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June 18, 2024

Board of Trustees
Sullivan County Community Hospital
Sullivan County, Indiana

We have reviewed the audit report of the Sullivan County Community Hospital prepared by FORVIS, LLP, Independent Public Accountants, for the period January 1, 2023 to December 31, 2023. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of the Sullivan County Community Hospital, as of December 31, 2023, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

Tammy R. White

Tammy R. White, CPA
Deputy State Examiner

Sullivan County Community Hospital

A Component Unit of Sullivan County, Indiana

Independent Auditor's Report and Financial Statements

December 31, 2023

Contents

FORV/S

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Independent Auditor's Report

Board of Trustees
Sullivan County Community Hospital
Sullivan, Indiana

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the discretely presented component unit of Sullivan County Community Hospital (Hospital), collectively, a component unit of Sullivan County, Indiana, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Hospital, as of December 31, 2023, and the respective changes in its financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

FORVIS, LLP

Indianapolis, Indiana
May 22, 2024

Introduction

This management's discussion and analysis of the financial performance of Sullivan County Community Hospital (Hospital) provides an overview of the Hospital's financial activities for the year ended December 31, 2023. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2023 by $4,289,347 or 15.4%
- The Hospital's net position increased in 2023 by $2,763,758 or 6.4%
- The Hospital reported operating income in 2023 of $834,094 compared to operating income in 2022 of $3,023,485. The operating results in 2023 decreased by $2,189,391 as compared to the operating results reported in 2022
- Net nonoperating results improved by $4,322,766 in 2023 as compared to 2022

Adoption of New Accounting Standards

Effective January 1, 2023, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription Based Information Technology Arrangements* (GASB 96). Comparative information presented herein has not been restated for the adoption of GASB 96 because the basic financial statements present fiscal year 2023 only.

Using This Annual Report

The Hospital's financial statements consist of three statements—the balance sheet; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting. In addition to the Hospital's financial statements, the reporting entity's financial statements also include those of the Hospital's discretely presented component unit, SCCH Fitness Center, Inc.

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

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

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

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from four defined types of activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?" and "What was the change in cash during the reporting period?"

The Hospital's Net Position

The Hospital's net position is the difference between its assets, liabilities, and deferred inflows of resources reported in the balance sheet. The Hospital's net position increased by $2,763,758 or 6.4% in 2023.

Table 1: Assets, Liabilities and Deferred Inflows of Resources, and Net Position

	2023	2022
Assets		
Patient accounts receivable, net	$ 4,642,465	$ 4,553,918
Other current assets	11,527,160	14,691,005
Noncurrent investments	24,132,046	16,255,753
Capital assets, net	18,029,701	16,503,351
Other noncurrent assets	1,954,546	1,127,659
Total assets	$ 60,285,918	$ 53,131,686
Liabilities and Deferred Inflows of Resources		
Current liabilities	$ 9,881,264	$ 5,884,272
Noncurrent liabilities	3,914,919	3,348,156
Deferred inflows of resources	645,222	818,503
Total liabilities and deferred inflows of resources	14,441,405	10,050,931
Net Position		
Net investment in capital assets	14,780,693	12,868,885
Unrestricted	31,063,820	30,211,870
Total net position	45,844,513	43,080,755
Total liabilities, deferred inflows of resources, and net position	$ 60,285,918	$ 53,131,686

Two significant changes in the Hospital's assets in 2023 include a decrease in other current assets, which decreased by $3,163,845 (or 21.5%), and an increase in noncurrent investments, which increased by $7,876,293 (or 48.5%). These two changes relate to the Hospital's use of cash to purchase investments, primarily certificates of deposit, as well as growth of those investments stemming from interest, dividends, and increases in fair value.

A significant change in the Hospital's liabilities and deferred inflows of resources includes an increase in current liabilities, which increased by $3,996,992, primarily related to unearned revenue associated with payments received from the Employee Retention Credit program. Refer to Note 17 to the financial statements for additional information.

Operating Results and Changes in the Hospital's Net Position

In 2023, the Hospital's total net position increased by $2,763,758 or 6.4% as shown in Table 2. The increase in net position is made up of several different components. In 2022, net position increased by $630,383.

