



MARION
HEALTH

FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

CPAs / ADVISORS



MARION HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Marion General Hospital, Inc. dba Marion Health
Marion, Indiana

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Marion General Hospital, Inc. dba Marion Health, Inc. (the Hospital), which comprise the balance sheets as of June 30, 2023 and 2022, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2023 and 2022, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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.

Board of Directors
Marion General Hospital, Inc. dba Marion Health
Marion, Indiana

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2023, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
October 25, 2023

MARION HEALTH

BALANCE SHEETS JUNE 30, 2023 AND 2022

ASSETS

	2023	2022
Current assets		
Cash	\$ 10,887,199	\$ 38,785,354
Current portion of trustee funds	9,821,032	38,772,552
Account receivable		
Patient services	20,764,292	23,745,521
Physician services	1,783,332	2,417,680
Other	1,433,467	896,967
Estimated third-party settlements	467,709	-0-
Accrued interest	116,187	69,097
Inventories	2,097,130	2,189,250
Current portion of notes receivable	761,455	625,606
Prepaid expenses	3,923,142	3,476,154
Total current assets	52,054,945	110,978,181
Assets limited as to use		
Board designated funds	290,624,170	289,948,988
Trustee held	11,742,720	16,811,604
Total assets limited as to use	302,366,890	306,760,592
Property and equipment, net	156,150,047	111,369,641
Other assets		
Investment in joint venture	1,695,171	1,586,215
Notes receivable, net of current portion	940,064	1,094,866
Lease right-of-use assets, net	3,050,135	4,435,526
Goodwill and other intangible assets, net	1,892,578	2,290,238
Other	3,378,853	3,287,743
Total other assets	10,956,801	12,694,588
Total assets	\$ 521,528,683	\$ 541,803,002

See accompanying notes to financial statements.

MARION HEALTH

BALANCE SHEETS JUNE 30, 2023 AND 2022

LIABILITIES AND NET ASSETS

	<u>2023</u>	<u>2022</u>
Current liabilities		
Accounts payable	\$ 9,542,243	\$ 13,701,783
Accrued liabilities		
Salaries and related liabilities	7,574,837	10,490,526
Interest	2,036,516	1,992,171
Other	414,960	5,527,465
Estimated third-party settlements	-0-	2,622,804
Current portion of long-term debt	2,527,266	1,907,910
Current portion of lease liabilities	1,184,715	1,386,364
Total current liabilities	<u>23,280,537</u>	<u>37,629,023</u>
Long-term liabilities		
Long-term debt, less current portion	130,987,870	134,832,827
Lease liabilities, less current portion	1,895,082	3,078,282
Pension liability	11,321,118	13,430,666
Other long-term liabilities	1,267,497	1,296,252
Total long-term liabilities	<u>145,471,567</u>	<u>152,638,027</u>
 Total liabilities	 168,752,104	 190,267,050
Net assets		
Undesignated	62,152,409	61,586,964
Designated	290,624,170	289,948,988
Total net assets without donor restrictions	<u>352,776,579</u>	<u>351,535,952</u>
Total liabilities and net assets	<u>\$ 521,528,683</u>	<u>\$ 541,803,002</u>

See accompanying notes to financial statements.

MARION HEALTH

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Revenues		
Patient service revenue	\$ 183,468,094	\$ 195,058,285
Other revenue	3,232,665	10,186,955
Total revenues	186,700,759	205,245,240
Expenses		
Salaries and wages	79,792,097	83,857,388
Employee benefits	19,331,337	15,254,948
Physician services	7,900,051	7,645,133
Professional services	19,461,167	16,383,494
Medical supplies	14,900,634	14,669,242
Drugs and IV solutions	13,659,842	13,803,912
Food	1,240,187	1,137,927
Purchased services	11,729,754	10,636,533
Rent	1,760,712	1,723,462
Plant and equipment maintenance	5,258,733	5,081,992
Utilities	2,386,132	2,051,545
Nonmedical supplies	5,213,360	2,782,535
Leased property	1,700,200	1,720,931
Other	1,774,223	1,474,155
Insurance	1,865,632	1,987,219
HAF and HIP programs	9,448,791	7,169,089
Interest	2,589,721	1,246,403
Depreciation and amortization	10,233,073	10,702,028
Total expenses	210,245,646	199,327,936
Operating income (loss)	(23,544,887)	5,917,304
Nonoperating		
Investment return (loss) and other, net	24,660,575	(31,952,435)
Net periodic pension cost	(2,189,422)	(1,900,982)
Contributions, gifts, and bequests	15,391	19,494
Excess of expenses over revenues	(1,058,343)	(27,916,619)
Other changes		
Pension related changes other than net periodic pension cost	2,298,970	2,446,651
Change in net assets	1,240,627	(25,469,968)
Net assets		
Beginning of year	351,535,952	377,005,920
End of year	\$ 352,776,579	\$ 351,535,952

See accompanying notes to financial statements.

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STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Operating activities		
Change in net assets	\$ 1,240,627	\$ (25,469,968)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	10,233,073	10,702,028
Amortization of debt issuance costs and premium	(677,692)	(729,075)
Forgiveness of notes receivable	1,434,228	1,497,684
(Gain) loss on disposal of property and equipment	(98,472)	5,442
Unrealized loss on investments	2,315,123	60,916,506
Realized gain on sale of investments	(16,801,862)	(20,657,639)
Gain on equity in joint ventures	(410,992)	(709,207)
Changes in operating assets and liabilities:		
Accounts receivable	3,615,577	725,518
Accrued interest, inventories, prepaid expenses, and other current assets	(938,458)	1,390,424
Right-of-use assets under operating leases	1,385,391	132,243
Other long-term assets	400,785	(483,017)
Pension liability	(2,109,548)	(2,559,633)
Accounts payable and accrued liabilities	(16,881,577)	(8,889,063)
Estimated third-party settlements	(3,090,513)	789,280
Operating lease liabilities	(985,146)	267,627
Net cash flows from operating activities	(21,369,456)	16,929,150
Investing activities		
Additions to property and equipment	(50,509,320)	(25,083,440)
Proceeds from the sale of property and equipment	100,552	-0-
Proceeds from the sale or maturity of investments	53,179,035	30,822,210
Purchases of investments	(5,238,119)	(22,444,295)
Dividends received from joint ventures	302,037	101,871
Advances on notes receivable	(1,449,700)	(1,212,058)
Payments received on notes receivable	34,428	145,003
Net cash flows from investing activities	(3,581,087)	(17,670,709)
Financing activities		
Repayments of long-term debt	(2,547,909)	(1,863,221)
Payments on finance leases	(399,703)	(390,860)
Net cash flows from financing activities	(2,947,612)	(2,254,081)
Net change in cash	(27,898,155)	(2,995,640)
Cash		
Beginning of year	38,785,354	41,780,994
End of year	\$ 10,887,199	\$ 38,785,354
Supplemental cash flows information		
Interest paid, net of amounts capitalized of approximately \$1,593,000 and \$2,451,000 in 2023 and 2022, respectively	\$ 3,223,069	\$ 1,586,665
Property and equipment included in accounts payable	\$ 3,724,287	\$ 8,038,563

See accompanying notes to financial statements.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Marion General Hospital, Inc. dba Marion Health (the Hospital), a not-for-profit corporation, provides inpatient and outpatient services primarily to residents from Grant County and surrounding areas. The Hospital operates an acute care general hospital with 106 acute care beds, 20 nursery beds, and 18 inpatient acute rehabilitation beds. The Hospital was formed in 1902 and is located in Marion, Indiana.

