177,833	\$ 21,884,662
Investments	1,491,235	-
	<u>\$ 26,669,068</u>	<u>\$ 21,884,662</u>
Included in the following balance sheets captions:		
Cash	\$ 22,377,545	\$ 12,652,464
Noncurrent investments - funded depreciation	4,291,523	9,232,198
	<u>\$ 26,669,068</u>	<u>\$ 21,884,662</u>

Non-negotiable certificates of deposit totaling \$2,800,288 and \$9,232,198 are included in deposit balances at December 31, 2021 and 2020, respectively.

Investment Income

Investment income for the years ended December 31 consisted of:

	2021	2020
Interest and dividend income	\$ 87,553	\$ 263,376
Net decrease in fair value of investments	(8,365)	-
	<u>\$ 79,188</u>	<u>\$ 263,376</u>

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Note 4: Patient Accounts Receivable

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

	2021	2020
Medicare	\$ 1,795,311	\$ 1,260,304
Medicaid	744,832	720,502
Other third-party payors	2,557,327	1,988,465
Patients	3,483,774	2,749,581
	8,581,244	6,718,852
Less allowance for uncollectible accounts	2,651,915	2,078,944
	\$ 5,929,329	\$ 4,639,908

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Hospital					
Land and improvements	\$ 1,036,127	\$ -	\$ -	\$ -	\$ 1,036,127
Buildings and leasehold improvements	24,497,458	178,364	-	160,004	24,835,826
Equipment	23,634,489	866,541	-	-	24,501,030
Construction in progress	174,926	-	-	(160,004)	14,922
	49,343,000	1,044,905	-	-	50,387,905
Less accumulated depreciation:					
Buildings and leasehold improvements	15,482,247	712,919	-	-	16,195,166
Equipment	16,230,981	1,215,208	-	-	17,446,189
	31,713,228	1,928,127	-	-	33,641,355
Total Hospital capital assets, net	\$ 17,629,772	\$ (883,222)	\$ -	\$ -	\$ 16,746,550

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

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

Note 6: Medical Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Malpractice Act (Act) and purchases medical malpractice insurance up to coverage limits under a claims-made policy on a fixed premium basis up to limits set forth in the Act. The Act limits professional liability for claims after July 1, 2017 to a maximum recovery of \$1,650,000 per occurrence, \$400,000 of which would be paid through commercial medical insurance coverage, while the remaining balance would be paid by the State of Indiana Patient Compensation Fund (the Fund). For claims on or after July 1, 2019, the maximum recovery is \$1,800,000 per occurrence, \$500,000 of which would be paid through commercial insurance coverage, with the remainder due from the Fund.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$1,000,000, and an individual policy maximum of \$100,000 per eligible covered person. Commercial stop-loss insurance coverage is purchased for claims in excess of these annual amounts. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Activity in the Hospital's accrued employee health claims liability during 2021 and 2020 is summarized as follows:

	2021	2020
Balance, beginning of year	\$ 475,967	\$ 436,386
Current year claims incurred and changes in estimates for		
claims incurred in prior years	3,332,255	3,525,471
Claims and expenses paid	(3,342,135)	(3,485,890)
Balance, end of year	\$ 466,087	\$ 475,967

Note 8: Long-Term Obligations

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2021 and 2020:

	2021				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Health facility revenue bonds, Series 2017A	\$ 3,077,737	\$ -	\$ (234,388)	\$ 2,843,349	\$ 240,211
Taxable health facility revenue bonds, Series 2017B	1,208,169	-	(85,749)	1,122,420	88,894
Capital lease obligations	752,087	-	(376,385)	375,702	164,055
Paycheck Protection Program loan payable	3,754,800	-	(3,754,800)	-	-
Total long-term debt	\$ 8,792,793	\$ -	\$ (4,451,322)	\$ 4,341,471	\$ 493,160

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

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

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

During 2017, the Hospital issued bonds to fund certain capital expansions of the Hospital. The Series 2017A revenue bonds consist of nontaxable revenue bonds in the original amount of \$3,900,000 dated April 5, 2017, which bear interest at 2.865%. The Series 2017B revenue bonds consist of taxable revenue bonds in the original amount of \$1,500,000 dated April 5, 2017, which bear interest at 4.100%. Beginning July 2017, the bonds are payable quarterly through April 1, 2032. The bonds are secured by all existing and future net revenues and accounts of the Hospital.