Table 2: Operating Results and Changes in Net Position

	2023	2022
Operating Revenues		
Net patient service revenue	$ 52,457,946	$ 48,953,600
Other operating revenues	4,908,615	3,394,841
Total operating revenues	57,366,561	52,348,441
Operating Expenses		
Salaries, wages, and employee benefits	33,420,264	29,784,407
Purchased services and professional fees	7,899,954	6,336,002
Depreciation and amortization	2,350,952	2,246,551
Other operating expenses	12,861,297	10,957,996
Total operating expenses	56,532,467	49,324,956
Operating Income	834,094	3,023,485
Nonoperating Revenues (Expenses)		
Investment return	1,519,129	(677,480)
Interest expense	(124,780)	(169,416)
Noncapital governmental grants	95,781	352,916
Loss on dissolution of component unit	-	(1,400,781)
Other	439,534	(498,341)
Total nonoperating revenues (expenses)	1,929,664	(2,393,102)
Change in Net Position	$ 2,763,758	$ 630,383

Operating Income

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

Operating income was $834,094 for 2023 while operating income was $3,023,485 for 2022, which equates to a decrease in operating results of $2,189,391. The primary components of the change in operating income in 2023 are:

- Net patient service revenue for the Hospital was $52,457,946 in 2023 compared to $48,953,600 in 2022, which represents an increase of $3,504,346, or 7.2%.
- Other operating revenue for the Hospital was $4,908,615 in 2023 compared to $3,394,841 in 2022, which represents an increase of $1,513,774 or 44.6% and is primarily the result of the Hospital's continued

participation in the 340b drug discount program and to a lesser degree, the shared savings from the Hospital's participation in its Accountable Care Organization.

- Salaries, wages, and employee benefits for the Hospital were $33,420,264 in 2023 compared to $29,784,407 in 2022, which represents an increase of $3,635,857, or 12.2%.

The increase in net patient service revenue is substantially entirely on the outpatient service side of operations, resulting from increased volumes and higher acuity levels. The increases in salaries, wages, and employee benefits, along with other changes in operating costs, are attributed to the improved volumes, as well as general price increases driven by competitive labor markets, inflationary economic impacts to the purchasing of goods and supplies, and other matters.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of the return on investments, interest expense, payments made to subsidize the Hospital's discretely presented component unit, noncapital governmental grants, as well as other items.

Investment return improved by $2,196,609 in 2023, driven by market performance. Interest expense decreased by $44,636 or 26.3% in 2023, primarily driven by the Hospital's decreasing balance of long-term debt. The Hospital's subsidy of its discretely presented component unit increased by $30,554 to $88,330 in 2023. The overall improvement in net nonoperating activity is also due to the Hospital's 2022 contribution of $500,000 to the County of Sullivan, Indiana, in conjunction with a sewage project. In addition, in 2022, the Hospital paid approximately $1,600,000 to purchase the minority equity interest in the Sullivan County Community Hospital Pain Management, LLC joint venture, which resulted in a loss approximating $1,400,000.

The Hospital's Cash Flows

The Hospital's cash provided by operating activities increased by approximately $271,000 in 2023 compared to 2022, due to the continued strong performance of the Hospital. The Hospital also experienced a year-over-year decrease in cash associated with capital and related financing activities of nearly $1.5 million stemming from capital projects. Net cash used in investment activities was $5.9 million for 2023, as compared to net cash used of $14.5 million for 2022. While the Hospital purchased a sizeable amount of investments in 2023, primarily consisting of certificates of deposit, investment purchases were well below 2022.

Capital Asset and Debt Administration

Capital, Lease, and Subscription Assets

At the end of 2023, the Hospital had $18,029,701 invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the financial statements. In 2023, the Hospital made capital acquisitions of approximately $3.5 million. The majority of capital acquisitions during 2023 were for building and leasehold improvements, medical equipment, and initial costs associated with capital projects for a medical office building and modernization efforts of the Hospital.

Upon adoption of GASB 87, *Leases*, on January 1, 2022, the Hospital recognized lease assets of approximately $680,000, associated with leases of medical, as well as clinical and administrative office space. During 2022, the Hospital did not enter into any new lease agreements applicable to GASB 87. During 2023, the Hospital entered into renewals of two lease agreements which resulted in lease assets of approximately $1,120,000. Refer also to Note 7 to the financial statements.

