

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA**

**CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022**

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA**

TABLE OF CONTENTS

Independent Auditor’s Report	Page	1-3
Financial Statements		
Consolidated Balance Sheet.....		4-5
Consolidated Statement of Revenues, Expenses and Changes in Net Position		6
Consolidated Statement of Cash Flows.....		7-8
Notes to Consolidated Financial Statements		9-32
Independent Auditor’s Report on the Supplementary Information		33
Supplementary Information		
Schedule of Changes in the Hospital’s Net Pension (Asset) Liability and Related Ratios.....		34
Schedule of Hospital Contributions		35



Independent Auditor's Report

**To the Governing Board of the Hospital
Adams County Memorial Hospital
Decatur, Indiana**

Opinion

We have audited the accompanying consolidated financial statements of Adams County Memorial Hospital (the "Hospital"), a component unit of Adams County, Indiana, and its discretely presented component unit, Adams County Memorial Hospital Foundation, which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audit 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 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.

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 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 generally accepted auditing standards 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 generally accepted auditing standards 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.
- 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.

Emphasis of Matter Regarding Omission of Management's Discussion and Analysis

Management has omitted the management, discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the consolidated financial statements. Such missing information, although not a part of the consolidated financial statements, is required by the *Governmental Accounting Standards* Board, who considers it to be an essential part of consolidated financial reporting for placing the consolidated financial statements in an appropriate operational, economic or historical context. Our opinion on the consolidated financial statements is not affected by this missing information.

Somerset CPAs, P.C.

Indianapolis, Indiana
October 24, 2023

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
CONSOLIDATED BALANCE SHEET
December 31, 2022

	<u>Primary Government</u>	<u>Discrete Component Unit</u>	<u>Total Reporting Entity</u>
ASSETS AND DEFERRED OUTFLOWS			
Current Assets			
Cash and cash equivalents	\$ 56,658,295	\$ 488,186	\$ 57,146,481
Patient accounts receivable, net of estimated allowance for uncollectible accounts of \$30,322,618	52,790,817	-	52,790,817
Supplies and other current assets	22,088,032	7,674	22,095,706
Total Current Assets	<u>131,537,144</u>	<u>495,860</u>	<u>132,033,004</u>
Investments	<u>50,354,182</u>	-	<u>50,354,182</u>
Cash Held by Trustee for Debt Service	<u>4,829,329</u>	-	<u>4,829,329</u>
Capital Assets			
Land and construction in progress	10,243,717	-	10,243,717
Depreciable capital assets, net	<u>53,502,730</u>	-	<u>53,502,730</u>
Total Capital Assets, Net	<u>63,746,447</u>	-	<u>63,746,447</u>
Other Assets			
Pension asset	6,646,310	-	6,646,310
Operating lease right of use asset, net	43,022,689	-	43,022,689
Other	<u>1,430,166</u>	<u>110,000</u>	<u>1,540,166</u>
Total Other Assets	<u>51,099,165</u>	<u>110,000</u>	<u>51,209,165</u>
Total Assets	<u>301,566,267</u>	<u>605,860</u>	<u>302,172,127</u>
Deferred Outflows			
Pension deferred outflows	<u>1,772,578</u>	-	<u>1,772,578</u>
Total Assets and Deferred Outflows	<u><u>\$ 303,338,845</u></u>	<u><u>\$ 605,860</u></u>	<u><u>\$ 303,944,705</u></u>

See accompanying notes.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
CONSOLIDATED BALANCE SHEET
December 31, 2022

	Primary Government	Discrete Component Unit	Total Reporting Entity
LIABILITIES, DEFERRED INFLOWS AND NET POSITION			
Current Liabilities			
Current maturities of long-term debt	\$ 1,945,000	\$ -	\$ 1,945,000
Current maturities of lease liabilities	27,388,396	-	27,388,396
Accounts payable and accrued expenses	97,190,936	22,829	97,213,765
Estimated third-party settlements	3,451,664	-	3,451,664
Other current liabilities	2,557,824	-	2,557,824
Total Current Liabilities	<u>132,533,820</u>	<u>22,829</u>	<u>132,556,649</u>
Long-term Liabilities			
Long-term debt, less current maturities	20,916,700	-	20,916,700
Long-term lease liabilities, net of current portion	15,634,293	-	15,634,293
Other long-term liabilities	1,572,876	-	1,572,876
Total Long-term Liabilities	<u>38,123,869</u>	<u>-</u>	<u>38,123,869</u>
Total Liabilities	<u>170,657,689</u>	<u>22,829</u>	<u>170,680,518</u>
Net Position			
Net investment in capital assets	40,884,747	-	40,884,747
Restricted for debt service	4,829,329	-	4,829,329
Unrestricted	86,967,080	583,031	87,550,111
Total Net Position	<u>132,681,156</u>	<u>583,031</u>	<u>133,264,187</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 303,338,845</u>	<u>\$ 605,860</u>	<u>\$ 303,944,705</u>

