



STATE OF INDIANA
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September 23, 2024

Board of Trustees
Putnam County Hospital
Putnam County, Indiana

We have reviewed the report of Putnam County Hospital (Hospital), which was engaged to be audited by Blue and Co., LLC, Independent Public Accountants, for the period January 1, 2021 to December 31, 2021. Per the *Report of Independent Auditors*, due to inadequacy of accounting records related to the Hospital's long-term care services for the period ended December 31, 2021, Blue and Co., LLC, was unable to obtain sufficient and appropriate audit evidence to provide a basis for an opinion on the results of operations and cash flows. Please refer to the Basis for Disclaimer of Opinion on Results of Operations and Cash Flows paragraph of the *Report of Independent Auditors* for further detail.

We call your attention to the findings in the report on pages 33 through 35. Please see the Schedule of Findings and Questioned Costs for completed details related to the findings. Management's Corrective Action Plan appears on pages 36 and 37.

In our opinion, Blue and Co., LLC prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

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

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner



FINANCIAL STATEMENTS

DECEMBER 31, 2021

CPAs / ADVISORS



PUTNAM COUNTY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Putnam County Hospital
Greencastle, Indiana

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying statement of net position of Putnam County Hospital (the Hospital), a component unit of Putnam County, as of December 31, 2021, and we were engaged to audit 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.

In our opinion, the statement of net position referred to above presents fairly, in all material respects, the financial position of the Hospital as of December 31, 2021, in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Disclaimer of Opinion on Results of Operations and Cash Flows

We do not express an opinion on the results of operations and cash flows of the Hospital for the year ended December 31, 2021. Because of the significance of the matter described in the Basis for Disclaimer of Opinion on Results of Operations and Cash Flows section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows for the year ended December 31, 2021.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the statement of net position.

Basis for Disclaimer of Opinion on Results of Operations and Cash Flows

Supporting documentation related to the Hospital's long-term care assets and liabilities was not available for audit as of January 1, 2021 and we were unable to obtain sufficient appropriate audit evidence through other auditing procedures. Therefore, we were not able to obtain sufficient and appropriate audit evidence about the amounts at which certain assets and liabilities related to the Hospital's long-term care services were recorded in the statement of net position as of January 1, 2021. The amount of these assets and liabilities as of January 1, 2021, materially affects the determination of the results of operations and cash flows for the year ended December 31, 2021.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with US GAAP; 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise doubt about the Hospital's ability to continue as a going concern for twelve 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US 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 substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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.

Board of Trustees
Putnam County Hospital
Greencastle, Indiana

- 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that US GAAP requires to be presented to supplement the basic financial statements. Such missing 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 in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2024 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
August 7, 2024

PUTNAM COUNTY HOSPITAL

STATEMENT OF NET POSITION
DECEMBER 31, 2021

ASSETS AND DEFERRED OUTFLOWS

Current assets

Cash and cash equivalents	\$ 35,875,559
Patient accounts receivable, net of allowance for uncollectible accounts of \$1,586,183	9,733,955
Inventory	861,206
Prepays and other current assets	<u>6,138,317</u>
Total current assets	52,609,037

Assets whose use is limited

Held by trustee for debt service and capital	998,711
Internally designated	42,379
Donor restricted	<u>202,463</u>
Total assets whose use is limited	1,243,553

Capital assets, net

	<u>24,743,590</u>
Total assets	78,596,180

Deferred outflows

Goodwill, net	<u>1,227,617</u>
Total assets and deferred outflows	<u><u>\$ 79,823,797</u></u>

LIABILITIES AND NET POSITION

Current liabilities

Current portion of long-term debt	\$ 1,213,013
Current portion of capital lease obligations	233,049
Accounts payable	12,888,586
Accrued salaries, wages, and related liabilities	5,687,040
Accrued expenses and other current liabilities	992,426
Estimated third-party settlements	906,239
Medicare accelerated/advance payments	<u>2,638,653</u>
Total current liabilities	24,559,006

Long-term debt, net of current portion

10,771,281

Capital lease obligations, net of current portion

446,240

Total liabilities 35,776,527

Net position

Net investment in capital assets	12,080,007
Restricted	
Non-expendable	68,749
Donor restricted - expendable	<u>202,463</u>
Total restricted	271,212
Unrestricted	<u>31,696,051</u>
Total net position	<u>44,047,270</u>
Total liabilities and net position	<u><u>\$ 79,823,797</u></u>

See accompanying notes to financial statements.

PUTNAM COUNTY HOSPITAL

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2021

Operating revenues	
Patient service revenue	\$ 216,918,302
Rental income	171,722
Other operating revenue	<u>4,512,939</u>
Total operating revenues	221,602,963
Operating expenses	
Salaries and wages	24,244,301
Employee benefits	5,969,275
Professional fees and contract services	156,074,064
Supplies	18,572,292
Insurance	742,538
Facility and equipment leases	12,508,434
Repairs and maintenance	1,183,021
Utilities	747,010
Training and education	166,003
HAF and HIP Programs	2,163,223
Depreciation	2,651,414
Other	<u>2,943,539</u>
Total operating expenses	<u>227,965,114</u>
Operating loss	(6,362,151)
Nonoperating revenues (expenses)	
Interest expense	(479,406)
Investment return	64,647
Contributions	12,000
COVID-19 grant funds	8,795,749
Paycheck Protection Program (PPP) loan forgiveness	4,389,100
Employee Retention Tax Credit	4,878,243
Other	<u>46,514</u>
Total nonoperating revenues (expenses)	<u>17,706,847</u>
Excess revenues over expenses	11,344,696
Other	
Distributions to non-controlling interest	<u>(113,403)</u>
Change in net position	11,231,293
Net position	
Beginning of year	<u>32,815,977</u>
End of year	<u><u>\$ 44,047,270</u></u>

See accompanying notes to financial statements.