Upon adoption of GASB 96, *Subscription-Based Information Technology Arrangements*, on January 1, 2023, the Hospital did not recognize any subscription assets. During 2023, the Hospital entered into two software agreements which resulted in subscription assets of approximately $284,000. Refer also to Note 7 to the financial statements.

Debt, Lease Liabilities, and Subscription Liabilities

At December 31, 2023, the Hospital had $3,292,908 in revenue bonds outstanding. Refer also to Note 10 to the financial statements for more information regarding long-term debt.

Upon adoption of GASB 87, *Leases*, on January 1, 2022, the Hospital recognized lease liabilities of approximately $680,000, associated with leases of medical, as well as clinical and administrative office space. During 2022, the Hospital did not enter into any new lease agreements applicable to GASB 87. During 2023, the Hospital entered into renewals of two lease agreements which resulted in lease liabilities of approximately $1,120,000. Refer also to Note 11 to the financial statements.

Upon adoption of GASB 96, *Subscription-Based Information Technology Arrangements*, on January 1, 2023, the Hospital did not recognize any subscription liabilities. During 2023, the Hospital entered into two software agreements which resulted in subscription liabilities of approximately $284,000. Refer also to Note 12 to the financial statements.

Other Economic Factors

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

Contacting the Hospital's Financial Management

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

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Balance Sheet
December 31, 2023

ASSETS		
Current Assets		
Cash	$ 7,984,899	
Patient accounts receivable, net of allowance of approximately $1,600,000	4,642,465	
Supplies	757,056	
Estimated amounts due from third-party payors	1,097,004	
Leases receivable, current portion	180,342	
Prepaid expenses and other current assets	1,507,859	
Total current assets		$ 16,169,625
Noncurrent Investments - Funded Depreciation		24,132,046
Capital Assets, Net		18,029,701
Other Assets		
Joint venture investments	112,211	
Lease assets, net	1,150,172	
Subscription assets, net	227,283	
Leases receivable, net of current portion	464,880	
Total other assets		1,954,546
Total assets		$ 60,285,918
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities		
Current maturities of long-term debt	$ 350,481	
Current portion of lease liabilities	249,235	
Current portion of subscription liabilities	111,828	
Accounts payable	1,448,686	
Accrued expenses	3,736,309	
Unearned revenue	3,984,725	
Total current liabilities		$ 9,881,264
Noncurrent Liabilities		
Long-term debt, net of current maturities	2,942,427	
Lease liabilities, net of current portion	900,940	
Subscription liabilities, net of current portion	71,552	
Total noncurrent liabilities		3,914,919
Total liabilities		13,796,183
Deferred Inflows of Resources - Leases		645,222
Net Position		
Net investment in capital assets	14,780,693	
Unrestricted	31,063,820	
Total net position		45,844,513
Total liabilities, deferred inflows of resources, and net position		$ 60,285,918

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
SCCH Fitness Center, Inc.
Statement of Financial Position
December 31, 2023

ASSETS		
Property and equipment, net of accumulated depreciation of $1,267,497	$	39,780
Total assets	$	39,780
LIABILITIES AND NET ASSETS		
Liabilities - Accrued Expenses	$	23,839
Net Assets - Unrestricted		15,941
Total liabilities and net assets	$	39,780

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2023

Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of approximately $2,600,000	$ 52,457,946	
Other operating revenues	4,908,615	
Total operating revenues		$ 57,366,561
Operating Expenses		
Salaries and wages	25,922,181	
Employee benefits	7,498,083	
Purchased services and professional fees	7,899,954	
Supplies	6,188,265	
Utilities	653,004	
Repair and maintenance	1,687,461	
Leases and rentals	23,959	
Insurance	657,920	
Depreciation and amortization	2,350,952	
Other	1,425,641	
Provider hospital assessment fee	2,225,047	
Total operating expenses		56,532,467
Operating Income		834,094
Nonoperating Revenues (Expenses)		
Investment return	1,519,129	
Interest expense	(124,780)	
Noncapital governmental grants	95,781	
Other	439,534	
Total nonoperating revenues (expenses)		1,929,664
Increase in Net Position		2,763,758
Net Position, Beginning of Year		43,080,755
Net Position, End of Year		$ 45,844,513

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
SCCH Fitness Center, Inc.
Statement of Activities
Year Ended December 31, 2023