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

The debt service requirements as of December 31, 2021 are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2022	\$ 455,007	\$ 329,105	\$ 125,902
2023	455,007	339,762	115,245
2024	455,007	350,481	104,526
2025	455,007	362,146	92,861
2026	455,007	373,907	81,100
2027 - 2031	2,275,035	1,985,583	289,452
2032	227,503	224,785	2,718
	<u>\$ 4,777,573</u>	<u>\$ 3,965,769</u>	<u>\$ 811,804</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2021 and 2020 totaled \$1,261,315, net of accumulated depreciation of \$714,261 and \$462,268, respectively. The following is a schedule by year of future minimum lease payments under capital leases including interest at rates of 4.0% to 8.5% together with the present value of the future minimum lease payments as of December 31, 2021:

2022	\$ 170,989
2023	117,663
2024	107,857
Total minimum lease payments	396,509
Less amount representing interest	(20,807)
Present value of future minimum lease payments	\$ 375,702

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Paycheck Protection Program Loan Payable

During 2020, the Hospital received a loan in the amount of \$3,754,800 pursuant to the Small Business Association (SBA) Paycheck Protection Program (PPP) as authorized by the CARES Act and other subsequent legislation. The loan was financed through a bank. The Hospital used loan proceeds to pay for eligible expenses, including payroll and benefits.

As of December 31, 2020, the Hospital had not received formal approval for forgiveness of the loan. As such, the Hospital elected to account for the funding in accordance with GASB Statement 62, and for 2020, the PPP loan is included on the accompanying balance sheet as current maturities of long-term debt and is included on the accompanying statement of cash flows as cash provided by noncapital financing activities.

In June 2021, the Hospital received legal notice that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment in the accompanying statement of revenues, expenses and changes in net position, within nonoperating income.

Note 9: Disclosures About Fair Value of Assets

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

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Recurring Measurements

The following table presents the fair value measurements of assets 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, 2021:

	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, 2021				
Investments by fair value level				
Fixed income securities - corporate bonds	\$ 743,925	\$ -	\$ 743,925	\$ -
Equity mutual funds - domestic	559,568	559,568	-	-
Equity mutual funds - international	187,742	187,742	-	-
	<u>1,491,235</u>	<u>747,310</u>	<u>743,925</u>	<u>-</u>
Total investments measured by fair value level	<u>\$ 1,491,235</u>	<u>\$ 747,310</u>	<u>\$ 743,925</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. The Hospital does not have any Level 3 assets at December 31, 2021.

Note 10: Pension Plan

The Hospital and MSO Clinics contribute to defined-contribution pension plans, as authorized by Indiana Code 16-22-3-11, covering substantially all employees following one year of service. Pension expense is recorded for the amount of the employer's required contributions, determined in accordance with the terms of the plans. The plans are administered by the Hospital and MSO Clinics governing bodies. The plans provide retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan documents and were established and can be amended by action of the governing bodies.

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Plan members may contribute up to \$19,000 of their annual covered salary. The Hospital and MSO Clinics are required to match one-half of the employee contribution up to 5% of employee’s compensation. In addition, the Hospital contributes 2% of the annual covered payroll for all eligible active participants. The MSO Clinics may make a discretionary contribution as determined by its governing body. Expense related to employer contributions to the plans was \$598,933 for 2021 and \$585,124 for 2020. The Hospital had accrued benefits payable to the plan of \$344,522 at December 31, 2021, compared to \$307,191 as of December 31, 2020.

Note 11: Operating Leases

The Hospital has entered into noncancellable operating leases for outpatient office space with termination dates ending in 2023. The leases contains renewal options for three to five-year periods and requires the Hospital to pay all executory costs (property taxes, maintenance and insurance). Rental expense for operating leases, including short-term rentals, during 2021 and 2020 was \$365,162 and \$364,082, respectively. Future minimum lease payments at December 31, 2021 were:

2022	\$ 261,987
2023	<u>237,507</u>
Future minimum lease payments	<u><u>\$ 499,494</u></u>

Note 12: Contingencies

Litigation

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

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Note 13: Investment in Equity Investee

The Hospital invested \$100,000 in 2017 for a 10% ownership of Solidago Dialysis, LLC (Dialysis). During 2020, the Hospital contributed an additional \$167,000, which was utilized by Dialysis to pay off its outstanding debt approximating \$1.67 million, which had previously been guaranteed by the Hospital and other equity owners based on their respective ownership shares. During 2021, the Hospital received a distribution from Dialysis of approximately \$10,000.

