



MARGARET MARY HEALTH

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2022 AND 2021

CPAs / ADVISORS



MARGARET MARY HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Margaret Mary Health
Batesville, Indiana

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Margaret Mary Community Hospital, Inc. d/b/a Margaret Mary Health (the Hospital), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2022 and 2021, 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 Consolidated 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.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Hospital adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

Board of Directors
Margaret Mary Health
Batesville, Indiana

In preparing the consolidated 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 consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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
Margaret Mary Health
Batesville, Indiana

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial information as listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 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
April 18, 2023

MARGARET MARY HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2022 AND 2021

	ASSETS	
	2022	2021
Current assets		
Cash	\$ 6,284,381	\$ 7,093,089
Patient accounts receivable	17,116,362	18,579,944
Inventories and other current assets	7,730,819	5,006,410
Current portion of assets whose use is limited	2,157,943	2,091,206
Total current assets	33,289,505	32,770,649
Assets whose use is limited		
Board designated for capital improvements	88,223,517	116,400,614
Board designated for retirement plans	1,253,353	1,235,678
Held by Foundation	3,728,451	4,523,755
Donor restricted	1,541,902	1,443,348
Held by trustee for debt service	118,627	127,083
	94,865,850	123,730,478
Current portion	(2,157,943)	(2,091,206)
Assets whose use is limited - noncurrent	92,707,907	121,639,272
Other assets		
Property and equipment, net	50,321,989	52,347,882
Right-of-use assets under financing leases, net	154,304	-0-
Right-of-use assets under operating leases, net	279,656	-0-
Total other assets	50,755,949	52,347,882
Total assets	\$ 176,753,361	\$ 206,757,803

See accompanying notes to consolidated financial statements.

MARGARET MARY HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2022 AND 2021

LIABILITIES AND NET ASSETS

	2022	2021
Current liabilities		
Accounts payable	\$ 2,178,324	\$ 6,108,044
Accrued wages and related liabilities	9,384,783	8,572,405
Refundable advances	-0-	2,803,364
Estimated third-party settlements	3,153,308	3,805,000
Other current liabilities	1,109,507	11,513,463
Current portion of long-term debt	2,157,943	2,091,206
Current portion of financing leases	154,906	-0-
Current portion of operating leases	49,166	-0-
Total current liabilities	18,187,937	34,893,482
Long-term liabilities		
Derivative liability	232,193	1,075,737
Long-term debt, less current portion	12,702,445	14,843,085
Operating leases, less current portion	230,490	-0-
Other long-term liabilities	1,177,964	1,245,735
Total long-term liabilities	14,343,092	17,164,557
Total liabilities	32,531,029	52,058,039
Net assets		
Without donor restrictions		
Undesignated	53,203,560	35,620,124
Board designated	89,476,870	117,636,292
Total without donor restrictions	142,680,430	153,256,416
With donor restrictions	1,541,902	1,443,348
Total net assets	144,222,332	154,699,764
Total liabilities and net assets	\$ 176,753,361	\$ 206,757,803

See accompanying notes to consolidated financial statements.

MARGARET MARY HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Revenues		
Patient service revenue	\$ 124,518,672	\$ 119,593,142
Other operating revenue	6,145,731	4,819,598
Total revenues	130,664,403	124,412,740
Expenses		
Salaries and wages	51,701,274	50,986,147
Employee benefits	18,084,181	14,139,194
Physician fees	7,753,846	6,872,703
Medical and surgical supplies	18,585,885	18,249,401
Purchased services	13,002,843	11,462,296
Utilities	1,612,970	1,486,113
Insurance	862,518	775,952
Depreciation	7,641,056	7,677,973
Interest	713,666	784,230
Other	9,021,605	7,742,589
Total expenses	128,979,844	120,176,598
Operating income	1,684,559	4,236,142
Nonoperating revenues (expenses)		
Contributions	336,379	383,600
Gain on disposal of property and equipment	160,756	27,000
Investment return (loss), net	(13,644,067)	13,545,542
Unrealized gain on derivative	843,544	545,215
Net assets released from restrictions	42,843	67,715
Total nonoperating revenues (expenses)	(12,260,545)	14,569,072
Revenues over (under) expenses	(10,575,986)	18,805,214
Net assets with donor restrictions		
Contributions	141,397	149,216
Net assets released from restrictions	(42,843)	(67,715)
Change in net assets with donor restrictions	98,554	81,501
Change in net assets	(10,477,432)	18,886,715
Net assets		
Beginning of year	154,699,764	135,813,049
End of year	\$ 144,222,332	\$ 154,699,764

See accompanying notes to consolidated financial statements.