Revenues, Gains, and Other Support		
Membership, training, class, and other revenue	$ 272,798	
Operating support from the Hospital	88,330	
Total revenues, gains, and other support		$ 361,128
Expenses		
Salaries and wages	197,958	
Employee benefits	54,500	
Purchased services	30,085	
Supplies	6,016	
Utilities	25,634	
Repair and maintenance	7,597	
Depreciation	55,609	
Other	33,071	
Total expenses		410,470
Decrease in Net Assets		(49,342)
Unrestricted Net Assets, Beginning of Year		65,283
Unrestricted Net Assets, End of Year		$ 15,941

Sullivan County Community Hospital
A Component Unit of Sullivan County, Indiana
Statement of Cash Flows
Year Ended December 31, 2023

Cash Flows From Operating Activities		
Receipts from and on behalf of patients	$ 49,617,893	
Payments to suppliers and contractors	(17,309,070)	
Payments to employees	(33,168,917)	
Other operating activities	7,294,418	
Net cash provided by operating activities		$ 6,434,324
Cash Flows From Noncapital Financing Activities		
Noncapital governmental grants	95,781	
Joint venture distributions received	3,359	
Net cash provided by noncapital financing activities		99,140
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	(3,493,805)	
Principal payments made on long-term debt	(341,558)	
Principal payments made on lease liabilities	(326,849)	
Principal payments made on subscription liabilities	(100,548)	
Interest payments made on long-term debt and other obligations	(124,780)	
Principal payments received on leases receivable	173,281	
Net cash used in capital and related financing activities		(4,214,259)
Cash Flows From Investing Activities		
Interest and dividends on investments	649,717	
Purchase of investments	(14,576,550)	
Proceeds from disposition of investments	7,569,669	
Other investing activities	451,013	
Net cash used in investing activities		(5,906,151)
Decrease in Cash		(3,586,946)
Cash, Beginning of Year		11,571,845
Cash, End of Year		$ 7,984,899

Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 834,094	
Depreciation and amortization	2,350,952	
Provision for uncollectible accounts	2,572,573	
Changes in operating assets and liabilities		
Patient accounts receivable	(2,661,120)	
Estimated amounts due to/from third-party payors	(290,048)	
Other assets	(456,796)	
Accounts payable and accrued expenses	273,225	
Unearned revenue	3,984,725	
Deferred inflows of resources	(173,281)	
Net cash provided by operating activities		$ 6,434,324
Noncash Investing, Capital, and Financing Activities		
Lease obligations incurred for lease assets, during the year		$ 1,121,635
Subscription obligations incurred for subscription assets, during the during the year		283,928

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

Nature of Operations and Reporting Entity

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

SCCH Fitness Center, Inc. (Fitness Center) is a legally separate, tax-exempt component unit of the Hospital. The Fitness Center's primary function is to provide community access to health and fitness equipment. The Hospital appoints a voting majority of the Fitness Center's board and a financial relationship exists where the Hospital subsidizes the operations of the Fitness Center. Because of this relationship, the Fitness Center is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements. Complete financial statements for the Fitness Center may be obtained by contacting Fitness Center management. During the year ended December 31, 2023, the Hospital provided approximately $88,000 of support to the Fitness Center for operations.

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

Basis of Accounting and Presentation

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

Operating Activities

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

Use of Estimates

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

Risk Management

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

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

Investments and Investment Return

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

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

Patient Accounts Receivable

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

Supplies

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

Leases Receivable

As lessor, the Hospital initially measures a lease receivable at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts.

Capital Assets

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

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

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA incentives received from the vendor at or before the commencement of the arrangement, plus certain capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying asset.

Capital, Lease, and Subscription Asset Impairment

The Hospital evaluates capital, lease, and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of an applicable asset has occurred. If an asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation or amortization is increased by the amount of the impairment loss. No asset impairment was recognized during the year ended December 31, 2023.

Compensated Absences

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

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

Lease Liabilities

As lessee, the Hospital initially measures a lease liability at the present value of payments expected to be paid during the lease term.

Subscription Liabilities

The Hospital initially measures a subscription liability at the present value of payments expected to be paid during the SBITA term.

Unearned Revenue

The Hospital has recorded payments received from the Employee Retention Credit (ERC) as unearned revenue until management completes its evaluation of the Hospital’s eligibility as it pertains to the terms and conditions governing the ERC program.