See accompanying notes.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2022

	Primary Government	Discrete Component Unit	Total Reporting Entity
Operating Revenues			
Net patient service revenue	\$ 386,605,646	\$ -	\$ 386,605,646
Other operating revenue	10,630,699	-	10,630,699
Total Operating Revenues	<u>397,236,345</u>	<u>-</u>	<u>397,236,345</u>
Operating Expenses			
Salaries, wages, benefits and contracted payroll	176,579,564	-	176,579,564
Supplies	33,654,063	-	33,654,063
Insurance	7,707,650	-	7,707,650
Facility and equipment leases	27,283,151	-	27,283,151
Utilities	8,375,496	-	8,375,496
Contracted services	87,374,263	-	87,374,263
Depreciation and amortization	5,926,449	-	5,926,449
Other expenses	61,451,182	194,731	61,645,913
Total Operating Expenses	<u>408,351,818</u>	<u>194,731</u>	<u>408,546,549</u>
Operating Loss	<u>(11,115,473)</u>	<u>(194,731)</u>	<u>(11,310,204)</u>
Nonoperating COVID-19 Grant Revenue	<u>4,730,050</u>	<u>-</u>	<u>4,730,050</u>
Loss Before Other Nonoperating Revenues (Expense)	<u>(6,385,423)</u>	<u>(194,731)</u>	<u>(6,580,154)</u>
Other Nonoperating Revenues (Expenses)			
Investment return	(3,273,164)	3,758	(3,269,406)
Interest expense	(584,775)	-	(584,775)
Other nonoperating income	5,153,356	-	5,153,356
Total Other Nonoperating Revenues (Expenses)	<u>1,295,417</u>	<u>3,758</u>	<u>1,299,175</u>
Excess of Expense over Revenues Before Capital Grants and Contributions	<u>(5,090,006)</u>	<u>(190,973)</u>	<u>(5,280,979)</u>
Capital Grants and Contributions	<u>2,572,663</u>	<u>338,360</u>	<u>2,911,023</u>
Increase (Decrease) in Net Position	<u>(2,517,343)</u>	<u>147,387</u>	<u>(2,369,956)</u>
Net Position, Beginning of Year	<u>135,348,499</u>	<u>435,644</u>	<u>135,784,143</u>
Intergovernmental Transfer	<u>(150,000)</u>	<u>-</u>	<u>(150,000)</u>
Net Position, End of Year	<u>\$ 132,681,156</u>	<u>\$ 583,031</u>	<u>\$ 133,264,187</u>

See accompanying notes.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022

	Primary Government	Discrete Component Unit	Total
Operating Activities			
Receipts from and on behalf of patients	\$ 380,261,741	\$ -	\$ 380,261,741
Payments to suppliers and contractors	(208,733,325)	(288,790)	(209,022,115)
Payments to employees	(176,181,026)	-	(176,181,026)
Other receipts, net	11,169,664	-	11,169,664
Net cash provided by (used in) operating activities	<u>6,517,054</u>	<u>(288,790)</u>	<u>6,228,264</u>
Capital and Related Financing Activities			
Capital grants and contributions	2,572,663	338,360	2,911,023
Principal paid on long-term debt	(939,844)	-	(939,844)
Interest paid on long-term debt	(584,775)	-	(584,775)
Intergovernmental transfer	(150,000)	-	(150,000)
Acquisition and construction of capital assets	(14,353,300)	-	(14,353,300)
Net cash provided by (used in) capital and related financing activities	<u>(13,455,256)</u>	<u>338,360</u>	<u>(13,116,896)</u>
Cash Flows from Investing Activities			
Dividends and interest from investments	1,928,792	3,758	1,932,550
Sale of investments	29,111	-	29,111
Purchase of investments	(6,316,368)	-	(6,316,368)
Net cash provided by (used in) investing activities	<u>(4,358,465)</u>	<u>3,758</u>	<u>(4,354,707)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(11,296,667)	53,328	(11,243,339)
Cash and Cash Equivalents, Beginning of Year	<u>72,784,291</u>	<u>434,858</u>	<u>73,219,149</u>
Cash and Cash Equivalents, End of Year	<u>\$ 61,487,624</u>	<u>\$ 488,186</u>	<u>\$ 61,975,810</u>
Reconciliation of Cash and Cash Equivalents			
Cash and cash equivalents in current assets	\$ 56,658,295	\$ 488,186	\$ 57,146,481
Restricted cash and cash equivalents	4,829,329	-	4,829,329
Total Cash and Cash Equivalents	<u>\$ 61,487,624</u>	<u>\$ 488,186</u>	<u>\$ 61,975,810</u>