The Hospital's investment in Dialysis was \$149,730 and \$160,182 at December 31, 2021 and 2020, respectively, which represents its share of the net assets of Dialysis and is recorded in other long-term assets. Concurrent with the initial investment in Dialysis, the Hospital entered into a lease agreement with Dialysis for operating space. The lease terminates in April 2027 and requires annual rental payments due to the Hospital of \$117,000 through April 2022 and \$129,000 for the remaining term.

Financial position and results of operations of the investee as of and for the years ended December 31, 2021 and 2020 are summarized below.

	2021	2020
Current assets	\$ 553,092	\$ 428,022
Capital assets	1,130,260	1,298,446
Other long-term assets	599,797	687,771
Total assets	<u>2,283,149</u>	<u>2,414,239</u>
Current liabilities	176,567	146,052
Long-term liabilities	564,647	658,328
Total liabilities	<u>741,214</u>	<u>804,380</u>
Net assets	<u>\$ 1,541,935</u>	<u>\$ 1,609,859</u>
Revenues	\$ 1,582,771	\$ 1,465,505
Surplus (deficiency) of revenues over expenses	\$ 36,595	\$ (4,875)

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Note 14: Condensed Combining Information

The following tables include condensed combining balance sheets information for the Hospital and its blended component units as of December 31, 2021 and 2020:

	2021				
	Hospital	MSO Clinics	Pain Management	Eliminations	Total
Assets					
Current assets	\$ 30,236,301	\$ -	\$ 5,612	\$ -	\$ 30,241,913
Due from Hospital	-	-	521,312	(521,312)	-
Capital assets, net	16,746,550	-	-	-	16,746,550
Other noncurrent assets	4,707,489	-	-	(246,709)	4,460,780
Total assets	<u>\$ 51,690,340</u>	<u>\$ -</u>	<u>\$ 526,924</u>	<u>\$ (768,021)</u>	<u>\$ 51,449,243</u>
Liabilities					
Current liabilities	\$ 5,107,662	\$ -	\$ 42,898	\$ -	\$ 5,150,560
Due to Pain Management	521,312	-	-	(521,312)	-
Long-term liabilities	3,848,311	-	-	-	3,848,311
Total liabilities	<u>9,477,285</u>	<u>-</u>	<u>42,898</u>	<u>(521,312)</u>	<u>8,998,871</u>
Net Position					
Net investment in capital assets	12,405,079	-	-	-	12,405,079
Restricted	-	-	237,317	-	237,317
Unrestricted	29,807,976	-	246,709	(246,709)	29,807,976
Total net position	<u>42,213,055</u>	<u>-</u>	<u>484,026</u>	<u>(246,709)</u>	<u>42,450,372</u>
Total liabilities and net position	<u>\$ 51,690,340</u>	<u>\$ -</u>	<u>\$ 526,924</u>	<u>\$ (768,021)</u>	<u>\$ 51,449,243</u>
2020					
	Hospital	MSO Clinics	Pain Management	Eliminations	Total
Assets					
Current assets	\$ 18,880,518	\$ 603,660	\$ 146,462	\$ -	\$ 19,630,640
Due from Hospital	-	-	442,655	(442,655)	-
Capital assets, net	16,875,687	754,085	-	-	17,629,772
Other noncurrent assets	9,688,237	-	-	(295,857)	9,392,380
Total assets	<u>\$ 45,444,442</u>	<u>\$ 1,357,745</u>	<u>\$ 589,117</u>	<u>\$ (738,512)</u>	<u>\$ 46,652,792</u>
Liabilities					
Current liabilities	\$ 10,980,097	\$ 24,402	\$ 8,722	\$ -	\$ 11,013,221
Due to Pain Management	442,655	-	-	(442,655)	-
Long-term liabilities	4,453,621	-	-	-	4,453,621
Total liabilities	<u>15,876,373</u>	<u>24,402</u>	<u>8,722</u>	<u>(442,655)</u>	<u>15,466,842</u>
Net Position					
Net investment in capital assets	11,837,694	754,085	-	-	12,591,779
Restricted	-	-	284,538	-	284,538
Unrestricted	17,730,375	579,258	295,857	(295,857)	18,309,633
Total net position	<u>29,568,069</u>	<u>1,333,343</u>	<u>580,395</u>	<u>(295,857)</u>	<u>31,185,950</u>
Total liabilities and net position	<u>\$ 45,444,442</u>	<u>\$ 1,357,745</u>	<u>\$ 589,117</u>	<u>\$ (738,512)</u>	<u>\$ 46,652,792</u>