Deferred Inflows of Resources

The Hospital reports an acquisition of net assets that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheet. At December 31, 2023, deferred inflows of resources relate to leasing activity in which the Hospital serves as the lessor.

As lessor, the Hospital initially measures a deferred inflow of resources as an amount equal to the initial measurement of the corresponding lease receivable, plus lease payments received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term.

Net Position

Net position of the Hospital is classified in two components. Net investment in capital assets consists of capital, lease, and subscription assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of borrowings, lease liabilities, and subscription liabilities used to finance the purchase, construction, or rental of those assets. Unrestricted net position is the remaining assets, less the remaining liabilities, that do not meet the definition of net investment in capital assets.

Net Patient Service Revenue

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital’s charity care policy were $707,323 for 2023.

Income Taxes

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

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

Future Adoption of Accounting Standards

In fiscal year 2024, the Hospital will implement GASB Statement No. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62, which prescribes the accounting and reporting for each type of accounting change and error corrections. In fiscal year 2024, the Hospital will implement GASB Statement No. 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences. The Hospital has not determined the impact of these new standards on its financial statements; however, it could have a material future impact.

Note 2. Adoption of New Accounting Standard – GASB Statement No. 96, *Subscription Based Information Technology Arrangements* (SBITAs)

On January 1, 2023, the Hospital implemented GASB Statement No. 96, *SBITAs* (GASB No. 96). This statement requires governments to recognize certain subscription assets and liabilities for agreements that previously were classified as operating expenses and recognized as outflows of resources based on the payment provisions of the contract. The adoption of GASB No. 96 did not result in any change to beginning net position. As of January 1, 2023, adoption of the standard did not result in the recognition of subscription assets nor subscription liabilities, based on facts and circumstances that existed at the beginning of the year. During 2023, the Hospital entered into certain software agreements which resulted in the recognition of approximately $284,000 of subscription assets and corresponding subscription liabilities. Refer to Notes 7 and 12 for additional disclosures on these balances.

Note 3. Net Patient Service Revenue

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

Medicare. The Hospital is designated by Medicare as a critical access hospital (CAH). Inpatient acute care and swing bed services, and most outpatient services, are reimbursed based on a cost reimbursement methodology. Interim per diem rates for inpatient services and percent of charges for outpatient services are reimbursed throughout the year, with final settlement determined after submission of the annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. At December 31, 2023, the Hospital recorded a receivable for estimated cost report settlements of approximately $630,000, which is included in estimated amounts due from third-party payors. During the year ended December 31, 2023, the Hospital amended or re-opened the 2018, 2019, and 2022 cost reports, resulting in additional revenue approximating $290,000.

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

Approximately 61% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended December 31, 2023. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amount of these supplemental payments is dependent on regulatory approval by agencies of the federal and state governments and are determined by level, extent, and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately $764,000 within net patient service revenue related to this supplemental payment program for the year ended December 31, 2023. The amount outstanding at December 31, 2023 approximated $382,000 and is included in estimated amounts due from third-party payors.

The Hospital participates in a state specific provider assessment fee program to increase Medicaid payments to hospitals. The Hospital incurred fees approximating $2,225,000 related to this program for 2023, which are recorded as an operating expense in the statement of revenues, expenses, and changes in net position. As of

December 31, 2023, amounts paid by the Hospital under the assessment fee program exceeded amounts due, and a prepayment of approximately $80,000 is included in estimated amounts due from third-party payors.

The Hospital’s Medicaid Inpatient Utilization Rate (MIUR) exceeded state-wide thresholds, as defined by state regulation, during its most recent measurement period. A benefit of having a MIUR exceeding this threshold includes a 25% reduction in the provider assessment fee. The provider assessment fee program is subject to further retroactive rate settings by the State of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital, including the 25% benefit, through December 31, 2023.

The state measures MIUR percentages no less than every four years and no more than every two years. At each measurement period, the state-defined MIUR threshold changes, which could affect the Hospital’s eligibility status. Any change in MIUR eligibility would affect the Hospital’s ability to receive the 25% provider assessment fee reduction. The State’s most recent measurement is for the period ended June 30, 2023. Any change in the amount of tax due as a result of eligibility changes will be recorded in the period the state has made its determination.