PUTNAM COUNTY HOSPITAL

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2021

Operating activities

Cash received from patients and third-party payors	\$ 216,455,600
Cash paid for salaries, wages and benefits	(30,443,967)
Cash paid to vendors for goods and services	(210,236,813)
Other operating receipts, net	4,684,661
Net cash flows from operating activities	(19,540,519)

Non-capital financing activities

COVID-19 grant funds	5,583,834
Employee Retention Tax Credit	4,878,243
Other non-capital financing activities	58,514
Net cash flows from non-capital financing activities	10,520,591

Capital and related financing activities

Distributions to non-controlling interest	(113,403)
Acquisition and construction of capital assets	(1,393,383)
Loss on disposal of capital assets	199,947
Payments on long-term debt and capital leases	(1,802,255)
Cash paid for interest	(479,406)
Net cash flows from capital and related financing activities	(3,588,500)

Investing activities

Investment return	64,647
Net change in cash and cash equivalents	(12,543,781)

Cash and cash equivalents

Beginning of year	49,662,893
End of year	\$ 37,119,112

Reconciliation of cash and cash equivalents to statement of net position

Cash and cash equivalents	
In current assets	\$ 35,875,559
In assets whose use is limited	1,243,553
Total cash and cash equivalents	\$ 37,119,112

See accompanying notes to financial statements.

PUTNAM COUNTY HOSPITAL

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

**Reconciliation of operating loss to net
cash flows from operating activities**

Operating loss	\$ (6,362,151)
Adjustments to reconcile operating loss to net cash flows from operating activities	
Depreciation	2,651,414
Amortization of goodwill	201,800
Provision for bad debts	6,055,195
Changes in operating assets and liabilities	
Patient accounts receivable	1,977,984
Inventory, prepaids and other current assets	(1,552,233)
Other assets	630,609
Accounts payable	(9,392,659)
Accrued salaries, wages, and related liabilities	(230,391)
Accrued expenses and other current liabilities	(7,187,429)
Medicare accelerated/advance payments	(8,091,905)
Estimated third-party settlements	1,759,247
Net cash flows from operating activities	<u>\$ (19,540,519)</u>

Supplemental cash flows information - noncash activities

Capital assets acquired through capital leases	\$ 476,275
PPP loan forgiveness	\$ 4,389,100

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Putnam County Hospital (the Hospital) is a county facility and operates under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient, outpatient, physician and long-term health care services. The Board of County Commissioners of Putnam County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between Putnam County (the County) and the Hospital. For these reasons, the Hospital is considered a component unit of the County.

The financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital. They do not purport to, and do not, present the financial position of the County as of December 31, 2021 and the changes in its financial position or its cash flows for the year then ended.

Accounting principles generally accepted in the United States require that these financial statements present the Hospital and its blended component units, collectively referred to as the "primary government." The blended component units, as discussed below, are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Blended component units, although legally separate entities, are in substance part of the primary government's operations and exist solely to provide services for the primary government; data from these units are with data of the primary government.

Components Units

The accompanying financial statements include the accounts of the Hospital's blended component units, Putnam Post-Acute Holdings, LLC (PPAH) and Putnam County Pain Management Center, LLC (PCPMC). The Hospital is the sole member of PPAH, a separate limited liability company which owns a 94 unit / 127-bed assisted living residence and skilled nursing facility in Howard County, Indiana. The Hospital is a majority owner (51%) of PCPMC, a separate for-profit entity, organized to support the operations of the Hospital by providing pain management services for the benefit of the greater Greencastle area and surrounding communities. All significant intercompany transactions have been eliminated in the financial statements. The separate financial statements for PPAH and PCPMC may be obtained through contacting management of the Hospital.

Long-Term Care Operations

The Hospital leases the operations of certain long-term care facilities, by way of arrangements with managers of these facilities, which provide inpatient and therapy services. Generally, gross revenues from the operation of the long-term care facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers are on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

The Hospital entered into lease agreements with the long-term care facilities to lease the facilities managed by the respective managers. Concurrently, the Hospital entered into agreements with the managers to manage the leased facilities. As part of the agreements, the Hospital pays the managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. The agreements expire at various times through 2025. Generally, all parties involved can terminate the agreements without cause with 90 days written notice.

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 disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Cash and Cash Equivalents

Cash and cash equivalents include deposits and investments in highly liquid debt instruments with an original maturity date of 90 days or less from the date of purchase. The Hospital maintains its cash in accounts, which at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes it is not exposed to any significant credit risk on cash and cash equivalents.

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is classified as Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At year-end, a cost report for hospital-based services is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party programs. These programs have audited the year-end cost report filed with the Medicare program through the year ended December 31, 2020 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports are reflected in estimated third-party payor settlements on the statement of net position. During 2021, the amount recognized in the statement of revenues, expenses and changes in net position due to the differences between original estimates and subsequent revisions for the final settlement of cost reports increased net position by approximately \$274,000. Laws and regulations

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies. Patient charges under these programs, on which no interim payments have been received, are included in patient accounts receivable at the estimated net realizable value of such charges.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because the Hospital does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue.