See accompanying notes.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022

	Primary Government	Discrete Component Unit	Total
Reconciliation of Operating Loss to Net Cash			
Operating loss	\$ (11,115,473)	\$ (194,731)	\$ (11,310,204)
Adjustments to reconcile operating loss to net cash flows provided by (used in) operating activities:			
Depreciation and amortization	5,926,449	-	5,926,449
Loss on disposal of capital assets	(3,594)	-	(3,594)
Provision for uncollectible accounts	5,554,146	-	5,554,146
Changes in operating assets and liabilities:			
Patient accounts receivable	(11,898,051)	-	(11,898,051)
Supplies and other current assets	8,255,403	(7,674)	8,247,729
Other assets related to operating activities	2,693,043	(110,000)	2,583,043
Accounts payable and accrued expenses	8,449,669	23,615	8,473,284
Other current liabilities	2,574,407	-	2,574,407
Estimated third-party settlements	(1,544,671)	-	(1,544,671)
Other liabilities related to operating activities	(2,374,274)	-	(2,374,274)
Net cash provided by (used in) operating activities	<u>\$ 6,517,054</u>	<u>\$ (288,790)</u>	<u>\$ 6,228,264</u>

See accompanying notes.

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022**

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity

Adams County Memorial Hospital (the "Hospital") is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22-2-2. The Hospital provides acute inpatient and outpatient health care.

The Board of County Commissioners of Adams County appoints the Governing Board of the Hospital, and a financial benefit/burden relationship exists between Adams County and the Hospital. For these reasons, the Hospital is considered a component unit of Adams County.

The Hospital also operates Adams Woodcrest, a Continuing Care Retirement Community (CCRC), consisting of Woodcrest Nursing Center, a 143-bed nursing facility; Woodcrest Assisted Living, a 58-apartment assisted living community; Woodcrest Independent Living with 42 villas and 32 apartments. The Hospital also operates Adams Heritage, a 61-bed nursing facility. Health Network is a financial entity created to accumulate and then assign shared costs to each of the six aforementioned entities. Adams Health Network also performs certain administrative functions for all entities. The Hospital leases certain office buildings to multiple independent physicians. In addition, the Hospital employs and operates family medical practices, general surgical practices, pain management practices, neurological practices and an orthopedic surgery practice as departments of the Hospital. Multiple physician offices are designated as Rural Health Clinics.

The accompanying consolidated financial statements present the activities of the Hospital (primary government) and its significant component units. The discretely presented component unit discussed below is included in the Hospital's reporting entity because of the significance of its' operational or financial relationship with the Hospital. Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the basic consolidated financial statements to emphasize that it is legally separate from the Hospital.

Senior Living Operations

The Hospital owns the operations of multiple senior living facilities by way of arrangements with the Managers of the facilities. These facilities provide nursing and therapy services. Gross revenues from the operation of the 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 shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

The Hospital entered into lease agreements with the senior living facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Additionally, the Hospital entered into agreements with the Managers to manage the above-leased facilities on behalf of the Hospital.

As part of the agreements entered into, the Hospital pays the Managers a management fee which consists of base management fees, subordinated management fees and incentive payments. The agreements expire at various times through 2025.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Senior Living Operations (Continued)

All parties involved can terminate the agreement without cause with 90 days written notice. The terms of these agreements are automatically renewed at the end of each term on a two-year basis.

Discretely Presented Component Unit

The Adams County Memorial Hospital Foundation (the "Foundation") is a significant discretely presented component unit of the Hospital. The primary government appoints a voting majority of the Foundation's board, and a financial benefit/burden relationship exists between the Hospital and the Foundation.

A separate audit report is not prepared for the individual component unit.

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.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less. The carrying amount reported in the Consolidated Balance Sheet for cash and cash equivalents approximates its fair value. The Hospital's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents. At times, such amounts may be in excess of the FDIC insured limit. The Hospital has never experienced any losses related to these balances.

Investments

Short-term investments are investments with remaining maturities of up to 90 days. Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022**

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

Certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at contract value. Mutual funds are reported at fair value based on the fund's market price.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency. Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value. Other investments are generally reported at fair value.

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

Assets Whose Use is Limited

Limited use assets are stated at fair market value or contract value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes. These investments consist primarily of cash and cash equivalents, certificates of deposit stated at contract value, U.S. government securities, mutual funds and corporate stock. Investment interest, dividends, gains and losses, both realized and unrealized, are included in nonoperating revenues (expenses) in the Consolidated Statement of Revenues, Expenses and Changes in Net Position.

Supplies

Inventories of drugs and supplies are stated at the lower of cost (first-in, first-out) or net realizable value and are included within other current assets in the Hospital's Consolidated Balance Sheet.

Capital Assets and Depreciation

Capital assets, which include land, land 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 Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets and Depreciation (Continued)

The range of useful lives in computing depreciation is as follows:

Description	Range of Useful Lives
Land improvements	3 - 40 years
Buildings	5 - 40 years
Fixed equipment	3 - 29 years
Major moveable equipment	3 - 23 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized and are expenses as incurred.