Basis of Accounting

The Hospital prepares its financial statements using the accrual basis of accounting. Accrual accounting requires the recognition of revenues as performance obligations are satisfied and measurable in the accounting period when services are provided, and the recognition of expenses in the period in which they occur.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including estimated third-party settlements, defined pension plan obligations and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period and could differ from actual results.

Cash

The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash.

Patient Accounts Receivable, Net Patient Service Revenue and Estimated Third-Party Payor Settlements

Patient service revenue and the related accounts receivable are recorded at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others, and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Hospital bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services or patients receiving services in our outpatient centers or in their homes. The Hospital measures the performance obligation from admission into the Hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. The method of reimbursement for the Hospital is fee for service. The timing of revenue and recognition for health care services is transferred over time.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in the Financial Accounting Standards Board, Accounting Standards Codification (ASC) 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policy, and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients. Accounts receivable for patient and physician services approximated \$22,548,000, \$26,163,000, and \$26,889,000 as of June 30, 2023 and 2022 and July 1, 2021, respectively.

Inventories

Inventories, consisting of medical supplies, are stated on the lower of weighted average cost or net realizable value.

Assets Limited as to Use

Assets limited as to use include assets set aside by the board of directors for future capital improvements and other purposes, over which the board of directors retains control and may, at its discretion, subsequently use for other purposes. Assets held by trustees under indenture agreements are also included within this caption and are classified as current assets to the extent they are to be used to pay for current liabilities. Restricted assets included assets whose use by the Hospital has been limited by donors to a specific purpose until that purpose was satisfied.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

These investments are recorded at fair value in the balance sheets. Therefore, investment return and other, net includes interest, dividends, realized gains and losses, and unrealized gains and losses on investments as part of excess of expenses over revenues.

Generally, the fair value of the private equity funds (fund of funds) is based on the fair value of the underlying marketable securities determined by the individual manager of the private equity funds. Although the manager uses its best judgement in estimating the fair value of the investments in the investment funds, there are inherent limitations in any estimation technique. Therefore, the values reported are not necessarily indicative of the amount that the investments funds could realize in a current transaction.

These estimated values may differ significantly from the values that would have been used had a ready market for the investments in the investment funds existed and the difference could be material. Private equity funds totaled approximately \$59,169,000 (19.0% of assets limited as to use) and \$53,578,000 (15.5% of assets limited to use) as of June 30, 2023 and 2022, respectively.

Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of the Hospital's investments could occur in the near term and that such changes could materially affect the amounts reflected in the financial statements. A critical factor in this evaluation is the length of time and extent to which the market value of the individual security has been less than cost. Other factors considered include recommendations of investment advisors and conditions specific to the issuer or industry in which the issuer operates.

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost. Property and equipment donated to the Hospital are recorded as additions to net assets with donor restrictions at their fair value at the date of receipt and as a transfer to net assets without donor restrictions when the assets are placed in service.

Depreciation is provided over the estimated useful life (or lease term, whichever is shorter) of each class of depreciable asset and is computed on the straight-line method using a half-year convention in the year of acquisition and disposal. Estimated useful lives range from 2 to 40 years depending on asset classification.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Hospital first compares undiscounted cash flows expected to be generated by that asset or group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

Unamortized Debt Issuance Costs, Bond Premiums and Bond Discounts

The costs incurred and capitalized in issuing Hospital Revenue Bonds are classified with long-term debt and are amortized into interest expense by the bonds outstanding method over the respective term of each bond series.

The premium and discount incurred in issuing the Hospital Revenue Bonds are classified with long-term debt and are amortized into interest expense using the effective-interest method over the respective term of the debt issues.

Notes Receivable

Notes receivable are comprised of loans and advances to certain physicians, tuition advances to various employees and prospective employees, and recruitment loan advances to various employees in amounts ranging from approximately \$125 to \$68,000. These notes receivable are unsecured and mature through 2040. Notes receivable can be subject to forgiveness if certain conditions are met by the borrower.

Business Combinations, Goodwill and Other Intangible Assets

The Hospital accounts for a business combination using the acquisition method of accounting, and accordingly, the net assets of the acquired entity are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets, if any. The Hospital amortizes goodwill on a straight-line basis over a period not to exceed ten years, tests for impairment upon a triggering event, and elected to test for impairment at the entity level in the case of a triggering event. Other intangible assets are amortized on a straight-line basis over a period ranging from two to seven years.

Goodwill and other intangible assets, at cost, approximated \$3,490,000 as of June 30, 2023 and 2022 with accumulated amortization of \$1,598,000 and \$1,200,000 as of June 30, 2023 and 2022, respectively. Amortization is expected to be \$337,000 in 2024, \$311,000 in 2025 through 2028, and \$311,000 thereafter.

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are available for operating purposes under the direction of the board of directors or designated by the board of directors for specific use. Net assets with donor restrictions are subject to donor stipulations for specific operating purposes or time restrictions including donor restrictions requiring the net assets to be held in perpetuity or for a specified term with investment return available for operations or specific purpose. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. There were no net assets with donor restrictions as of June 30, 2023 and 2022.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

Excess Expenses over Revenues

The statements of operations and changes in net assets include a performance indicator, excess expenses over revenues. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Transactions incidental to the provision of patient care services are reported as nonoperating. Changes in net assets without donor restrictions, which are excluded from the performance indicator, consistent with industry practice for 2023 and 2022, include pension related changes other than net periodic pension cost and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purposes of acquiring such assets).

Contributions

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with donor restricted net assets are reclassified as without donor restricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are included in nonoperating gains (losses) in the accompanying financial statements. The Hospital also evaluates whether a contribution is unconditional or conditional based on the absence or presence of barriers and any right of return provisions.

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for the self-insured portion of both reported claims and claims incurred but not reported and is recorded in other long-term liabilities.

Income Taxes

The Hospital is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. As such, the Hospital is generally exempt from income taxes. However, the Hospital is required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital, and has concluded that as of June 30, 2023 and 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

The Hospital filed its federal and state income tax returns for periods through June 30, 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).