Of the Hospital's total expenses reported within the statement of revenues, expenses and changes in net position, an estimated \$687,000 arose from providing services to charity patients for 2021. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's expenses to patient service revenue.

Inventory

Inventory is valued at the lower of cost or net realizable value with cost being determined on the first-in, first-out method. Inventory consists of medical supplies and pharmaceuticals.

Other Current Assets

Other current assets consist primarily of other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized during the next fiscal year.

Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the financial statements. These assets include investments designated by the Hospital's Board of Trustees for internal purposes, investments held by trustees for debt service and capital improvements and assets that are donor restricted.

These investments consist of cash and cash equivalents. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenues (expenses) in the statement of revenues, expenses and changes in net position.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Capital Assets and Depreciation

Capital assets, which include land and improvements, buildings and improvements, and equipment, are reported at historical cost. Contributed or donated assets are reported at estimated fair value at the time received. The capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) is determined by the Hospital based on individual asset cost and aggregate cost of similar assets. Depreciation is calculated on the straight-line method over the estimated useful lives of capital assets which range from 3-40 years. For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is expensed as incurred and not capitalized.

Business Combinations and Deferred Outflows for Goodwill

The Hospital accounts for a business combination using the acquisition method of accounting, and accordingly, the assets of the acquired entity are recorded at estimated fair values at the date of acquisition. Deferred outflows for goodwill represent the excess of the purchase price over the fair value of assets, including amounts assigned to identifiable intangible assets, if any. Goodwill is amortized on a straight-line basis over a period of 10 years. As of December 31, 2021, the Hospital recorded goodwill of approximately \$2,018,000 related to its acquisition activities with accumulated amortization of \$791,000. Annual amortization is estimated at \$202,000 for the years ending December 31, 2022 through 2026 and \$217,000 in the years thereafter.

Net Position

The net position of the Hospital is classified into four components. (1) Net investment in capital assets represents capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Restricted non-expendable net position includes the principal portion of permanent endowments, if any, and non-controlling interests owned by external investors. (3) Restricted expendable net position includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributions external to the Hospital. (4) Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted. Restricted non-expendable net position includes non-controlling interest, which represents the portion of net position that is owned by the investors who are external to and not included in the financial statements of approximately \$69,000 as of December 31, 2021. This relates to the Hospital's blended component unit, PCPMC, in which external investors have a minority, non-controlling financial interest. The total net position activity for the controlling and non-controlling portions related to PCPMC for 2021 follows:

	Controlling interest	Noncontrolling interest	Total
Balance, beginning of year	\$ 138,875	\$ 133,681	\$ 272,556
Distributions	(127,755)	(113,403)	(241,158)
Net income	60,435	48,471	108,906
Balance, end of year	<u>\$ 71,555</u>	<u>\$ 68,749</u>	<u>\$ 140,304</u>

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Restricted Resources

The Hospital first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Statement of Revenues, Expenses and Changes in Net Position

The Hospital's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonoperating revenues include contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenues or expenses. Operating expenses are generally all expenses incurred to provide health care services, other than interest costs.

Grants and Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts, if any, restricted to capital acquisitions are reported as nonoperating revenues and expenses.

Advertising and Community Relations

The Hospital expenses advertising and community relations costs as they are incurred. Total expense for 2021 was approximately \$292,000.

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. The estimated amount of unused vacation is reported as a liability within the accrued salaries, wages, and related liabilities on the statement of net position.

Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 22, of the Indiana statutes and, accordingly, is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC). As a governmental entity under Section 115 of the IRC, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

As a single member limited liability company with the Hospital as the only member, PPAH is treated as a disregarded entity and does not file federal and state income tax returns. PPAH's activity is included in the Hospital's activities as required for a disregarded entity. PCPMC is a limited liability company and profits and losses are passed through to the members. PCPMC has filed its federal and state income tax returns for periods through December 31, 2021.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and its component units and recognize a tax liability if the Hospital or its component units have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and its component units and has concluded that as of December 31, 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

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.

Medical Malpractice

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

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim 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 claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for general liability and employee medical claims.

Litigation

The Hospital is involved in litigation arising in the normal course of business. After consultation with the Hospital's legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position, results from operations, and cash flows.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the statement of net position date for recognition and disclosure in the accompanying financial statements through the date the financial statements were available to be issued which is August 7, 2024.

Upcoming Accounting Pronouncements

The Governmental Accounting Standards Board (the GASB) issued GASB Statement No. 87, *Leases*, which is effective for periods beginning after June 15, 2021. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

The Hospital is presently evaluating the impact of this standard on its future financial statements.

2. CHANGE IN ACCOUNTING PRINCIPLE

During 2021, the Hospital implemented the Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will no longer be included in the historical cost of a capital asset reported in the Hospital's financial statements. This statement was adopted prospectively beginning in 2021 and did not have a significant impact on the financial statements.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

3. PATIENT ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Patient accounts receivable, accounts payable and accrued expenses included as current assets and liabilities consisted of the following as of December 31, 2021:

Patient accounts receivable	
Receivable from patients and third party payors	\$ 6,711,244
Receivable from Medicare	4,775,307
Receivable from Medicaid	1,419,686
Receivable from long-term care operations	<u>5,017,117</u>
Total patient accounts receivable	17,923,354
Contractual allowances	(6,603,216)
Allowance for uncollectible accounts	<u>(1,586,183)</u>
Patient accounts receivable, net	<u>\$ 9,733,955</u>
Accounts payable and other accrued liabilities	
Payable to suppliers and other accrued expenses	\$ 13,881,012
Payable to employees (including payroll taxes and benefits)	<u>5,687,040</u>
Total accounts payable and other accrued liabilities	<u>\$ 19,568,052</u>

4. ASSETS WHOSE USE IS LIMITED

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Deposit Insurance Hospital or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution. Assets whose use is limited include:

Held by trustee for debt service and capital – Amounts deposited with a trustee and limited to use in accordance with the requirements of a trust indenture and funds from long-term debt borrowings to be expended for debt service and capital.