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020:

	2021				
	Hospital	MSO Clinics	Pain Management	Eliminations	Total
Operating Revenues					
Net patient service revenue	\$ 45,175,063	\$ -	\$ 140,595	\$ -	\$ 45,315,658
Other operating revenues	2,799,003	-	-	(11,017)	2,787,986
Total operating revenues	<u>47,974,066</u>	<u>-</u>	<u>140,595</u>	<u>(11,017)</u>	<u>48,103,644</u>
Operating Expenses					
Depreciation and amortization	1,928,127	-	-	-	1,928,127
Other operating expenses	43,283,541	-	71,886	(11,017)	43,344,410
Total operating expenses	<u>45,211,668</u>	<u>-</u>	<u>71,886</u>	<u>(11,017)</u>	<u>45,272,537</u>
Operating Income	<u>2,762,398</u>	<u>-</u>	<u>68,709</u>	<u>-</u>	<u>2,831,107</u>
Nonoperating Revenues (Expenses)					
Investment income	79,188	-	-	-	79,188
Interest expense	(140,819)	-	-	-	(140,819)
Noncapital governmental grant	4,588,260	-	-	-	4,588,260
Paycheck Protection Program loan forgiveness	3,754,800	-	-	-	3,754,800
Other	267,816	-	-	(35,042)	232,774
Total nonoperating revenues (expenses)	<u>8,549,245</u>	<u>-</u>	<u>-</u>	<u>(35,042)</u>	<u>8,514,203</u>
Income (Loss) Before Joint Venture					
Distributions and Transfers	11,311,643	-	68,709	(35,042)	11,345,310
Joint Venture Distributions	-	-	(165,078)	84,190	(80,888)
Transfers From (To) Affiliate	<u>1,333,343</u>	<u>(1,333,343)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	12,644,986	(1,333,343)	(96,369)	49,148	11,264,422
Net Position, Beginning of Year	<u>29,568,069</u>	<u>1,333,343</u>	<u>580,395</u>	<u>(295,857)</u>	<u>31,185,950</u>
Net Position, End of Year	<u>\$ 42,213,055</u>	<u>\$ -</u>	<u>\$ 484,026</u>	<u>\$ (246,709)</u>	<u>\$ 42,450,372</u>

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

	2020				Total
	Hospital	MSO Clinics	Pain Management	Eliminations	
Operating Revenues					
Net patient service revenue	\$ 34,032,197	\$ 1,716,474	\$ 1,527,008	\$ -	\$ 37,275,679
Other operating revenues	2,186,801	535,067	-	(158,906)	2,562,962
Total operating revenues	<u>36,218,998</u>	<u>2,251,541</u>	<u>1,527,008</u>	<u>(158,906)</u>	<u>39,838,641</u>
Operating Expenses					
Depreciation and amortization	1,783,737	52,171	-	-	1,835,908
Other operating expenses	33,249,306	3,778,963	892,070	(158,906)	37,761,433
Total operating expenses	<u>35,033,043</u>	<u>3,831,134</u>	<u>892,070</u>	<u>(158,906)</u>	<u>39,597,341</u>
Operating Income (Loss)	<u>1,185,955</u>	<u>(1,579,593)</u>	<u>634,938</u>	<u>-</u>	<u>241,300</u>
Nonoperating Revenues (Expenses)					
Investment income	263,376	-	-	-	263,376
Interest expense	(217,070)	-	-	-	(217,070)
Noncapital governmental grant	1,650,000	-	-	-	1,650,000
Other	303,733	-	-	(323,675)	(19,942)
Total nonoperating revenues (expenses)	<u>2,000,039</u>	<u>-</u>	<u>-</u>	<u>(323,675)</u>	<u>1,676,364</u>
Income (Loss) Before Joint Venture					
Distributions and Transfers	3,185,994	(1,579,593)	634,938	(323,675)	1,917,664
Joint Venture Distributions	-	-	(523,389)	266,929	(256,460)
Transfer From (To) Affiliate	<u>(1,210,388)</u>	<u>1,210,388</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	1,975,606	(369,205)	111,549	(56,746)	1,661,204
Net Position, Beginning of Year	<u>27,592,463</u>	<u>1,702,548</u>	<u>468,846</u>	<u>(239,111)</u>	<u>29,524,746</u>
Net Position, End of Year	<u>\$ 29,568,069</u>	<u>\$ 1,333,343</u>	<u>\$ 580,395</u>	<u>\$ (295,857)</u>	<u>\$ 31,185,950</u>