Reclassification

Certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 presentation. The reclassifications had no effect on previously reported net assets or change in net assets.

Going Concern Evaluation

Management evaluated whether there were conditions or events that raised substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements were issued.

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 financial statements were issued which was October 25, 2023.

2. NET PATIENT SERVICE REVENUE, RELATED RECEIVABLES AND ESTIMATED SETTLEMENTS

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigation and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Laws and regulations concerning government programs, including Medicare and Medicaid, 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. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Hospital believes that it is in compliance with all applicable laws and regulations.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2023 or 2022. As of June 30, 2023, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through June 30, 2020. As of June 30, 2023, the Hospital recorded a contract asset for estimated third-party settlements of approximately \$468,000. Contract liabilities for estimated third-party settlements of \$2,623,000 and \$1,834,000 were recorded as of June 30, 2022 and July 1, 2021, respectively.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For 2023 and 2022, adjustments were recognized due to changes in the Hospital's estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. Subsequent changes that are significant and determined to be the result of an adverse change in the patient's ability to pay, determined on a portfolio basis, are recorded as bad debt expense.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients. Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized. The following table provides details of these factors. The composition of patient service revenue by primary payor for 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Medicare	\$ 63,300,597	\$ 66,037,583
Medicaid	36,267,907	40,153,908
Blue Cross	41,003,762	45,534,830
Commercial	39,727,014	40,072,015
Self-pay, welfare, and contract	3,168,814	3,259,949
	<u>\$ 183,468,094</u>	<u>\$ 195,058,285</u>

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

A summary of patient service revenue, including information on service lines, for 2023 and 2022 follows:

	2023	2022
Patient service revenue		
Inpatient services	\$ 103,866,980	\$ 115,051,873
Outpatient services	414,163,614	399,938,319
Physician practice services	42,367,077	43,399,391
Financial assistance	(8,642,086)	(10,302,017)
	551,755,585	548,087,566
Contractual allowances	(359,713,656)	(346,397,679)
	192,041,929	201,689,887
Implicit price concessions	(8,573,835)	(6,631,602)
Patient service revenue	\$ 183,468,094	\$ 195,058,285

The Hospital grants credit without collateral to its patients, most of whom are local residents and are generally insured under third-party payor agreements. The mix of receivables as of June 30 2023 and 2022 and revenue for the years then ended from patients and third-party payors follows:

	Receivables		Revenue	
	2023	2022	2023	2022
Medicare	39%	39%	35%	34%
Medicaid	14%	15%	19%	20%
Blue Cross	10%	11%	22%	23%
Commercial	20%	18%	22%	21%
Self-pay, welfare, and contract	17%	17%	2%	2%
	100%	100%	100%	100%

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare.** The Hospital is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The Hospital is reimbursed for Medicare inpatient services based on a fixed price per discharge for each diagnosis related grouping and Medicare outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

- **Medicaid.** The Hospital is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. There is no cost settlement for either of the inpatient or outpatient programs.
- **Other.** The Hospital has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these arrangements is a discount from established charges and fee schedule payments.

Financial Assistance, Community Benefit and Assistance to the Uninsured

The Hospital provides care to patients regardless of their ability to pay. A patient qualifies for financial assistance based on certain established policies of the Hospital. Essentially, these policies define financial assistance as those services for which no payment is anticipated, up to 350% of Federal Poverty Income Guidelines, published by the Department of Health and Human Services and where incurred charges are considered significant when compared to the income of the patient. Because collection of amounts determined to qualify as financial assistance is not pursued, such amounts are not reported as revenue.

Financial assistance provided during 2023 and 2022, measured at established rates, was approximately \$8,642,000 and \$10,302,000, respectively. Medicaid expansion, combined with other health care reform initiatives, increased insurance coverage for patients who were previously uninsured. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The Hospital receives reimbursements from certain governmental payors to assist in the funding of financial assistance. Of the Hospital's total expenses reported during 2023 and 2022, an estimated \$3,293,000 and \$3,747,000, respectively, arose from providing services to charity patients. The estimated costs of providing financial assistance services are based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses to gross patient service revenue. The Hospital has a policy for uninsured patients with discounted rates similar to contractual payors. Uninsured self-pay discounts provided to patients were \$4,607,000 and \$5,019,000 in 2023 and 2022, respectively.

The Hospital did change its financial assistance policy (FAP) during 2023. There were no changes to its FAP during 2022.

Medicaid and Hospital Assessment Fee (HAF) and Healthy Indiana Plan (HIP) Programs

The Hospital participates in the State of Indiana's HAF Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF and HIP program expense reported in the statements of operations and changes in net assets. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Hospitals also fund HIP, the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program but the funding includes physician, state administration, and certain non-hospital expenditures. During 2023 and 2022, the Hospital recognized HAF and HIP program expense of approximately \$9,449,000 and \$7,169,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP program expense is included in the statements of operations and changes in net assets as an operating expense. The Medicaid rate increases under the HAF Program are included in patient service revenue in the statements of operations and changes in net assets.

3. ASSETS LIMITED AS TO USE

Assets limited as to use include assets set aside by the Board of Directors primarily for capital improvements and funds held by trustee subject to indenture agreements. Assets limited as to use that are required for certain obligations classified as current liabilities are reported in current assets. A description and the carrying value of the assets limited as to use by the Board of Directors is as follows as of June 30, 2023 and 2022:

	2023	2022
Cash	\$ 5,817,419	\$ 3,003,528
Exchange traded funds	16,789,893	17,557,037
Mutual funds	168,256,607	175,262,941
Private equity funds	59,169,301	53,578,424
Fixed income securities	40,590,950	40,547,058
Total board designated funds	290,624,170	289,948,988
Cash held by trustee	21,563,752	55,584,156
Total assets limited as to use	\$ 312,187,922	\$ 345,533,144

The cash held by trustee includes both current and noncurrent portions and relates to the Indiana Financing Authority, Hospital revenue bonds, Series 2020A, and Series 2021A, interest, project, and issuance funds.