Major outlays for capital assets and improvements are capitalized as costs are incurred. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position by the Hospital that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period. Both deferred outflows and inflows are reported in the consolidated balance sheet but are not recognized in the consolidated financial statements as revenues, expenses, and reduction of liabilities or increases in assets until the periods to which they relate.

Pension

For purposes of measuring the net pension (asset) liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees Retirement Plan of Adams County Memorial Hospital (the "Plan"), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences

All employees earn paid time off (PTO) at rates from 18 days to 33 days per year based upon the number of years of service. PTO accumulates to a maximum of 60 days. Paid days off are accrued when incurred and reported as a liability in the consolidated balance sheet.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net assets of the Hospital are classified in three components:

Net investment in capital assets consist of capital assets net of accumulated depreciation and are reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable and nonexpendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, contributors or enabling legislation external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 9.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Patient Accounts Receivable and Net Patient Service Revenues

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. Accounts receivable for patients, insurance companies and governmental agencies are based on gross charges net of an allowance for contractual adjustments and interim payment advances. The allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors. Management estimates an allowance for doubtful accounts receivable based on evaluations of historical losses, current economic conditions and other factors unique to the Hospital's customer base.

Net patient service revenue represents the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay for services provided by the Hospital. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the Hospital does not expect payment, estimated charges for charity are not included in revenue. Charges excluded from revenue under the Hospital's charity care policy were approximately \$339,000 for the year ended December 31, 2022.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Contributions

From time to time, the Hospital receives grants from Adams County and the State of Indiana as well as 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 restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, state law permits the Governing Board of the Hospital to authorize for expenditure the net appreciation of the investments of endowment funds.

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Operating Revenues and Expenses

The Hospital's Consolidated Statement of Revenues, Expenses and Changes in Net Position distinguish 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, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Leases

On January 1, 2022, the Hospital implemented GASB Statement No. 87, *Leases* (GASB No. 87). This statement requires governments to recognize right-of-use assets and lease liabilities for leases that previously were classified as operating leases and recognized as expense based on the payment provisions of the contract. The adoption of GASB No. 87 did not result in any change to beginning net position. As of January 1, 2022, adoption of the standard resulted in the recognition of right-of-use assets and lease liabilities of \$42,958,000. Leases have been recognized and measured using the facts and circumstances that existed at the beginning of the year.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Hospital applies judgment in determining whether a contract contains a lease and whether a lease is classified as an operating lease or a finance lease. The Hospital determines the lease term as the non-cancellable term of the lease, which may include options to extend or terminate the lease when it is reasonably certain that the Hospital will exercise that option. The lease term is used in determining classification between operating lease and finance lease, calculating the lease liability and determining the appropriate discount rate.

The Hospital elected to utilize the transition package of practical expedients permitted within the new standard, which among other things, allows the Hospital to carryforward the historical lease classification.

The Hospital has made an accounting policy election not to recognize right-of-use assets and lease liabilities that arise from short-term leases for any class of underlying asset. Short-term leases have an initial term of 12 months or less with purchase options or extension options that are not reasonably certain to be exercised.

The Hospital has made an accounting policy election to use a risk-free discount rate for present value lease calculations when the rate implicit in the lease is not readily determinable.

Operating Leases

Operating leases are included in right-of-use assets, and current portion of lease liability and noncurrent portion of lease liability, as appropriate. Right-of-use assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The right-of-use asset also includes any lease payments made and initial direct costs incurred at lease commencement and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Hospital will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

Income Taxes

The Hospital is a governmental entity organized under the state laws of Indiana. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986. As a governmental entity, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax.

The Foundation is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax. The Foundation has filed its federal and state income tax returns for periods through December 31, 2022. 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).

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising and Community Relations

The Hospital records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was approximately \$491,000 for the year ended December 31, 2022.

Medical Malpractice Claims

The Hospital purchases medical malpractice insurance up to coverage limits under the Indiana Malpractice Act (the Act) under a claims-made policy on a fixed premium basis. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently.

The Hospital is covered under the Act which limits professional liability for claims prior to July 1, 2017, to a maximum recovery of \$1,250,000 per occurrence, \$250,000 of which would be paid through malpractice 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, 2017, until June 30, 2019, the maximum recovery is \$1,650,000 per occurrence, \$400,000 of which would be paid through malpractice insurance coverage, with the remainder due from the Fund. As of July 1, 2019, the Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence with a maximum recovery of \$1,800,000.

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.

Management Evaluation of Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the consolidated financial statements are available to be issued which is October 24, 2023.

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. 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 payment arrangements with major third-party payors follows.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

Medicare

Hospital inpatient acute care services rendered to traditional Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate with a final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. Hospital inpatient psychiatric services and skilled nursing care are paid based on prospectively determined rates. Outpatient hospital services are paid based on a percent of submitted charges (adjusted at least annually) and fee schedules. Physician services are paid based on a fee schedule. Services to beneficiaries enrolled in Medicare Advantage plans are paid through a variety of methodologies including per diem rates, fee schedules and percent of submitted charges.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on diagnosis. Outpatient services are reimbursed based on a fee schedule.