Internally designated – Amounts designated internally for various special purpose projects.

Donor restricted – Amounts restricted by donors which include expendable amounts based on donor stipulations.

The composition of assets whose use is limited as of December 31, 2021 follows:

Cash and cash equivalents	
Held by trustee	\$ 998,711
Internally designated	42,379
Donor restricted	<u>202,463</u>
	<u>\$ 1,243,553</u>

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

5. CAPITAL ASSETS

The following is a progression of capital assets for 2021.

	12/31/20	Additions	Retirements	Transfers	12/31/21
Land and land improvements	\$ 1,620,919	\$ -0-	\$ -0-	\$ -0-	\$ 1,620,919
Buildings and improvements	44,493,700	468,698	(150,000)	-0-	44,812,398
Equipment	28,911,887	1,379,651	(361,641)	215,213	30,145,110
Construction in process	215,213	21,309	-0-	(215,213)	21,309
Total capital assets	75,241,719	1,869,658	(511,641)	-0-	76,599,736
Accumulated depreciation	(49,516,426)	(2,651,414)	311,694	-0-	(51,856,146)
Capital assets, net	<u>\$ 25,725,293</u>	<u>\$ (781,756)</u>	<u>\$ (199,947)</u>	<u>\$ -0-</u>	<u>\$ 24,743,590</u>

As of December 31, 2021, there were no significant outstanding commitments for capital assets.

6. LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt as of December 31, 2021 is as follows:

Direct borrowings

Note payable #34199, due June 2025; fixed interest rate (3.95%), monthly principal and interest payments due in the amount of \$38,000; secured by property and equipment with a net book value of \$2,100,000 as of December 31, 2021	\$ 1,492,166
Note payable #33860, due June 2025; fixed interest rate (3.95%), monthly principal and interest payments due in the amount of \$35,000; secured by property and equipment with a net book value of \$2,100,000 as of December 31, 2021	1,356,514
Note payable #41806, due November 2035; fixed interest rate (4.25%), monthly principal and interest payments due in the amount of \$12,000; secured by property and equipment with a net book value of \$1,500,000 as of December 31, 2021	1,514,116
Mortgage note payable (project 073-22316) due September 2053; fixed interest rate (4.40%); monthly principal and interest payments due of \$31,000; secured by property and equipment with a net book value of \$6,480,000 as of December 31, 2021	6,118,239
Note payable #53942, due October 2035; fixed interest rate (3.88%), monthly principal and interest payments due in the amount of \$3,500 with a balloon payment of \$189,000 due October 2035; secured by property and equipment with a net book value of \$580,000 as of December 31, 2021	558,509
Note payable #49973, due January 2023; fixed interest rate (4.15%), monthly principal and interest payments due in the amount of \$13,000; secured by property and equipment with a net book value of \$775,000 as of December 31, 2021	764,565

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Note payable #139787, due July 2022; fixed interest rate (2.79%), monthly principal and interest payments due in the amount of \$8,000; secured by property and equipment with a net book value of \$75,000 as of December 31, 2021	55,216
Note payable #140086, due October 2022; fixed interest rate (2.74%), monthly principal and interest payments due in the amount of \$13,000; secured by property and equipment with a net book value of \$400,000 as of December 31, 2021	124,783
Other direct borrowings	<u>186</u>
Total direct borrowings	11,984,294
Current portion	<u>(1,213,013)</u>
	<u>\$ 10,771,281</u>

The interest rates for notes payable #34199 and #33860 are reset every 60 months at prime plus 25 basis points with a floor of 3.95% and a ceiling of 7.00%. The interest rates cannot change more than 2% from the previous reset period. The most current rate reset for both notes payable was in June 2020 at 3.95% through June 2025.

The interest rates for notes payable #41806 and #351999 were amended in April 2016 to state a fixed interest rate of 4.25% through maturity dates in November 2035 and December 2021, respectively.

The mortgage note payable, held by PPAH, is HUD-insured Section 232 pursuant to Section 223(f). It was issued in August 2018 and is payable to Lument Capital, LLC.

In April 2020, the Hospital received a low interest loan of approximately \$4,389,000 under the Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA). The PPP loan was unsecured, with fixed interest at 1% and funds advanced under PPP were subject to forgiveness, if certain criteria were met, with the remaining balance repayable within two years of disbursement. The PPP loan was forgivable to the extent that the Hospital incurred and spent the funds on qualified expenditures, which included payroll, employee health insurance, rent, utilities, and interest costs during the covered period as defined by the PPP guidance. In addition, the Hospital was required to maintain specific employment and wage levels during the pandemic and submit adequate documentation of such expenditures to qualify for loan forgiveness.