Investment return (loss), net is comprised of the following for 2023 and 2022:

	2023	2022
Other nonoperating gains (losses)		
Investment return (loss), net		
Interest and dividends	\$ 9,762,844	\$ 7,597,225
Net realized gain on investments	16,801,862	20,657,639
Unrealized loss on investments	(2,315,123)	(60,916,506)
Other		
Gain on equity in joint ventures	410,992	709,207
	\$ 24,660,575	\$ (31,952,435)

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

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 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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2023 and 2022:

- *Exchange Traded Funds and Mutual Funds:* Valued at the daily closing price as reported by the fund. Exchange traded funds and mutual funds held by the Hospital are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their net asset value (NAV) and to transact at that price. The exchange traded funds and mutual funds held by the Hospital are deemed to be actively traded.
- *Debt Securities:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing the value on yields currently available on comparable securities of issuers with similar credit ratings.
- *Private Equity Funds:* Valued at the NAV of units of the fund. The NAV, as provided by the investment manager, is used as a practical expedient to estimate fair value. The private equity funds consist of investments in a variety of domestic and foreign equity and debt securities, managed accounts and other investment vehicles that employ diversified styles and strategies. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. Due to the nature of the investments held by the fund, changes in market conditions and the economic environment may significantly impact the net asset value of the fund and, consequently, the fair value of the Hospital's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the Hospital were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

The following tables set forth by level, within the hierarchy, the Hospital's assets measured at fair value on a recurring basis as of June 30, 2023 and 2022:

	June 30, 2023			
	Total	Level 1	Level 2	Level 3
Assets				
Assets limited as to use				
Exchange traded funds				
Fixed income	\$ 16,789,893	\$ 16,789,893	\$ -0-	\$ -0-
Mutual funds				
Fixed income	42,386,399	42,386,399	-0-	-0-
Global bond	17,795,631	17,795,631	-0-	-0-
International	42,627,249	42,627,249	-0-	-0-
Large cap	59,763,379	59,763,379	-0-	-0-
Natural resources	5,683,949	5,683,949	-0-	-0-
Total mutual funds	168,256,607	168,256,607	-0-	-0-
Debt securities				
Government bonds	9,760,007	-0-	9,760,007	-0-
Mortgage-backed securities	1,115,666	-0-	1,115,666	-0-
Municipal bonds	2,079,388	-0-	2,079,388	-0-
Corporate bonds	22,971,687	-0-	22,971,687	-0-
Asset-backed securities	3,743,501	-0-	3,743,501	-0-
Other	920,701	-0-	920,701	-0-
Total fixed income securities	40,590,950	-0-	40,590,950	-0-
	225,637,450	\$ 185,046,500	\$ 40,590,950	\$ -0-
Private equity funds (a)	59,169,301			
Cash	27,381,171			
	\$ 312,187,922			

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

	June 30, 2022			
	Total	Level 1	Level 2	Level 3
Assets				
Assets limited as to use				
Exchange traded funds				
Fixed income	\$ 17,557,037	\$ 17,557,037	\$ -0-	\$ -0-
Mutual funds				
Fixed income	50,242,283	50,242,283	-0-	-0-
Global bond	19,156,567	19,156,567	-0-	-0-
International	36,759,023	36,759,023	-0-	-0-
Large cap	63,196,989	63,196,989	-0-	-0-
Natural resources	5,908,079	5,908,079	-0-	-0-
Total mutual funds	175,262,941	175,262,941	-0-	-0-
Debt securities				
Government bonds	9,777,393	-0-	9,777,393	-0-
Mortgage-backed securities	1,554,716	-0-	1,554,716	-0-
Municipal bonds	1,859,779	-0-	1,859,779	-0-
Corporate bonds	22,949,811	-0-	22,949,811	-0-
Asset-backed securities	3,052,062	-0-	3,052,062	-0-
Other	1,353,297	-0-	1,353,297	-0-
Total fixed income securities	40,547,058	-0-	40,547,058	-0-
	233,367,036	<u>\$ 192,819,978</u>	<u>\$ 40,547,058</u>	<u>\$ -0-</u>
Private equity funds (a)	53,578,424			
Cash	58,587,684			
	<u>\$ 345,533,144</u>			

(a) In accordance with Subtopic 820-10, certain investments that were measured at NAV per share or its equivalent have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented at fair value in the balance sheets.

The Hospital holds investments, which are exposed to various risks such as interest rate, market, and credit risks. 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.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

Fair Value of Investments in Entities that Use NAV

The following table summarizes investments measured at fair value based on NAV per share as of June 30, 2023 and 2022.

Investment	Fair Value	
	2023	2022
Berkshire Hedged Equity SEG	\$ 7,442,564	\$ 7,195,963
Berkshire Long/Short Strategies Fund	5,981,598	-0-
Berkshire SP Hedged Equity Inst.	5,842,981	5,929,067
Saville Row Diversified Strategies	39,902,158	40,453,394
	\$ 59,169,301	\$ 53,578,424

As of June 30, 2023 and 2022, there were no unfunded commitments for these investments. The redemption frequency is quarterly on the first of January, April, July and October after a one-year lockout period. The redemption notice periods for these investments range from 55 to 75 days.

5. PROPERTY AND EQUIPMENT

Property, equipment, and their estimated useful lives are as follows as of June 30, 2023 and 2022:

	2023	2022	Range of estimated useful lives
Land	\$ 12,819,425	\$ 12,769,643	
Land improvements	3,369,169	3,369,169	10-20 years
Buildings	75,979,067	75,763,586	5-40 years
Medical office buildings	21,062,370	20,989,928	5-40 years
Building service equipment	58,137,773	57,531,159	5-25 years
Leasehold improvements	1,004,506	1,004,506	15-20 years
Fixed equipment	3,509,530	3,509,530	10-20 years
Major movable equipment	74,692,822	72,753,746	2-20 years
Vehicles	1,063,716	1,014,586	4 years
	251,638,378	248,705,853	
Accumulated depreciation	(174,581,828)	(165,619,005)	
Construction in progress	79,093,497	28,282,793	
	\$ 156,150,047	\$ 111,369,641	

The Hospital capitalizes interest cost as a component cost of significant construction and renovation projects. Interest cost capitalized was approximately \$1,593,000 and \$2,451,000 in 2023 and 2022, respectively. Investment income earned on unexpended debt proceeds administered by a trustee for specific projects is offset against the amount of interest cost capitalized. Such amounts were not significant to the financial statements as a whole during 2023 and 2022. As of June 30, 2023, the Hospital had commitments for property and equipment of \$8,860,000.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

6. INVESTMENT IN JOINT VENTURE

The Hospital has an equity interest in a joint venture to operate a cancer care center (Progressive Cancer Center, LLC) in Marion, Indiana. As of June 30, 2023 and 2022, Hospital's ownership in Progressive Cancer Center, LLC is approximately 52%. The Hospital accounts for the investment under the equity method of accounting, as the governance structure is such that the Hospital cannot exercise control. The Hospital recognized a gain of approximately \$411,000 and \$228,000 related to its investment in Progressive Cancer Center, LLC for 2023 and 2022, respectively. The Hospital received dividend distributions during 2023 and 2022 of \$302,000 and \$102,000 respectively. The gain is included in investment return (loss), net in the statements of operations and changes in net assets. The following is the unaudited condensed financial information of Progressive Cancer Care, LLC as of and for the years ended June 30, 2023 and 2022:

	2023	2022
Total assets	\$ 3,709,730	\$ 3,473,417
Total liabilities	\$ 536,917	\$ 430,552
Total equity	\$ 3,172,813	\$ 3,042,865
Total revenue	\$ 2,493,440	\$ 1,964,760
Net income	\$ 763,282	\$ 437,431

7. LONG-TERM DEBT

Long-term debt consists of the following as of June 30, 2023 and 2022:

	2023	2022
Indiana Finance Authority		
Hospital revenue bonds, Series 2021A		
Serial bonds payable through July 1, 2036,		
interest at 4.000% to 5.000%	\$ 24,620,000	\$ 25,170,000
Hospital revenue bonds, Series 2020A		
Serial bonds payable through July 1, 2050,		
interest at 4.000%	69,430,000	69,430,000
Hospital revenue bonds, Series 2015A		
Variable rate securities, payable through June 2041,		
variable rate interest of 4.325% at June 30, 2023	23,050,000	24,600,000
Term loan with final redemption on January 1, 2031,		
interest at 2.700%	8,197,694	8,555,604
	125,297,694	127,755,604
Unamortized premium	9,352,464	10,205,114
Current portion	(2,527,266)	(1,907,910)
Unamortized debt issue costs	(1,135,022)	(1,219,981)
	\$ 130,987,870	\$ 134,832,827

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

In April 2021, the Hospital issued \$25,170,000 of Series 2021A Bonds, through the Indiana Finance Authority (the Authority). The 2021A Bonds are due in annual principal payments ranging from \$550,000 to \$2,785,000 with fixed interest ranging from 4.00% to 5.00% through July 2036.

In November 2020, the Hospital issued \$69,430,000 of Series 2020A Bonds, through the Authority, at a premium of approximately \$5,503,000 to finance various capital projects, including renovation of the Hospital's emergency department located on the Hospital's main campus in Marion, Indiana and construction of a new emergency room and clinical facility located in Gas City, Indiana. The 2020A Bonds are due in annual principal payments ranging from \$1,825,000 to \$7,300,000 with fixed interest of 4.00% through July 2050. Principal payments are set to begin in 2038.

In July 2015, the Hospital issued \$33,000,000 of Series 2015A Bonds through the Authority. The proceeds were used to retire previously issued bonds, in addition to making upgrades and renovations to the Hospital's main facility. The Series 2015A Bonds are due in varying principal amounts ranging from \$245,000 to \$2,350,000 through June 2041. The Hospital, the Authority, and BMO Harris Bank (BMO) then entered into a Bond Purchase Agreement (the Agreement) where BMO purchased from the Authority all of the Series 2015A Bonds in a private placement. The Agreement provides that BMO will hold the Series 2015A Bonds until the initial purchase date, which runs through July 1, 2025. Until the initial purchase date, the Series 2015A Bonds bear interest at a variable rate of .816% plus 68% of 1M Term SOFR (4.325% as of June 30, 2023), reset monthly, with principal and interest payments determined using a 25-year amortization schedule. At the end of the initial purchase date, the Series 2015A Bonds may be converted to another interest rate mode, remarketed to another bondholder or holders, or renewed for another term period with BMO. The Series 2015A Bonds could be converted to another interest rate mode to accommodate market conditions at that time. If the Series 2015A Bonds could not be remarketed at the initial purchase date, the Hospital would be subject to payment of the remaining principal of approximately \$19,780,000.

In January 2021, the Hospital entered into a loan agreement with Regions Commercial Equipment Finance, LLC (Regions) for \$9,000,000 to acquire two medical office buildings. The loan is due in monthly payments of approximately \$49,000 through December 2030 with a balloon payment of \$5,190,000 due in January 2031. The loan is secured by real property with a net book value as of June 30, 2023 and 2022 of \$8,198,000 and \$8,556,000, respectively.

The Hospital granted a security interest in its gross revenue (as defined under the master trust indenture) as collateral for the Series 2021A, 2020A, 2015A, 2012A Bonds (prior to defeasance), and loan agreement with Regions. In addition to various financial covenants, the Hospital covenants that it will not permit any lien or security interest on the Hospital's property and equipment other than certain permitted encumbrances. The Hospital believes it was in compliance with the financial covenants as of June 30, 2023 and 2022.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

Below is the debt maturity schedule for the Hospital's long-term debt.

Year Ending June 30,	
2024	\$ 2,527,266
2025	2,588,088
2026	2,698,609
2027	2,759,422
2028	2,885,051
Thereafter	<u>111,839,258</u>
	<u>\$ 125,297,694</u>

8. LEASES

The Hospital recognizes right-of-use (ROU) assets and lease liabilities for leases with terms greater than 12 months or leases that contain a purchase option that is reasonably certain to be exercised. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease.

The Hospital has operating and finance leases for medical offices and equipment. Leasing arrangements required fixed payments and also include an amount that is probable will be owed under residual value guarantees, if applicable. Lease payments also include payments related to purchase or termination options when the lessee is reasonably certain to exercise the option or is reasonably certain not to exercise the option, respectively. The Hospital's lease agreements do not contain any material restrictive covenants. The leases have remaining terms of 1 to 4 years.

The Hospital's ROU assets and lease liabilities are recognized on the lease commencement date in an amount that represents the present value of future lease payments over the lease term. The Hospital utilizes its collateralized incremental borrowing rate commensurate to the lease term as the discount rate for its leases unless the Hospital can specifically determine the lessor's implicit rate. Certain lease contracts contain non-lease components such as maintenance and utilities. The Hospital has made a policy election to not separate the lease and non-lease components, and thus recognize a single lease component for all of its right-of-use assets and lease liabilities. The operating lease ROU asset also includes any lease payments made and excludes lease incentives, if any.

Short-term leases (leases with an initial term of 12 months or less or leases that are cancelable by the lessee and lessor without significant penalties) are not capitalized but are expensed on a straight-line basis over the lease term, which are not material to the financial statements.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

In evaluating contracts to determine if they qualify as a lease, the Hospital considers factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if the Hospital can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. Furthermore, the Hospital assesses whether it is reasonably certain to exercise options to extend or terminate a lease considering all relevant factors that create economic incentive to exercise such options, including asset, contract, market, and entity-based factors. These evaluations may require significant judgement.