The Hospital is also eligible for Indiana Medicaid Supplemental programs including Medicaid Disproportionate Share Hospital ("DSH") and Municipal Hospital Upper Payment Limit ("UPL") programs. These programs are administered by the State of Indiana but rely on Federal funding.

Revenue from the Medicare and Medicaid programs accounted for approximately 50% and 15%, respectively, of the Hospital's net patient revenue for the year ended December 31, 2022. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Other Payors

The Hospital also has 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. Revenue from a certain commercial insurance carrier accounted for 13% of the Hospital's net patient revenue for the year ended December 31, 2022.

The following is a summary of net patient service revenue for 2022:

Patient service revenue	
Inpatient	\$ 19,023,117
Outpatient	123,666,584
Long-term care operations	<u>365,159,046</u>
Gross patient service revenue	<u>507,848,747</u>

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022**

NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

Other Payors (Continued)

Deductions from revenue	
Contractual allowances	103,406,575
Provision for bad debts	17,497,432
Charity care	339,094
	<hr/>
Total deductions from revenue	121,243,101
	<hr/>
Net patient service revenue	<u>\$ 386,605,646</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments (investments and assets whose use is limited) are carried at fair market value except for certificates of deposit which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

Indiana Code 16-22-3-20 authorizes the Hospital to invest in:

- Any interest-bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.
- Repurchase or resale agreements involving the purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective.
- Mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.
- Securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.
- Pooled fund investments for participating hospitals offered, managed and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

As of December 31, 2022, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Money market funds	\$ 1,333,706	\$ 1,333,706	\$ -	\$ -	\$ -
Mutual funds	48,243,497	48,243,497	-	-	-
Common stock	776,979	776,979	-	-	-
	<u>\$ 50,354,182</u>	<u>\$ 50,354,182</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk - The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk - Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith the credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Concentration of credit risk - The Hospital places a limit on the amount it may invest in any one issuer. The Hospital believes that it is not exposed to any significant credit risk on investments.

Investment return for the year ended December 31, 2022, is summarized as follows:

Net decrease in fair value of investments	\$ (5,201,956)
Interest and dividends	<u>1,928,792</u>
Total investment return	<u>\$ (3,273,164)</u>

NOTE 4 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2022.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2022.

- Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.
- Common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.
- Money market funds: Generally, transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2022, are as follows:

	Total Fair Value at December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Equities	\$ 32,729,122	\$ 32,729,122	\$ -	\$ -
Fixed income	15,514,375	15,514,375	-	-
Common stock:				
Finance	776,979	776,979	-	-
Money market funds	<u>1,333,706</u>	<u>-</u>	<u>1,333,706</u>	<u>-</u>
Total investments	<u>\$ 50,354,182</u>	<u>\$ 49,020,476</u>	<u>\$ 1,333,706</u>	<u>\$ -</u>

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts payable and accrued expenses, other current liabilities, and estimated third-party settlements: The carrying amount reported in the consolidated balance sheet for cash and cash equivalents, accounts payable and accrued expenses, other current liabilities and estimated third-party settlements approximate fair value based on short-term maturities.

Long-term debt: The fair value of the Hospital's fixed rate debt (including capital lease obligations) is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2022, the carrying value of the fixed rate long-term debt approximated its fair value.

Realized gains and losses are reported in the statement of revenues, expenses and changes in net position as a component of investment return. Differences between market value and cost of investments are classified as unrealized gains or losses. Unrealized gains or losses are included in earnings for the period attributable to the change in unrealized gains relating to assets held as of December 31, 2022, and are reported in the statement revenues, expenses and changes in net position in investment return. The unrealized losses approximated \$5,202,000 for 2022.

The Hospital holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 5 - COVID-19 PANDEMIC 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. While the full impact of the global pandemic cannot be reasonably estimated, management believes the Hospital is taking appropriate actions to respond.

Provider Relief Funds

During the year ended December 31, 2022, the Hospital recognized revenue of approximately \$4,730,000 of distributions from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Provider Relief Fund (the 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 and lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS). 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. 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 Fund 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, its ability to retain some or all of the distributions received may be affected. Provider Relief Fund payments are subject to government oversight, including potential audits.

NOTE 6 - PATIENT ACCOUNTS RECEIVABLE

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2022, consisted of these amounts:

Medicare	\$ 18,754,596
Medicaid	24,936,160
Other third-party payors	13,576,742
Private pay	<u>25,845,936</u>
	83,113,435
Less allowance for uncollectible accounts	<u>30,322,618</u>
	\$ <u><u>52,790,817</u></u>

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 7 - INTERNALLY DESIGNATED ASSETS

Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes. There were internally designated assets set aside by the Hospital Board of Trustees to be used solely for capital purchases of approximately \$4,829,000 at December 31, 2022.