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

The following tables include condensed combining statements of cash flows information for the Hospital and its blended component units for the years ended December 31, 2021 and 2020:

	2021				
	Hospital	MSO Clinics	Pain Management	Eliminations	Total
Net Cash Provided By (Used In):					
Operating activities	\$ 4,836,674	\$ -	\$ 24,228	\$ -	\$ 4,860,902
Noncapital financing activity	1,748,380	(221,496)	(165,078)	84,190	1,445,996
Capital and related financing activities	(1,825,379)	-	-	-	(1,825,379)
Investing activities	5,327,752	-	-	(84,190)	5,243,562
Increase (Decrease) in Cash	10,087,427	(221,496)	(140,850)	-	9,725,081
Cash, Beginning of Year	12,290,118	221,496	140,850	-	12,652,464
Cash, End of Year	\$ 22,377,545	\$ -	\$ -	\$ -	\$ 22,377,545
	2020				
	Hospital	MSO Clinics	Pain Management	Eliminations	Total
Net Cash Provided By (Used In):					
Operating activities	\$ 1,106,219	\$ (1,133,513)	\$ 593,965	\$ -	\$ 566,671
Noncapital financing activity	7,355,788	1,210,388	(523,389)	266,929	8,309,716
Capital and related financing activities	(2,320,977)	-	-	-	(2,320,977)
Investing activities	2,975,961	-	-	(266,929)	2,709,032
Increase in Cash	9,116,991	76,875	70,576	-	9,264,442
Cash, Beginning of Year	3,173,127	144,621	70,274	-	3,388,022
Cash, End of Year	\$ 12,290,118	\$ 221,496	\$ 140,850	\$ -	\$ 12,652,464

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Note 15: 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. Over the past two years, patient volumes and the related revenues have been affected by COVID-19 stemming from the implementation of various policies by federal, state, and local governments in response to the pandemic, as these policies led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments are re-imposing certain restrictions due to increasing rates of COVID-19 cases. The Hospital will continue to monitor the direct and indirect impacts of the pandemic and develop responses accordingly to maintain its operational and financial flexibility.

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

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

The Hospital experienced temporary negative impacts to its operational results during 2021 and 2020. There is considerable uncertainty around the duration and financial impact of the combined market disruption by the COVID-19 pandemic in future periods and cannot be reasonably estimated at this time due to 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, 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, increased costs associated with labor markets, and changes in professional and general liability exposure. Because of these and other uncertainties, decreases in cash flows and operations could result, impacting debt covenant compliance and the inputs and assumptions used in significant accounting estimates, including the allowance for uncollectible accounts related to patient accounts receivable, and potential impairments of long-lived and other assets.

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Notes to Financial Statements
December 31, 2021 and 2020

Provider Relief Fund

During the years ended December 31, 2021 and 2020, the Hospital received \$1.4 million and \$4.6 million, respectively, of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

The Hospital accounts for such payments as voluntary nonexchange transactions in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Payments are recognized as grant revenue once the applicable terms and conditions required to retain the funds have been substantially met. Revenue recognized is classified as nonoperating and the associated cash flows are included within noncapital financing activities.

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 revenues and expenses through December 31, 2020, the Hospital recognized \$1.4 million into revenue. The unrecognized portion (\$3.2 million) was deferred and recorded as unearned grant revenue in the accompanying 2020 balance sheet.

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 revenues and expenses through December 31, 2021, the Hospital recognized \$4.5 million into revenue. The unrecognized portion (\$0.1 million) was deferred and recorded as unearned grant revenue in the accompanying 2021 balance sheet.

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.

Other COVID-19 Funding

During the years ended December 31, 2021 and 2020, the Hospital received \$100,000 and \$214,000, respectively, in other federal and state grants and awards related to the COVID-19 pandemic. Based on an analysis of the applicable terms and conditions of these grants and awards through December 31, 2021, the Hospital has recognized into revenue all amounts received.

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

Independent Auditor's Report

Board of Directors
Sullivan Community Hospital
Sullivan, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discreetly presented component unit of Sullivan County Community Hospital (Hospital), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated May 26, 2022.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

BKD, LLP

Indianapolis, Indiana
May 26, 2022