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

Note 4. Deposits, Investments, and Investment Return

Deposits

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

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

Investments

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

At December 31, 2023, the Hospital had the following investments and maturities:

Type	Fair Value	Maturities in Years Less Than 1	1-5	6-10	More Than 10
Fixed income securities - corporate bonds - domestic	$ 3,593,197	$ 417,159	$ 2,660,748	$ 515,290	$ -
Fixed income securities - corporate bonds - foreign	699,527	249,342	450,185	-	-
Fixed income mutual funds	1,009,303	1,009,303	-	-	-
Equity mutual funds - domestic	2,506,250	2,506,250	-	-	-
Equity mutual funds - international	686,629	686,629	-	-	-
	$ 8,494,906	$ 4,868,683	$ 3,110,933	$ 515,290	$ -

At December 31, 2023, the Hospital also held investments in non-negotiable certificates of deposit totaling approximately $15.5 million. These investments are carried at amortized cost.

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

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

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

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

Summary of Carrying Values

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

Carrying value:	
Deposits	$ 23,622,039
Investments	8,494,906
	$ 32,116,945
Included in the following balance sheets captions:	
Cash	$ 7,984,899
Noncurrent investments - funded depreciation	24,132,046
	$ 32,116,945

Non-negotiable certificates of deposit approximating $15.5 million are included in deposit balances at December 31, 2023.

Investment Return

Investment return for the year ended December 31 consisted of:

	2023
Interest and dividend income	$ 649,717
Net increase in fair value of investments	869,412
	$ 1,519,129

Note 5. Patient Accounts Receivable

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

Medicare	$ 1,163,150
Medicaid	719,056
Other third-party payors	1,974,734
Patients	2,416,436
	6,273,376
Less allowance for uncollectible accounts	1,630,911
	$ 4,642,465

Note 6. Leases Receivable

The Hospital leases portions of its medical and office space to various third parties, the terms of which expire at various dates through 2027. Payments are either fixed or increase at fixed amounts defined in the lease agreements. Any usage-based payments included within these leases are not included in the measurement of lease receivable balances because they are not fixed in substance.

Revenue recognized under lease contracts during the year ended December 31, 2023 was approximately $200,000, which includes both lease revenue and interest. Revenue recognized for variable and short-term rental amounts not included in the measurement of the leases receivable approximated $20,000 for the year ended December 31, 2023.

Note 7. Capital and Lease Assets

Capital assets activity for the year ended December 31, 2023 was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Hospital					
Land and improvements	$ 1,036,127	$ -	$ -	$ -	$ 1,036,127
Buildings and leasehold improvements	24,835,826	557,352	-	8,890	25,402,068
Equipment	26,078,226	1,347,073	-	-	27,425,299
Construction in progress	113,735	1,589,380	-	(8,890)	1,694,225
	52,063,914	3,493,805	-	-	55,557,719
Less accumulated depreciation:					
Buildings and leasehold improvements	16,856,928	679,792	-	-	17,536,720
Equipment	18,703,635	1,287,663	-	-	19,991,298
	35,560,563	1,967,455	-	-	37,528,018
Total Hospital capital assets, net	$ 16,503,351	$ 1,526,350	$ -	$ -	$ 18,029,701

Lease assets activity for the year ended December 31, 2023 was:

	Beginning Balance	Additions	Disposals	Ending Balance
Hospital				
Buildings and leasehold improvements	$ 477,050	$ 1,121,635	$ -	$ 1,598,685
Equipment	205,682	-	-	205,682
	682,732	1,121,635	-	1,804,367
Less accumulated amortization:				
Buildings and leasehold improvements	247,526	243,782	-	491,308
Equipment	79,817	83,070	-	162,887
	327,343	326,852	-	654,195
Total Hospital lease assets, net	$ 355,389	$ 794,783	$ -	$ 1,150,172

Subscription assets activity for the year ended December 31, 2023 was:

	Beginning Balance	Additions	Disposals	Ending Balance
Hospital				
Information technology and software	$ -	$ 283,928	$ -	$ 283,928
Less accumulated amortization:				
Information technology and software	-	56,645	-	56,645
Total Hospital lease assets, net	$ -	$ 227,283	$ -	$ 227,283