NOTE 8 - CAPITAL ASSETS

Primary government capital asset activity for the year ended December 31, 2022, was as follows:

Medicare	\$ 18,754,596
Medicaid	24,936,160
Other third-party payors	13,576,742
Private pay	<u>25,845,936</u>
	83,113,435
Less allowance for uncollectible accounts	<u>30,322,618</u>
	\$ 52,790,817

NOTE 9 - LONG-TERM OBLIGATIONS

Primary government long-term obligation activity for the year ended December 31, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue Bonds					
Series 2021	\$23,875,000	\$ -	\$ 915,000	\$22,960,000	\$ 1,945,000
Loans payable	<u>40,000</u>	<u>-</u>	<u>40,000</u>	<u>-</u>	<u>-</u>
	23,915,000	\$ -	\$ 955,000	22,960,000	\$ 1,945,000
Unamortized bond discount	<u>(113,456)</u>			<u>(98,300)</u>	
	<u>\$23,801,544</u>			<u>\$22,861,700</u>	

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022**

NOTE 9 - LONG-TERM OBLIGATIONS (CONTINUED)

Revenue Bonds Payable

In October 2012, the Hospital participated in the issuance of \$34,710,000 Lease Rental Revenue Refunding Bonds, Series 2012 (Series 2012). On March 31, 2013, the First Supplemental Trust Indenture was entered into, and the agreement amended the principal balance, interest rates and maturity dates of the original indenture of the Series 2012 Bonds. On August 11, 2021, the aforementioned agreement was amended again along with the principal balance, interest rates and maturity dates. The bonds require annual principal payments on January 15 of each year beginning in 2022 in amounts ranging from \$915,000 to \$2,650,000 through January 2033.

The Trust Indenture requires certain funds be established with the trustee. Accordingly, these funds are included as assets under the caption Held by Trustee for Debt Service in the Hospital's Consolidated Balance Sheet at December 31, 2022.

The Hospital has pledged, as security for bonds issued by the Indiana Bond Bank, a portion of the Hospital's revenues. The Hospital has committed to appropriate each year, from the Hospital's revenue, amounts sufficient to cover the principal and interest requirements on the Hospital's debt. The Hospital has pledged, as the sole security for the bonds, the annual appropriations from the Hospital.

Aggregate maturities of long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 1,945,000	\$ 15,157	\$ 1,960,157
2024	1,950,000	15,157	1,965,157
2025	1,965,000	15,157	1,980,157
2026 - 2029	6,015,000	15,157	6,030,157
2030 - 2033	6,270,000	15,157	6,285,157
Thereafter	4,815,000	15,157	4,830,157
	<u>\$ 22,960,000</u>	<u>\$ 90,942</u>	<u>\$ 23,050,942</u>

NOTE 10 - RESTRICTED NET ASSETS

Restricted, expendable net assets are available for the following purposes:

Hospital debt service	\$ 4,829,329
-----------------------	--------------

Unless the contributor provides specific instructions, state statute permits the Hospital Board to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 10 - RESTRICTED NET ASSETS (CONTINUED)

Restricted nonexpendable net assets represent principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Hospital's permanent endowments are expendable to support programs as established by the contributor. There are no restricted nonexpendable net assets as of December 31, 2022.

NOTE 11 - RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past four years. There were no significant reductions in insurance by major category of risk.

Further, the risks of medical benefits to employees, retirees and dependents (excluding postemployment benefits) are covered by the Hospitals' health plan policy that covers those services that are to be provided outside of the Hospital network of internally provided services. There were no significant reductions in insurance and no settled claims from these risks that have exceeded this coverage.

NOTE 12 - MEDICAL BENEFITS TO EMPLOYEES

The Hospital has chosen to service a portion of the risks associated with medical benefits to employees for medical procedures that are able to be provided by the Hospital. The Hospital also has a traditional medical benefit policy in effect through a commercial insurance provider that covers individual claims submitted for medical procedures performed outside of Adams County Memorial Hospital. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities associated with the medical procedures that are provided by the Hospital 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.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 12 - MEDICAL BENEFITS TO EMPLOYEES (CONTINUED)

Changes in the balance of claim liabilities during the year is as follows:

Balance, beginning of year	\$ -
Current year claims incurred and changes in estimates for claims incurred in prior years	2,290,354
Claims and expenses paid	<u>2,290,354</u>
Balance, end of year	<u><u>\$ -</u></u>

The Hospital also maintains a partially self-funded workers' compensation insurance program. Under the insurance policy, the Hospital's self-funded liability is limited to \$100,000 per incident. In 2022, no individual incident exceeded the liability limit.