The components of the Hospital's lease cost for 2023 and 2022 are as follows:

	2023	2022
Operating lease cost	\$ 1,091,659	\$ 1,161,965
Finance lease cost		
Amortization expense	1,077,761	693,466
Interest on lease liabilities	23,391	31,854
Total finance lease cost	1,101,152	725,320
Total lease expense	\$ 2,192,811	\$ 1,887,285

The Hospital's right-of-use assets and lease liabilities as of and for the year ended June 30, 2023 and 2022 are as follows:

	2023	2022
Right-of-use assets		
Operating lease assets	\$ 2,206,421	\$ 3,207,517
Finance lease assets	843,714	1,228,009
	\$ 3,050,135	\$ 4,435,526
Lease liabilities		
Current		
Operating lease liabilities	\$ 794,362	\$ 1,004,649
Finance lease liabilities	390,353	381,715
Total current	\$ 1,184,715	\$ 1,386,364
Noncurrent		
Operating lease liabilities	1,415,257	2,207,392
Finance lease liabilities	479,825	870,890
Total noncurrent	\$ 1,895,082	\$ 3,078,282
Total		
Operating lease liabilities	\$ 2,209,619	\$ 3,212,041
Finance lease liabilities	870,178	1,252,605
Total lease liabilities	\$ 3,079,797	\$ 4,464,646

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 1,091,659	\$ 1,161,965
Operating cash flows from finance leases	\$ 23,391	\$ 31,854
Financing cash flows from finance leases	\$ 1,077,761	\$ 693,466
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ -0-	\$ 1,392,121
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ -0-	\$ -0-
Weighted-average remaining lease term - operating leases	3.6 years	3.2 years
Weighted-average remaining lease term - finance leases	2.2 years	3.2 years
Weighted-average discount rate - operating leases	3.80%	2.82%
Weighted-average discount rate - finance leases	2.24%	2.24%

Future payments of lease liabilities are as follows:

Year Ending June 30,	Leases	
	Operating	Finance
2024	\$ 858,787	\$ 405,817
2025	760,029	405,817
2026	409,043	80,638
2027	312,964	317
Total lease payments	2,340,823	892,589
Less interest	(131,204)	(22,411)
Present value of lease liabilities	\$ 2,209,619	\$ 870,178

9. PENSION PLANS

Defined Benefit Plan

The Hospital has a noncontributory defined benefit pension plan (Pension Plan) covering substantially all employees of the Hospital hired before July 1, 2005. The funding policy is to contribute annually at least the minimum contribution required to comply with the Employee Retirement and Security Act (ERISA) regulations. Effective December 31, 2009, the Pension Plan was amended to calculate frozen benefits accrued under all prior benefit formulas as of December 31, 2009 (based on monthly plan compensation and service prior to December 31, 2009) and to add a new benefit formula for service after December 31, 2009 equal to 0.5% of monthly plan compensation per year of service earned after December 31, 2009. Effective December 31, 2010, the Pension Plan was frozen and amended to cease all further benefit accruals under the Pension Plan for participants with 5 or more years of vesting service as of December 31, 2006. Accruals for participants with less than 5 years of vesting service as of December 31, 2006 were frozen as of December 31, 2006. Additionally, there was no service cost for 2023 or 2022 in light of these changes to the Pension Plan.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

The following tables set forth the Pension Plan change in benefit obligation, change in plan assets, and weighted average assumptions as of June 30, 2023 and 2022 (Measurement Date):

	2023	2022
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 74,835,432	\$ 92,689,076
Interest cost	3,102,721	2,201,431
Actuarial (gain)/loss	(3,316,345)	(14,884,118)
Benefit payments	(5,262,888)	(5,170,957)
Projected benefit obligation, end of year	69,358,920	74,835,432
Changes in plan assets		
Fair value of plan assets, beginning of year	61,404,766	76,698,777
Actual return on plan assets	(104,076)	(12,123,054)
Employer contributions	2,000,000	2,000,000
Benefit payments	(5,262,888)	(5,170,957)
Fair value of plan assets, end of year	58,037,802	61,404,766
Unfunded status		
Unfunded status of the plan, end of year	\$ (11,321,118)	\$ (13,430,666)
Amounts recorded in the balance sheet consist of		
Pension liability	\$ (11,321,118)	\$ (13,430,666)

The Hospital recognizes the cost related to employee service using the projected unit credit actuarial cost method and funds at least the minimum as calculated under ERISA.

The discount rate was selected by applying the benefit payout stream to the Citigroup Pension Discount curve spot rates.

The expected amortization of actuarial loss for the year ending June 30, 2024 is approximately \$1,913,000.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

The following table sets forth the components of net periodic benefit cost for 2023 and 2022 for the Pension Plan:

	2023	2022
Amounts not yet reflected in net periodic benefit cost and included in other changes in unrestricted net assets		
Actuarial loss	\$ 17,073,991	\$ 19,372,961
Components of net periodic benefit cost		
Interest cost	3,102,721	2,201,431
Expected return on plan assets	(3,156,585)	(2,470,513)
Amortization of loss	2,243,286	2,170,064
Net periodic benefit cost	\$ 2,189,422	\$ 1,900,982
Weighted-average actuarial assumptions to determine net periodic pension cost of June 30		
Discount rate	4.31%	2.45%
Expected long-term rate of return on assets	5.30%	3.30%
Weighted-average actuarial assumptions to determine benefit obligation cost of June 30		
Discount rate	4.86%	4.31%
Expected long-term rate of return on assets	6.00%	5.30%

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The Pension Plan asset target allocation for 2024 is 100% fixed income securities. The allocation as of June 30, 2023 and 2022, by asset category follows:

Asset category	Percentage of Plan assets	
	2023	2022
Fixed income and cash equivalents	100%	100%

See the Fair Value Measurement Note for the valuation methodologies for mutual funds related to the Pension Plan. The valuation methodology for debt securities is based on pricing models maximizing the use of observable inputs for similar securities.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

The following is a breakdown of assets held by the Plan as of June 30, 2023 and 2022:

	June 30, 2023			
	Total	Level 1	Level 2	Level 3
Mutual funds				
Domestic fixed income	\$ 8,195,581	\$ 8,195,581	\$ -0-	\$ -0-
Foreign fixed income	5,199,196	5,199,196	-0-	-0-
Total mutual funds	13,394,777	13,394,777	-0-	-0-
Debt securities				
Government obligations	15,723,216	-0-	15,723,216	-0-
Municipal obligations	996,607	-0-	996,607	-0-
Corporate obligations	22,459,289	-0-	22,459,289	-0-
Treasury obligations	3,666,901	-0-	3,666,901	-0-
Total fixed income obligations	42,846,013	-0-	42,846,013	-0-
	56,240,790	\$ 13,394,777	\$ 42,846,013	\$ -0-
Cash	1,797,012			
	\$ 58,037,802			
	June 30, 2022			
	Total	Level 1	Level 2	Level 3
Mutual funds				
Domestic fixed income	\$ 6,630,585	\$ 6,630,585	\$ -0-	\$ -0-
Foreign fixed income	5,635,615	5,635,615	-0-	-0-
Total mutual funds	12,266,200	12,266,200	-0-	-0-
Debt securities				
Government obligations	16,981,030	-0-	16,981,030	-0-
Municipal obligations	1,592,118	-0-	1,592,118	-0-
Corporate obligations	25,981,626	-0-	25,981,626	-0-
Treasury obligations	3,378,883	-0-	3,378,883	-0-
Total fixed income obligations	47,933,657	-0-	47,933,657	-0-
	60,199,857	\$ 12,266,200	\$ 47,933,657	\$ -0-
Cash	1,204,909			
	\$ 61,404,766			

The investment policy covering pension assets is approved by the Finance Committee of the Board of Directors for the Hospital. This Committee meets on a bimonthly basis and makes periodic changes to the policy. The approved investment structure reflects a movement to a "liability driven" investment strategy due to the freeze of the Pension Plan. Investment managers are reviewed on an ongoing basis.