Note 8. Medical Malpractice Claims

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

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

Note 9. Employee Health Claims

Substantially all of the Hospital’s employees and their dependents are eligible to participate in the Hospital’s employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $1,000,000, and an individual policy maximum of $110,000 per eligible covered person. Commercial stop-loss insurance coverage is purchased for claims in excess of these annual amounts. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Hospital’s estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2023 is summarized as follows:

Balance, beginning of year	$ 518,514
Current year claims incurred and changes in estimates for claims incurred in prior years	4,504,591
Claims and expenses paid	(4,406,762)
Balance, end of year	$ 616,343

Note 10. Long-Term Obligations

The following is a summary of long-term debt transactions for the Hospital for the year ended December 31, 2023:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt and other:					
Health facility revenue bonds, Series 2017A	$ 2,602,058	$ -	$ (248,391)	$ 2,353,667	$ 254,138
Taxable health facility revenue bonds, Series 2017B	1,032,408	-	(93,167)	939,241	96,343
	$ 3,634,466	$ -	$ (341,558)	$ 3,292,908	$ 350,481

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

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

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

The debt service requirements as of December 31, 2023 are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2024	$ 455,007	$ 350,481	$ 104,526
2025	455,007	362,146	92,861
2026	455,007	373,907	81,100
2027	455,007	386,061	68,946
2028	455,007	398,461	56,546
2029 - 2032	1,592,522	1,421,852	170,670
	$ 3,867,557	$ 3,292,908	$ 574,649

Note 11. Lease Liabilities

The Hospital leases medical equipment, as well as clinical and administrative space, the terms of which expire in various years through 2028. Any variable payments on these leases based upon the use of the underlying asset are not included in the lease liability because they are not fixed in substance. During the year ended December 31, 2023, the Hospital recognized approximately $30,000 of rental expense for variable payments and short-term rentals not previously included in the measurement of the lease liability.

The following is a summary of long-term lease transactions for the Hospital during the year ended December 31, 2023:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Equipment and building leases	$ 355,389	$ 1,121,635	$ (326,849)	$ 1,150,175	$ 249,235

The following is a schedule by year of payments under the leases as of December 31, 2023:

Year Ending December 31,	Total to Be Paid	Principal	Interest
2024	$ 329,766	$ 249,235	$ 80,531
2025	286,470	225,810	60,660
2026	257,265	214,208	43,057
2027	247,530	221,374	26,156
2028	247,530	239,548	7,982
	$ 1,368,561	$ 1,150,175	$ 218,386

Note 12. Subscription Liabilities

The Hospital has certain subscription-based information technology arrangements (SBITAs), the terms of which expire between March 2025 and September 2026. Variable payments based upon the use of underlying information technology assets are not included in the Hospital's subscription liability because they are not fixed in substance. Information technology and software contracted through short-term arrangements are also not included in the Hospital's subscription liability.

The following is a summary of long-term SBITA transactions for the Hospital during the year ended December 31, 2023:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Subscription-based information technology arrangements	$ -	$ 283,928	$ (100,548)	$ 183,380	$ 111,828

The following is a schedule by year of payments under the SBITAs as of December 31, 2023:

Year Ending December 31,	Total to Be Paid	Principal	Interest
2024	$ 118,124	$ 111,828	$ 6,296
2025	73,927	71,552	2,375
	$ 192,051	$ 183,380	$ 8,671

Note 13. Disclosures About Fair Value of Assets

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

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2023:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Investments by fair value level				
Fixed income securities - corporate bonds - domestic	$ 3,593,197	$ -	$ 2,701,650	$ 891,547
Fixed income securities - corporate bonds - foreign	699,527	-	699,527	-
Fixed income mutual funds	1,009,303	1,009,303	-	-
Equity mutual funds - domestic	2,506,250	2,506,250	-	-
Equity mutual funds - international	686,629	686,629	-	-
Total investments measured by fair value level	$ 8,494,906	$ 4,202,182	$ 3,401,177	$ 891,547

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Hospital does not have any Level 3 assets at December 31, 2023.

Note 14. Pension Plans

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

Plan members may contribute up to $19,000 of their annual covered salary. The Hospital is required to match one-half of the employee contribution up to 5% of employee’s compensation. In addition, the Hospital contributes 2% of the annual covered payroll for all eligible active participants. Expense related to employer contributions to the plans was approximately $766,000 for 2023. The Hospital had accrued benefits payable to the plans of approximately $429,000 at December 31, 2023.