The Hospital elected to account for the PPP loan as debt and recognize any forgiveness when it was legally forgiven. During 2021, the Hospital was notified by the SBA of full forgiveness of the PPP loan and recognized approximately \$4,389,000 as debt forgiveness in the 2021 statement of revenues, expenses, and changes in net position.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Direct Borrowings		
	Principal	Interest	Total
2022	\$ 1,213,013	\$ 475,705	\$ 1,384,811
2023	1,070,635	432,237	1,502,872
2024	1,114,529	389,199	1,503,728
2025	708,675	347,436	1,056,111
2026	298,811	330,141	628,952
2027 - 2031	1,672,412	1,487,474	3,159,886
2032 - 2036	1,699,730	1,152,169	2,851,899
2037 - 2041	958,399	913,781	1,872,180
2042 - 2046	1,193,758	678,422	1,872,180
2047 - 2051	1,486,916	385,264	1,872,180
2052 - 2053	567,416	61,527	628,943
	<u>\$ 11,984,294</u>	<u>\$ 6,653,355</u>	<u>\$ 18,333,742</u>

The Hospital has capital lease obligations for medical equipment that run through June 2025. Interest rates range from 2.00% to 3.98% with monthly interest and principal payments ranging from approximately \$500 to \$15,000 and an annual payment of \$165,000 for 2022 and 2023. The cost of equipment under capital leases was \$2,909,000 with accumulated depreciation of \$2,160,000, resulting in net book value of \$749,000 as of December 31, 2021.

The following is summary of minimum lease payments for years subsequent to December 31, 2021:

Year Ending December 31,	
2022	\$ 302,809
2023	280,296
2024	97,757
2025	<u>23,840</u>
	704,702
Interest	<u>(25,413)</u>
	<u>\$ 679,289</u>

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

The following is a progression of long-term debt direct borrowings and capital lease obligations for 2021.

Direct borrowings	12/31/20	Additions	Forgiveness/ Payments	12/31/21	Current Portion
Notes payable	\$ 13,522,842	\$ -0-	\$ (1,538,548)	\$ 11,984,294	\$ 1,213,013
PPP loan	4,389,100	-0-	(4,389,100)	-0-	-0-
Total direct borrowings	17,911,942	-0-	(5,927,648)	11,984,294	1,213,013
Capital leases	466,721	476,275	(263,707)	679,289	233,049
	<u>\$ 18,378,663</u>	<u>\$ 476,275</u>	<u>\$ (6,191,355)</u>	<u>\$ 12,663,583</u>	<u>\$ 1,446,062</u>

The Hospital had a line of credit available with First National Bank with a maximum amount for \$7,000,000, secured by property and equipment with a net book value of \$7,000,000. The line of credit matured in January 2021 and was not renewed.

7. PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

Medicare

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

Medicaid and the Indiana Hospital Assessment Fee Program

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

The Hospital participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF and HIP Programs expense reported in the statement of revenues, expenses and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Hospitals also fund the Healthy Indiana Plan (HIP), the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program but the funding includes physician, state administration, and certain non-hospital expenditures. During 2021, the Hospital recognized HAF and HIP Programs expense of approximately \$2,163,000, which resulted in increased Medicaid reimbursement. The HAF and HIP assessments are included in the statement of revenues, expenses and changes in net position as operating expenses. The Medicaid rate increases under the HAF and HIP Programs are included in patient service revenue in the statement of revenues, expenses and changes in net position.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Hospital Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient service revenue of approximately \$650,000 during 2021. These programs are administered by the State of Indiana, but rely on Federal funding.

Other Payors

The Hospital also has entered into payment agreements with certain commercial insurance carriers 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.

The following is a summary of patient service revenue for 2021:

Inpatient services	\$ 38,511,855
Outpatient services	62,371,175
Emergency room services	41,692,136
Long-term care services	<u>326,204,963</u>
Gross patient service revenue	468,780,129
Contractual allowances	(244,887,436)
Charity care	(919,196)
Provision for bad debts	<u>(6,055,195)</u>
Deductions from revenue	<u>(251,861,827)</u>
Patient service revenue	<u>\$ 216,918,302</u>

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

8. EMPLOYEE HEALTH BENEFITS

The Hospital is self-insured for medical and related health benefits provided to employees and their families. A stop/loss policy through commercial insurance covers individual claims in excess of \$100,000 per individual per policy year, with an estimated minimum attachment point of approximately \$3,494,000 (calculated as twelve times the monthly aggregate factors, times the total number of covered units) where stop loss coverage is phased in when this threshold is reached. The individual and aggregate stop/loss policy covers only health claims incurred by providers other than the Hospital. In-house claims are not covered under the individual and aggregate stop/loss. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends, including frequency and amounts of payouts, and other economic and social factors. Total health insurance expense for 2021 was approximately \$3,571,000. Changes in the balance of claim liabilities during 2021 are as follows:

Unpaid claims	
Beginning of year	\$ 380,000
Incurred claims and changes in estimates	3,570,798
Claim payments	<u>(3,609,798)</u>
End of year	<u>\$ 341,000</u>

9. PENSION PLANS

The Hospital offers three pension plans to eligible employees, the Putnam County Hospital Money Purchase Pension Trust (401a Plan), the Putnam County Hospital Retirement Plan (403b Plan) and the Putnam County Hospital 457 Plan (457 Plan), collectively referred to as "the Plans". The Plans provide retirement, disability and death benefits to their participants and beneficiaries. The Plans were established by written agreements between the Hospital's Board of Trustees and the administrator of the Plans, Lincoln Financial Group (Lincoln). Information can be obtained for the Plans by contacting Lincoln.