NOTE 13 - CONTINGENT LIABILITIES

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

NOTE 14 - DEFINED CONTRIBUTION RETIREMENT PLAN

The Hospital has a defined contribution plan which is administered by the Hospital and the Hospital's Retirement Committee. The defined contribution plan covers all employees who meet the eligibility requirements set forth in the plan. Contributions are made at management's discretion and are allocated based upon each participant's eligible compensation. Eligible employees are not required to contribute to the plan. Amendments to the plan provisions may be changed at the discretion of the Hospitals' Retirement Committee and approval of the Hospital's governing body. The Hospital's contribution amounted to approximately \$1,279,000 or 3% of the plan's participants' eligible compensation for the year ended December 31, 2022.

NOTE 15 - PENSION PLAN

Plan Description

The Hospital has a single-employer defined benefit pension plan administered by Adams County Memorial Hospital as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the plan administrator.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NOTE 15 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

The plan administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

Cuni, Rust & Strenk
4555 Lake Forest Drive, Suite 620
Cincinnati, OH 45242-5617
Ph. (513) 891-0270

Benefits Provided

The plan provides that the monthly retirement benefit shall be a pension payable for the member's lifetime equal to 1.00% of the member's monthly compensation, plus 0.65% in excess of covered compensation. This sum is then multiplied by the years of benefit service. Effective December 31, 2011, the Plan was frozen, and no further benefits will accrue under the Plan after that date.

Employees became eligible members of the plan on January 1 following completion of two years of service. Participants are fully vested after 5 years of service. Participation and the accrual of benefits for additional years of service for active participants was frozen as of December 31, 2011.

The employee normal retirement date is age 65. The employee early retirement date can occur once an employee has attained age 55 and has 10 years of service. A reduced early retirement benefit is available to members with at least 10 years of vesting service any time after attainment of age 55, with a reduction factor determined by the date of severance from employment.

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the plan administrator. Plan members are not required to contribute to the plan. The Hospital is required to contribute at an actuarially determined rate. The current rate is 0.00% of annual covered payroll as the valuation assets exceed the accrued liability by more than the expense assumptions of \$50,000.

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022**

NOTE 15 - PENSION PLAN (CONTINUED)

Employees Covered by Benefit Terms

As of December 31, 2022, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	125
Inactive plan members entitled to but not yet receiving benefits	93
Active plan members	140
	358

Contributions

The contribution requirements of plan members are established and can be amended by the Hospital Board of Trustees. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Hospital is required to contribute at an actuarially determined rate.

Net Pension Asset

The Hospital's net pension asset was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	0%
Salary increases	N/A
Investment rate of return	7%

Mortality rates were based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006 and projected with Mortality Table with Scale MP-2018.

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022**

NOTE 15 - PENSION PLAN (CONTINUED)

Net Pension Liability

The target allocation for each major asset class is summarized in the following table:

Asset Class	Target Allocation
Fixed income	36.8%
Domestic equity	59.9%
International equity	3.3%
Total	<u>100%</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.0% for 2022. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will continue to follow the current funding policy. Based on those assumptions, the pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension (Asset) Liability

The following presents the net pension (asset) liability of the Hospital, calculated using the discount rate of 7.0%, as well as what the Hospital's net pension (asset) liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.0%) or 1 percentage-point higher (8.0%) than the current rate:

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
Hospital's net pension liability	\$ (5,281,770)	\$ (6,646,310)	\$ (7,803,275)

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022**

NOTE 15 - PENSION PLAN (CONTINUED)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Changes in the Net Pension (Asset) Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balances, beginning of year	\$ 12,330,565	\$ 22,858,312	\$ (10,527,747)
Changes during the year			
Service cost	51,253	-	51,253
Interest	837,025	-	837,025
Difference between expected and actual experience	75,647	-	75,647
Benefit payments, including refunds of member contributions	(863,222)	(863,222)	-
Net investment income	-	(2,917,512)	2,917,512
Net Change	100,703	(3,780,734)	3,881,437
Balances, end of year	<u>\$ 12,431,268</u>	<u>\$ 19,077,578</u>	<u>\$ (6,646,310)</u>

As of December 31, 2022, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, beginning of year	\$ -	\$ -
Differences between expected and actual experience	84,682	-
Changes in assumptions	10,617	-
Net difference between projected and actual earnings on pension plan assets	1,677,279	-
Balance, end of year	<u>\$ 1,772,578</u>	<u>\$ -</u>

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022**

NOTE 15 - PENSION PLAN (CONTINUED)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Amounts reported as deferred outflows of resources related to pension will be recognized in pension (income) expense as follows:

<u>Year Ending December 31,</u>	
2023	\$ (88,015)
2024	337,782
2025	625,232
2026	897,579
	<hr/>
	\$ 1,772,578
	<hr/> <hr/>

NOTE 16 - OPERATING LEASES

The Hospital, including the senior living facilities discussed in Note 1, has leases for facilities and equipment expiring at various times through 2031.