The Hospital expects to contribute \$2,000,000 to the Pension Plan in 2024.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the Pension Plan:

Year Ending June 30,	
2024	\$ 5,382,000
2025	5,456,000
2026	5,529,000
2027	5,600,000
2028	5,529,000
2029-2033	26,069,000
	<u>\$ 53,565,000</u>

Defined Contribution Plan

The Hospital has a 403(b) Employer Contributory Plan (the Plan) which permits employees of the Hospital to contribute to the Plan, on a pretax basis, up to the applicable limitations under Section 402(g)(l) of the Internal Revenue Code. The contributions made by each employee are fully vested immediately and are not subject to forfeiture. The Hospital matches contributions of 50% of the employee's contribution up to 6% of qualifying wages for all benefit eligible employees. Additionally, the Hospital can elect to make discretionary contributions to the Plan. Contributions made by the Hospital for 2023 and 2022 approximated \$1,409,000 and \$1,388,000, respectively. Employees are fully vested immediately on the employer match and discretionary contributions.

10. MEDICAL OFFICE BUILDINGS

The Hospital owns medical office buildings in Marion, Gas City, Fairmount, and Swayzee, Indiana, and leases the buildings to physicians, physician groups, and others under various operating leases, which expire through 2028. Lease rental income of approximately \$659,000 and \$726,000 is included in other revenue in the statements of operations and changes in net assets for 2023 and 2022, respectively. The Hospital is scheduled to receive future minimum rental payments under these lease agreements as follows:

Year Ending June 30,	
2024	\$ 480,000
2025	224,000
2026	117,000
2027	26,000
2028	13,000
	<u>\$ 860,000</u>

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

11. MALPRACTICE INSURANCE

The Hospital participates in the Indiana Medical Malpractice Act, IC 34-18 (the Act), which provides a maximum recovery of \$1,800,000. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 in the annual aggregate). The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

The Hospital is a member of a Vermont insurance company, Tecumseh Health Reciprocal Risk Retention Group (THRRRG), as a means to comply with the Hospital's required portion of the insurance coverage pursuant to the Act, as well as its liability insurance. Membership in THRRRG includes multiple hospitals as of June 30, 2023 and 2022. The Hospital's investment in THRRRG of approximately \$2,671,000 is included in other assets as of June 30, 2023 and 2022.

The Hospital has estimated the reserve for loss contingencies using actuarial valuations in determining the estimated reserve for loss contingencies, including the incurred but not reported claims. Management of the Hospital has estimated a reserve for loss contingencies of approximately \$527,000 and \$570,000, respectively, as of June 30, 2023 and 2022 to cover malpractice exposures.

12. COMMITMENTS AND CONTINGENCIES

Regulatory Investigations

The U.S. Department of Justice, the Internal Revenue Service, and other federal agencies routinely conduct regulatory investigations and compliance audits of health care providers. The Hospital is subject to these regulatory efforts. Management believes that any liability resulting from these matters will not have a material impact on the financial position, results of operations or cash flows of the Hospital.

Legal Matters

The Hospital is involved in various legal actions in the normal course of its operations. Management believes that any liability resulting from these matters will not have a material impact on the financial position, results of operations or cash flows of the Hospital.

Self-Insured Health Plan

The Hospital has a self-insurance plan for its employees' health care benefits. A third-party claims administrator has been retained to process all benefit claims. The plan purchased individual excess risk insurance to cover individual health claims in excess of \$250,000. The plan does not have an aggregate stop loss. Total expense was approximately \$11,060,000 for 2023 and \$6,475,000 for 2022.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

13. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the 2023 and 2022 balance sheet date, comprise the following:

	2023	2022
Cash	\$ 10,887,199	\$ 38,785,354
Accounts receivable (patient and physician)	22,547,624	26,163,201
Other receivables	1,433,467	896,967
Estimated third-party settlements	467,709	-0-
	<u>\$ 35,335,999</u>	<u>\$ 65,845,522</u>

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. Accounts receivable, other receivables and estimated third-party settlements are subject to implied time restrictions, but are expected to be collected within one year. The current portion of notes receivable is excluded from liquidity as a portion of balance will be forgiven rather than collected.

As a part of the Hospital's liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Hospital periodically invests excess cash in investments. The Hospital has board designated investments of approximately \$290,624,000 and \$289,949,000 as of June 30, 2023 and 2022, respectively. Although the Hospital does not intend to spend from these board designated funds (other than amounts appropriated for general expenditure), these amounts could be made available, if necessary.

14. FUNCTIONAL EXPENSES

The Hospital provides inpatient, outpatient, and other ancillary services to the residents within its geographical region. Expenses related to providing these services for June 30, 2023 and 2022 are as follows:

	2023			2022		
	Healthcare Services	Management & General	Total	Healthcare Services	Management & General	Total
Expenses						
Salaries and wages	\$ 72,233,222	\$ 7,558,875	\$ 79,792,097	\$ 75,478,953	\$ 8,378,435	\$ 83,857,388
Employee benefits	16,599,426	2,731,911	19,331,337	13,061,079	2,193,869	15,254,948
Physician services	7,900,051	-0-	7,900,051	7,645,133	-0-	7,645,133
Professional services	14,941,844	4,519,323	19,461,167	12,516,472	3,867,022	16,383,494
Medical supplies	14,900,634	-0-	14,900,634	14,669,242	-0-	14,669,242
Drugs	13,659,859	-0-	13,659,859	13,803,912	-0-	13,803,912
Purchased services	9,383,803	2,345,951	11,729,754	8,509,226	2,127,307	10,636,533
Plant and equipment maintenance	4,206,986	1,051,747	5,258,733	4,065,594	1,016,398	5,081,992
Other	22,539,875	2,849,345	25,389,220	18,097,575	1,949,288	20,046,863
Interest	2,460,235	129,486	2,589,721	1,184,083	62,320	1,246,403
Depreciation and amortization	8,406,848	1,826,225	10,233,073	8,805,003	1,897,025	10,702,028
Total expenses	<u>\$ 187,232,783</u>	<u>\$ 23,012,863</u>	<u>\$ 210,245,646</u>	<u>\$ 177,836,272</u>	<u>\$ 21,491,664</u>	<u>\$ 199,327,936</u>

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

Certain costs such as salaries and wages, employee benefits and physician services have been allocated among health care services and management and general categories based on actual direct expenditures incurred by departments, locations, and cost centers, and cost allocations based upon time spent by the Hospital's personnel. Other expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include professional services, purchased services, plant and equipment maintenance, other expenses, depreciation and amortization, and interest, which are allocated based on the ratio of direct costs charged to the category to total direct costs. Although the methods used were appropriate, alternative methods may provide different results. Fundraising costs were not significant to the Hospital in 2023 and 2022.