The 401a Plan is funded through only Hospital contributions as employee contributions are not permitted. The Hospital funds the 401a Plan at 4% of eligible compensation as defined by the 401a Plan document. Expense related to the 401a Plan for 2021 was approximately \$476,000, net of forfeitures. Employees are eligible to participate in the 401a Plan after completing one year of service as defined by the 401a Plan document with enrollment dates of January 1 and July 1. Vesting begins after 3 years of participation at 20% and increases 20% annually until fully vested at 7 years.

The 403b and 457 Plans are funded by employee only contributions. Therefore, the participants are fully vested at all times in their balances.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

10. CONCENTRATIONS OF CREDIT RISK

The Hospital is primarily located in Green Castle, Indiana and grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable and gross patient revenues from self-pay and third party payors as of and for the year ended December 31, 2021 was as follows:

	<u>Receivables</u>	<u>Revenue</u>
Medicare	37%	47%
Medicaid	11%	18%
Commercial and other payors	31%	33%
Self-pay payors	21%	2%
	<u>100%</u>	<u>100%</u>

11. OPERATING LEASES

The Hospital has operating leases for space and equipment that expire at various times through 2023. Expenses related to these leases approximated \$95,000 for 2021. Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$12,508,000 for 2021. The long-term care leases can be terminated with 90 day notice by either the lessor or the Hospital. Annual rent expense through 2023 approximates \$12,500,000 under these long-term care leases.

The Hospital also leases space to physicians and other medical providers on its main campus and at other ancillary locations. The lease agreements are generally one-year commitments that renew automatically for another year. During 2021, the Hospital recognized approximately \$170,000 in revenue related to these leases. During 2022 and 2023, the Hospital expects to recognize \$175,000 annually in revenue related to these leases.

12. BLENDED COMPONENT UNITS

The Hospital's financial statements include the accounts of its blended components units, PPAH and PCPMC. The financial statements for PPAH are separately audited to comply with the U.S. Department of Housing and Urban Development (HUD) program under Section 232 pursuant to Section 223(f) – Mortgage Insurance for Nursing Homes, Intermediate Care Facilities, Board & Care Homes and Assisted-Living Facilities. More detailed financial information for PPAH and PCPMC may be obtained through contacting the accounting department of the Hospital.

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

Below is condensed financial information for these entities for 2021.

	PPAH	PCPMC
Statement of net position		
Assets		
Cash	\$ 276,784	\$ 100,955
Accounts receivable, net	-0-	202,779
Due from Hospital	-0-	1,545,521
Other assets	1,029,550	-0-
Property and equipment, net	6,480,408	-0-
Total assets	7,786,742	1,849,255
Deferred outflows		
Total assets and deferred outflows	\$ 9,014,359	\$ 1,849,255
Liabilities		
Accounts payable	\$ 57,411	\$ 5,935
Due to Hospital	219,675	1,703,016
Long-term debt	6,118,239	-0-
Total liabilities	6,395,325	1,708,951
Net position		
Total liabilities and net position	\$ 9,014,359	\$ 1,849,255
 Statement of revenues, expenses and changes in net position		
Revenues		
Patient service revenue	\$ -0-	\$ 500,431
Rental income from Hospital	704,776	-0-
Total revenues	704,776	500,431
Expenses		
Salaries and wages	-0-	205,876
Depreciation	383,893	-0-
Amortization and other	398,893	185,649
Total expenses	782,786	391,525
Operating income (loss)	(78,010)	108,906
Nonoperating revenues (expenses) and distributions		
Change in net position	(334,201)	(132,252)
Net position		
Beginning of year	2,953,235	272,556
End of year	\$ 2,619,034	\$ 140,304

PUTNAM COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

	<u>PPAH</u>	<u>PCPMC</u>
Statement of cash flows		
Net cash flows from		
Operating activities	\$ (334,201)	\$ 241,159
Capital and related financing activities	<u>(436,936)</u>	<u>(241,158)</u>
Change in cash and cash equivalents	(771,137)	1
Cash		
Beginning of year	<u>1,047,921</u>	<u>100,954</u>
End of year	<u>\$ 276,784</u>	<u>\$ 100,955</u>

13. COVID-19 GRANTS

In 2021, Provider Relief Funds (PRF) authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and American Rescue Plan (ARP) were distributed to healthcare providers impacted by the Coronavirus (COVID-19) pandemic. The Hospital received approximately \$5,584,000 in PRF from CARES and ARP during 2021. PRF amounts received were recognized as grant revenue to the extent the Hospital met the terms and conditions related to COVID-19 expenses and lost revenues as outlined by the federal grantor guidelines. The Hospital recognized PRF of \$8,796,000 as COVID-19 grant funds in nonoperating revenues (expenses) in the statement of revenues, expenses and changes in net position for 2021. The Hospital did not record a liability on the statement of net position for unearned grant revenue as of December 31, 2021. Unearned grant revenue as of December 31, 2020 of \$3,212,000 was recorded as revenue in 2021 as the terms and conditions related to the funding were met during the year.

The CARES Act also allowed health care providers to request accelerated and advance payments for Medicare services which the Hospital received approximately \$10,731,000 from this provision of CARES. Medicare accelerated and advance payments were included in current liabilities on the statement of net position as of December 31, 2021 of \$2,639,000 as settlement of these funds began during 2021.