Note 15. Commitments and Contingencies

Commitments

In 2024, the Hospital agreed to terms on a $12.9 million credit facility, with a bank, to finance its capital commitments associated with a construction project for a new medical office building.

Litigation

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

CARES Act Funding

In response to the World Health Organization's designation of the SARS-CoV-2 virus and the incidence of COVID-19 as a global pandemic in March 2020, various legislation was enacted, including the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) and the *American Rescue Plan Act* (ARPA). Between 2020 and 2021, the Hospital received approximately $6.0 million of distributions from the CARES Act Provider Relief Fund and the ARPA Relief Fund (collectively, the Provider Relief Fund). These Provider Relief Fund distributions are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses and/or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services. The Hospital will continue to monitor compliance with the terms and conditions governing the Provider Relief Fund, which 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 16. Investment in Equity Investee

The Hospital invested $100,000 in 2017 for a 10% ownership of Solidago Dialysis, LLC (Dialysis). During 2020, the Hospital contributed an additional $167,000, which was utilized by Dialysis to pay off its outstanding debt approximating $1.67 million, which had previously been guaranteed by the Hospital and other equity owners based on their respective ownership shares. During 2023, the Hospital received a distribution from Dialysis of approximately $3,400.

The Hospital's investment in Dialysis is approximately $112,000 at December 31, 2023, which represents its share of the net assets of Dialysis and is recorded within the other assets portion of the balance sheet. Concurrent with the initial investment in Dialysis, the Hospital entered into a lease agreement with Dialysis for operating space. The lease terminates in April 2027 and requires annual rental payments due to the Hospital ranging from $117,000 through $129,000. See additional information in Note 6.

Financial position and results of operations of the investee as of and for the year ended December 31, 2023, are summarized below.

		2023
Current assets	$	519,850
Capital assets		768,047
Other long-term assets		412,088
Total assets	$	1,699,985
Current liabilities	$	232,773
Long-term liabilities		344,743
Total liabilities		577,516
Total net assets		1,122,469
Total liabilities and net assets	$	1,699,985
Revenues	$	1,445,366
Deficiency of revenues over expenses	$	(114,788)

Note 17. Employee Retention Credit

In response to COVID-19, legislation enacted within the CARES Act allowed certain employers to be eligible for the Employee Retention Credit (ERC), which awards qualifying employers with a refundable tax credit against taxes previously paid. Those employers eligible for the ERC include private sector businesses, tax-exempt organizations, and others operating during 2020 and 2021 that either had operations fully or partially suspended due to government mandates or experienced a significant decline in gross receipts. Upon qualification under the ERC program, entities are eligible to receive a refundable tax credit equal to as much as 50% of the qualified wages of certain employees.

The Hospital submitted an ERC filing in 2023, and prior to year-end, received $3,984,725, net of fees paid to a third-party consultant, which assisted with the filing.

The Hospital continues to evaluate its eligibility as it pertains to the terms and conditions governing the ERC program, which are complex, subject to interpretation, and subject to change. As such, for the year ended December 31, 2023, the Hospital has not recognized revenue associated with the filing, and has included the cash received on its balance sheet as unearned revenue at December 31, 2023.

If the Hospital is ultimately deemed ineligible for the ERC program, its ability to retain the payments received may be affected, in addition to any fines or penalties that may be assessed. ERC payments are subject to government oversight, including potential audits.

Note 18. Change Healthcare Cyber Breach

In February 2024, Change Healthcare, a leading healthcare technology revenue cycle vendor which serves as a clearinghouse between healthcare providers and insurers, was victim to a cyber breach. This breach has led to disruption in the claims submission and billing process throughout the healthcare industry, leading to delays in reimbursement for services and cash collections. While the Hospital was not directly targeted with the cyber breach, its utilization of services with Change Healthcare has impacted its billings and collections subsequent to year-end. The financial statements do not include any adjustments to reflect possible future effects of changes in collection patterns as a result of this cyber breach, if any. Events could occur that would change estimates materially in the near term.

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

Independent Auditor's Report

Board of Trustees
Sullivan County Community Hospital
Sullivan, Indiana

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 (*Government Auditing Standards*), the financial statements of the business-type activities and the discreetly presented component unit of Sullivan County Community Hospital (Hospital), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated May 22, 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

FORVIS, LLP

Indianapolis, Indiana
May 22, 2024