15. COVID-19

Provider Relief Fund (PRF) grants authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) and American Rescue Plan (ARP) Acts were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. The Hospital received approximately \$6,767,000 of PRF from the CARES and ARP Acts during 2022. PRF amounts were recognized to the extent the Hospital met the terms and conditions of the grant. The Hospital recognized PRF of \$6,767,000 as other revenue in the statements of operations and changes in net assets during 2022, as the conditions of the grant funds were met. No grants from PRF or ARP were received or recognized during 2023. Compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues are subject to future government review and interpretation. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues, and it is not possible to determine the impact (if any) such claims would have upon the Hospital's financial position.

The CARES Act also allowed health care providers to request accelerated and advanced payments for Medicare services. The Hospital received approximately \$16,194,000 of accelerated and advanced Medicare payments under this CARES Act provision. As of June 30, 2023, the advanced payments had been repaid. As of June 30, 2022, the outstanding balance was \$5,098,000 and was included in other accrued liabilities on the balance sheet.



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

Board of Directors
Marion General Hospital dba Marion Health
Marion, 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, the financial statements of Marion Health, Inc. (the Hospital), which comprise the balance sheet as of June 30, 2023, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Board of Directors
Marion General Hospital, Inc. dba Marion Health
Marion, Indiana

Report on Compliance and Other Matters

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

Purpose of this Report

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

Blue & Co., LLC

Indianapolis, Indiana
October 25, 2023



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

Board of Directors
 Marion General Hospital, Inc. dba Marion Health
 Marion, Indiana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Marion Health, Inc.'s (the Hospital) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended June 30, 2023. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in

Board of Directors
Marion General Hospital, Inc. dba Marion Health
Marion, Indiana

internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

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

We have audited the financial statements of the Hospital as of and for the year ended June 30, 2023 and have issued our report thereon dated October 25, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by the *Uniform Guidance*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects in relation to the financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
October 25, 2023

MARION HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023

Federal Grantor/Program Title/Pass Through Grantor	Assistance Listing #	Grant #	Federal Expenditures
Major program			
Department of Health and Human Services (DHHS) - COVID-19, CARES Act - Provider Relief Funds	93.498	N/A	\$ 6,636,775
Non-major programs			
DHHS - Small Health Care Provider Quality Improvement	93.912	G20RH33282-01-00	69,253
DHHS - Rural Communities Opioid Response	93.912	GA1RH33520-01-00	<u>148,600</u>
Total for 93.912			<u>217,853</u>
DHHS - Immunization Cooperative Agreement Passed through Indiana State Department of Health (ISDH)	93.268	N/A	110,320
DHHS - Rural Residency Planning and Development Program Passed through Indiana Rural Health Association	93.155	P13RH42202	160,000
DHHS - Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke Passed through ISDH	93.426	43308	1,465
Federal Communications Commission COVID-19 Telehealth Program	32.006	N/A	<u>260,187</u>
Total non-major programs			<u>749,825</u>
Total federal expenditures			<u>\$ 7,386,600</u>

See Report on Schedule of Expenditures of Federal Awards Required by the *Uniform Guidance* on page 38.
See Notes to Schedule of Expenditure of Federal Awards.

MARION HEALTH

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2023

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) for the year ended June 30, 2023 includes the federal grant activity of Marion General Hospital, Inc. dba Marion Health (the Hospital) and is presented on the accrual basis of accounting. The information in the SEFA is presented in accordance with requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the *Uniform Guidance*). The financial statement classifications may include other financial activity for reporting purposes. Therefore, some of the amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3. OTHER

During 2023, the Hospital did not provide any federal awards to subrecipients. In addition, there were no federal awards expended in the form of non-cash assistance and there were no loan guarantees outstanding at year-end.

4. PROVIDER RELIEF FUNDS

Under terms and conditions of the Provider Relief Funds (PRF) under the Coronavirus Aid, Relief, and Economic Security (CARES) and American Rescue Plan (ARP) Acts, the Hospital is required to report COVID-19 related expenses and lost revenue to the U.S. Department of Health and Human Services (HHS). Guidance from HHS requires the reporting of the COVID-19 related expenses and lost revenue in certain reporting periods based on when the funds were received. The 2023 SEFA includes PRF of approximately \$6,637,000 which was received by the Hospital between the HHS designated reporting period of July 1, 2021 through December 31, 2021. Though recognized as revenue along with other PRF grants by the Hospital in its 2022 financial statements when the conditions of the grant were met, HHS requires this amount to be reported on the 2023 SEFA.

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

During 2023, the Hospital did not receive donated personal protective equipment from federal sources.

MARION HEALTH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2023

Section I - Summary of Audit Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	___ yes	___ <input checked="" type="checkbox"/> none reported
Significant deficiency(s) identified that are not considered material weakness(es) noted?	___ yes	___ <input checked="" type="checkbox"/> none reported
Noncompliance material to consolidated financial statements noted?	___ yes	___ <input checked="" type="checkbox"/> no

Federal Awards

Internal controls over major programs:		
Material weakness(es) identified?	___ yes	___ <input checked="" type="checkbox"/> none reported
Significant deficiency(s) identified that are not considered material weakness(es) noted?	___ yes	___ <input checked="" type="checkbox"/> none reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	___ yes	___ <input checked="" type="checkbox"/> no
Identification of major program(s):		<u>Name of Federal Program</u>
Assistance listing # 93.498		COVID-19, CARES - Provider Relief Fund
Threshold used to distinguish between Type A and B programs:		\$750,000
Auditee qualified as low-risk auditee?	___ <input checked="" type="checkbox"/> yes	___ no

Section II – Findings related to financial statements reported in accordance with Government Auditing Standards:

None Reported

Section III – Findings and Questioned Costs Related to Federal Awards

None Reported

Section IV – Summary Schedule of Prior Audit Findings.

2022-001- Significant deficiency related to reconciliation procedures for private equity investment funds.

Condition – Reconciliations procedures were not consistently applied to resolve timing differences between funding and reporting with the investment managers of the private equity investment funds.

Recommendation - The auditor recommended that procedures be enhanced to improve internal controls over financial reporting by verifying that all reconciliations are complete and accurate.

Current status – No similar finding was identified for 2023.