The CARES Act included a provision for the Employee Retention Tax Credit (ERTC). The ERTC was a fully refundable tax credit for employers equal to 70 percent of qualified wages (including allocable qualified health plan expenses) that eligible employers pay their employees. The ERTC applied to qualified wages paid in calendar year 2021. The credit was 70% of the first \$10,000 in wages per employee in each quarter of calendar year 2021 meaning the ERTC was worth up to \$7,000 per quarter and up to \$28,000 per calendar year, for each employee. During 2021, the Hospital qualified for an ERTC credit of approximately \$4,878,000 and received the funds in September 2021.



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**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Putnam County Hospital
Greencastle, Indiana

Report on the Financial Statements

We have audited, in accordance with the 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 Putnam County Hospital (the Hospital), which comprise the statement of net position as of December 31, 2021, 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 August 7, 2024.

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 Hospital's consolidated 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a material weakness.

Board of Trustees
Putnam County Hospital
Greencastle, Indiana

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*.

Hospital's Response to Finding

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

Purpose of this Report

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

Blue & Co., LLC

Indianapolis, Indiana
August 7, 2024



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**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE AND SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE *UNIFORM GUIDANCE***

Board of Trustees
Putnam County Hospital
Greencastle, Indiana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Putnam County Hospital's (the Hospital) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2021. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Basis for Opinion on Each Major Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the *Uniform Guidance* and which is described in the accompanying schedule of findings and questioned costs as item 2021-002. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-003 to be a significant deficiency.

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

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

Board of Trustees
Putnam County Hospital
Greencastle, Indiana

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

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

We were engaged to audit the financial statements of the Hospital as of and for the year ended December 31, 2021, and have issued our report thereon dated August 7, 2024. However, the scope of our audit of the financial statements was not sufficient to enable us to express an opinion because supporting documentation related to the Hospital's long-term care assets and liabilities was not available for audit as of January 1, 2021 and we were unable to obtain sufficient appropriate audit evidence through other auditing procedures. Accordingly, we did not express an opinion on such financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Because of the significance of the matter discussed above, it is inappropriate to and we do not express an opinion on the schedule of expenditures of federal awards referred to above.

Blue & Co., LLC

Indianapolis, Indiana
August 7, 2024

PUTNAM COUNTY HOSPITAL

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

Federal Grantor/ Pass-through / Program Title	Grant ID #	Assistance Listing #	Federal Expenditures
Major program			
US Department of Health and Human Services (DHHS)			
COVID-19 Provider Relief Fund and American Rescue Plan	N/A	93.498	\$ 14,432,248
Non-major programs			
DHHS			
COVID-19 Claims Reimbursement for the Uninsured Program and COVID-19 Coverage Assistance Fund	N/A	93.461	54,116
DHHS			
COVID-19 Testing and Mitigation for Rural Health Clinics	N/A	93.697	300,000
Total non-major programs			354,116
Total federal expenditures			\$ 14,786,364

See Report on Schedule of Expenditures of Federal Awards Required by the *Uniform Guidance* on page 30.
See notes to consolidated schedule of expenditures of federal awards.

PUTNAM COUNTY HOSPITAL

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

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) for 2021 includes the federal grant activity of Putnam County Hospital (the Hospital) and is presented on the accrual basis of accounting. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. The basic financial statement classifications may include other financial activity for reporting purposes. Therefore, some of the amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Hospital has elected not to use the 10% de minimis indirect cost rate as allowed under the *Uniform Guidance*.

3. SUBRECIPIENT PASS-THROUGH

No entities received pass-through federal awards from the Hospital during 2021.

4. PROVIDER RELIEF FUNDS

Under terms and conditions of the American Rescue Plan (ARP) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Hospital is required to report COVID-19 related expenses and lost revenue to the US Department of Health and Human Services (DHHS). Guidance from DHHS has required the reporting of the COVID-19 related expenses and lost revenue and expenses in certain reporting periods based on when the funds were received.

DHHS requires amounts received prior to December 31, 2020, and expended through December 31, 2021, to be reported on the 2021 Schedule rather than the 2020 Schedule. As such, the Hospital received approximately \$14,432,000 in COVID-19 grants prior to December 31, 2020 while recording \$3,212,000 as unearned grant revenue as of December 31, 2020. During 2021, the Hospital received \$5,584,000 in COVID-19 grant funds with \$-0- reported as unearned grant revenue as of December 31, 2021.

During 2021 and 2020, the Hospital recognized \$8,796,000 and \$11,220,000 as revenue in its 2021 and 2020 statements of revenues, expenses and changes in net position, respectively, as the terms and conditions of the PRF grant were satisfied. ARP and CARES grants received and also recognized as revenue in 2021 will be reported on the 2022 Schedule as required by DHHS.

5. FAIR MARKET VALUE OF DONATED PERSONAL PROTECTIVE EQUIPMENT (UNAUDITED)

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

PUTNAM COUNTY HOSPITAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2021

Section I -- Summary of Auditor's Results

Consolidated Financial Statements

Type of auditor's report issued

Unmodified - Statement of Net Position
Disclaimer - Statements of Revenues, Expenses
and Changes in Net Position, and Cash Flows

Internal control over financial reporting

Material weakness(es) identified?

yes no

Significant deficiency(ies) identified that are not considered to be
material weakness(es)?

yes none noted

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal controls over major programs

Material weakness(es) identified?

yes no

Significant deficiency(ies) identified that are not considered to be
material weakness(es)?

yes none noted

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported
in accordance with 2 CFR section 200.516(a)?

yes no

Identification of major program

COVID-19 Provider Relief Fund - Assistance Listing # 93.498

Dollar threshold used to distinguish between type A and B programs:

\$750,000

Auditee qualified as low-risk auditee?

yes no

Section II - Findings Related to Financial Statements Reported in Accordance With Government Auditing Standards:

2021-001 – Material weakness related to financial reporting for long-term care activities

<p>Subject: Financial Reporting Audit Finding: Material Weakness</p>
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Criteria – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition –Review was not consistently applied to ensure financial reporting for long-term care activities were properly and timely reported in the financial statements.