Lease related costs recognized in the Statement of Revenues, Expenses, and Change in Net Position, for the year ended December 31, 2022, was approximately \$18,401,000.

Other information related to leases as of and for the year ended December 31, 2022, are as follows:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating activities cash flows	\$ 18,324,168
Weighted average remaining lease term	1.6 years
Weighted average discount rate	2.89%

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022**

NOTE 16 - OPERATING LEASES (CONTINUED)

Future expected lease payments on lease liabilities as of December 31, 2022, are as follows:

Year Ending December 31,

2023	\$ 28,222,121
2024	14,954,268
2025	554,400
2026	284,400
2027	14,400
Thereafter	<u>45,600</u>
Total minimum lease payments	44,075,189
Less amounts representing interest	<u>(1,052,500)</u>
Present value of lease liabilities	43,022,689
Less current portion	<u>27,388,396</u>
Long-term portion	<u><u>\$ 15,634,293</u></u>

Leases Pre-adoption of GASB No. 87

Prior to January 1, 2022, the Hospital had noncancelable leases related to facilities and equipment which were accounted for as operating leases. Total rent expense for all operating leases for the year ended December 31, 2021, was approximately \$18,685,000.



Independent Auditor's Report on the Supplementary Information

**To the Governing Board of the Hospital
Adams County Memorial Hospital
Decatur, Indiana**

Our audit of the consolidated financial statements included in the preceding section of this report was conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Somerset CPAs, P.C.

Indianapolis, Indiana
October 24, 2023

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
SCHEDULE OF CHANGES IN THE HOSPITAL'S NET PENSION (ASSET)
LIABILITY AND RELATED RATIOS
December 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total pension liability					
Service cost	\$ 51,253	\$ 61,816	\$ 67,552	\$ 87,322	\$ 94,325
Interest	837,025	839,611	834,206	787,750	772,231
Benefit changes	-	-	841,971	920,168	-
Difference between expected and actual experience	75,647	(22,646)	(25,481)	189,158	1,937
Changes of assumptions	-	25,412	(42,307)	75,968	(18,581)
Benefit payments	(863,222)	(995,680)	(2,170,432)	(609,836)	(632,193)
Net change in total pension liability	100,703	(91,487)	(494,491)	1,450,530	217,719
Total pension liability - beginning	1,082,271	1,173,758	1,668,249	217,719	-
Total pension liability - ending (a)	<u>\$ 1,182,974</u>	<u>\$ 1,082,271</u>	<u>\$ 1,173,758</u>	<u>\$ 1,668,249</u>	<u>\$ 217,719</u>
Plan fiduciary net position					
Net investment income	\$ (2,917,512)	\$ 2,865,047	\$ 2,890,632	\$ 3,385,462	\$ (379,815)
Benefit payments	(863,222)	(995,680)	(2,170,432)	(609,836)	(632,193)
Net change in plan fiduciary net position	(3,780,734)	1,869,367	720,200	2,775,626	(1,012,008)
Plan fiduciary net position - beginning	4,353,185	2,483,818	1,763,618	(1,012,008)	-
Plan fiduciary net position - ending (b)	<u>\$ 572,451</u>	<u>\$ 4,353,185</u>	<u>\$ 2,483,818</u>	<u>\$ 1,763,618</u>	<u>\$ (1,012,008)</u>
Hospital net pension (asset) liability - ending (a) - (b)	<u>\$ 610,523</u>	<u>\$ (3,270,914)</u>	<u>\$ (1,310,060)</u>	<u>\$ (95,369)</u>	<u>\$ 1,229,727</u>
Plan fiduciary net position as a percentage of the total net pension liability	153.46%	185.38%	168.97%	156.92%	152.56%
Covered-employee payroll	\$ 8,449,090	\$ 9,511,757	\$ 10,450,072	\$ 10,997,416	\$ 12,295,598
Hospital net pension (asset) liability as a percentage of covered-employee payroll	-78.66%	-110.68%	-81.98%	-66.85%	-49.02%

* The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
SCHEDULE OF HOSPITAL CONTRIBUTIONS
December 31, 2022**

	Actuarial Determined Contribution	Employer Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
12/31/2022	\$ -	\$ -	\$ -	\$ 8,449,090	0.00%
12/31/2021	-	-	-	9,511,757	0.00%
12/31/2020	-	-	-	10,450,072	0.00%
12/31/2019	-	-	-	10,997,416	0.00%
12/31/2018	-	-	-	12,295,598	0.00%

Notes to Schedule

Valuation date: Actuarial determined contribution rates are calculated as of December 31.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level dollar, open
Remaining amortization method	10 years
Asset valuation method	Market value
Inflation	0.00%
Salary increases	Not applicable (Plan is frozen)
Investment rate of return	7.00%
Retirement age	65 and 5 years of participation
Mortality	OSA RP-2014 Adjusted to 2006 Total dataset Mortality Table projected with Scale MP-2018.