PUTNAM COUNTY HOSPITAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS DECEMBER 31, 2021

Context – A strong internal control environment requires an understanding and application of accounting principles generally accepted in the United States of America and oversight to ensure financial transactions are properly and timely reported in the financial statements.

Effect – Potential material misstatements in the financial statements due to error or fraud could occur and not be prevented or detected and corrected in a timely manner.

Cause – The cause of this deficiency relates to application of controls and review processes to ensure financial transactions related to long-term care activities are properly and timely reported in the financial statements

Recommendation – We recommend management apply consistent controls to ensure financial transactions related to long-term care activities are properly and timely reported in the financial statements.

Views of Responsible Officials and Planned Corrective Actions – The Hospital is implementing procedures and controls to ensure financial transactions related to long-term care activities are properly and timely reported in the financial statements.

Section III - Findings and questioned costs relating to Federal awards:

2021-002 – Other Matters - Submission of Single Audit reporting package

<p>Subject: Single Audit Reporting Package Federal Agency: Department of Health and Human Services Federal Program: COVID-19 Provider Relief Fund and American Rescue Plan Assistance Listing #93.498 Federal Award # and Year: N/A Compliance Requirement: Reporting Audit Finding: Other Matters</p>
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Criteria – The Single Audit reporting package is due to the Federal Audit Clearinghouse within nine months after year end as stated in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart F, Section 200.512(a)(1).

Condition – The Single Audit reporting package was not submitted within this timeframe.

Questioned costs - \$-0-

Context – Single Audit requirements direct the grant recipient to comply with the filing requisites.

Effect - The Single Audit reporting package was not submitted to the Federal Audit Clearinghouse within the timeframe which resulted in an instance of noncompliance.

Cause – Due to delays in completing the financial statement audit, the Single Audit reporting package was not submitted to the Federal Audit Clearinghouse within the timeframe.

PUTNAM COUNTY HOSPITAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2021

Recommendation – We recommend the Hospital file the Single Audit reporting package with the Federal Audit Clearinghouse.

Views of Responsible Officials and Planned Corrective Actions – Management understands the due date for Single Audit reporting package submission to the Federal Audit Clearinghouse and will file the Single Audit reporting package as soon as possible.

2021-003 – Significant deficiency related to timely preparation of Schedule of Expenditures of Federal Awards

<p>Subject: Reporting Federal Agency: Department of Health and Human Services Federal Program: COVID-19 Provider Relief Fund and American Rescue Plan Assistance Listing #93.498 Federal Award # and Year: N/A Compliance Requirement: Reporting Audit Finding: Significant Deficiency</p>
--

Criteria – The preparation of the Schedule of Expenditures of Federal Awards (SEFA) is necessary to satisfy the reporting requirements for federal programs identified as major programs.

Condition – The SEFA was not prepared on a timely basis.

Questioned costs - \$-0-

Context – The timely preparation of the SEFA is necessary to satisfy reporting requirements related to federal programs identified as major programs.

Effect - The SEFA was not prepared on a timely basis resulting in delays in completing reporting requirements for federal programs identified as major programs.

Cause – Due to delays in completing the financial statement audit, the SEFA was not completed on a timely basis.

Recommendation – We recommend the Hospital complete the SEFA on a timely basis to assist with the reporting requirements for federal programs identified as major programs.

Views of Responsible Officials and Planned Corrective Actions – Management has implemented internal controls over compliance in place to assist with the timely preparation of the SEFA.

Section IV - Summary schedule of prior audit findings:

Not applicable.



Putnam County Hospital

CORRECTIVE ACTION PLAN YEAR ENDED DECEMBER 31, 2021

Putnam County Hospital (the Association) respectfully submits the following corrective action plan for the year ended December 31, 2021.

Name and address of independent public accounting firm:

Blue & Co., LLC
500 N. Meridian Street, Suite 200
Indianapolis, Indiana 46204

Audit period – Year Ended December 31, 2021

The findings from the 2021 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDING RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

2021-001 – Financial reporting for long-term care activities

Recommendation: The auditor recommended management apply consistent controls to ensure financial transactions related to long-term care activities are properly and timely reported in the financial statements.

Corrective action: The Hospital implemented procedures and controls to ensure financial transactions related to long-term care activities are properly and timely reported in the financial statements.

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

2021-002 – Other Matters - Submission of Single Audit reporting package

Recommendation: The auditor recommended the Hospital file the single audit reporting package with the Federal Audit Clearinghouse.

Corrective action: Management understands the due date for single audit reporting package submission to the Federal Audit Clearinghouse and filed the 2021 single audit reporting package in August 2024.

2021-003 – Significant deficiency related to timely preparation of Schedule of Expenditures of Federal Awards (SEFA)

Recommendation: The auditor recommended the Hospital complete the SEFA on a timely basis to assist with the reporting requirements for federal programs identified as major programs.

Corrective action: Management has implemented internal controls over compliance in place to assist with the timely preparation of the SEFA.

* * * * *

If there are any questions regarding this plan, please contact Alan Nerone, Chief Financial Officer at 765-301-7532.