MARGARET MARY HEALTH

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022				2021			
	Health Care Services	General and Administrative	Fundraising	Total	Health Care Services	General and Administrative	Fundraising	Total
Expenses								
Salaries and wages	\$ 41,169,292	\$ 10,354,642	\$ 177,340	\$ 51,701,274	\$ 39,707,573	\$ 11,081,879	\$ 196,695	\$ 50,986,147
Employee benefits	14,400,282	3,621,869	62,030	18,084,181	11,011,483	3,073,165	54,546	14,139,194
Physician fees	7,753,846	-0-	-0-	7,753,846	6,872,703	-0-	-0-	6,872,703
Medical and surgical supplies	18,502,417	83,468	-0-	18,585,885	18,159,005	90,396	-0-	18,249,401
Purchased services	5,834,730	7,147,568	20,545	13,002,843	4,471,926	6,974,545	15,825	11,462,296
Utilities	1,289,282	318,420	5,269	1,612,970	1,170,938	310,136	5,039	1,486,113
Insurance	781,214	79,981	1,323	862,518	706,054	68,781	1,117	775,952
Depreciation	6,107,662	1,508,435	24,959	7,641,056	6,049,629	1,602,311	26,033	7,677,973
Interest	570,449	140,886	2,331	713,666	617,911	163,660	2,659	784,230
Other	6,687,213	2,206,890	127,502	9,021,605	5,922,328	1,714,710	105,551	7,742,589
Total expenses	<u>\$ 103,096,387</u>	<u>\$ 25,462,159</u>	<u>\$ 421,299</u>	<u>\$ 128,979,844</u>	<u>\$ 94,689,550</u>	<u>\$ 25,079,583</u>	<u>\$ 407,465</u>	<u>\$ 120,176,598</u>

See accompanying notes to consolidated financial statements.

MARGARET MARY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Operating activities		
Change in net assets	\$ (10,477,432)	\$ 18,886,715
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	7,641,056	7,677,973
Amortization of debt issue costs	17,302	17,302
Realized and unrealized (gain) loss on investments	18,239,897	(9,585,710)
Gain on disposal of property and equipment	(160,756)	(27,000)
Unrealized gain on derivative	(843,544)	(545,215)
Change in operating assets and liabilities		
Patient accounts receivable	1,463,582	(1,589,437)
Inventories and other current assets	(2,724,409)	(921,955)
Right-of-use assets under operating leases	(279,656)	-0-
Accounts payable	(3,665,712)	(2,046,767)
Accrued wages and related liabilities	812,378	(289,159)
Refundable advances	(2,803,364)	203,364
Estimated third-party settlements	(651,692)	2,147,905
Other current liabilities	(10,403,956)	(1,232,697)
Operating lease liabilities	279,656	-0-
Other long-term liabilities	(67,771)	23,494
Net cash flows from operating activities	(3,624,421)	12,718,813
Investing activities		
Proceeds from sale of investments	22,285,732	6,839,677
Purchases of investments	(11,661,001)	(13,546,576)
Proceeds from disposal of property and equipment	217,734	27,000
Additions to property and equipment	(5,781,845)	(3,683,125)
Net cash flows from investing activities	5,060,620	(10,363,024)
Financing activities		
Payments on long-term debt	(2,091,205)	(2,020,681)
Payments on financing lease liabilities	(153,702)	-0-
Net cash flows from financing activities	(2,244,907)	(2,020,681)
Net change in cash	(808,708)	335,108
Cash		
Beginning of year	7,093,089	6,757,981
End of year	\$ 6,284,381	\$ 7,093,089
Supplemental disclosure of cash flows information		
Property and equipment included in liabilities	\$ -0-	\$ 264,008
Cash paid for interest	\$ 688,991	\$ 801,371

See accompanying notes to consolidated financial statements.

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Margaret Mary Health (the Hospital) in the preparation of its consolidated financial statements are summarized below:

Organization

The Hospital, located in Batesville, Indiana, is a not-for-profit acute care hospital providing inpatient, outpatient, and other ancillary services to the residents of Ripley and surrounding counties. Admitting physicians are primarily practitioners in the local area. The Hospital is the sole corporate member of Margaret Mary Health Foundation, Inc. (the Foundation). The Foundation supports the efforts and activities of the Hospital in the furtherance of the Hospital's charitable purposes and benefits the community served by the Hospital.

Principles of Consolidation

The accompanying consolidated financial statements include accounts of the Hospital and the Foundation. Because the Hospital is the sole corporate member of the Foundation, the financial position, results of operations and cash flows of the Foundation are included with the Hospital for financial reporting purposes. All material intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash

The Hospital maintains its cash in bank deposits accounts which, at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. Cash consists primarily of money market and checking accounts and excludes amounts held by the Hospital's fund managers included in assets whose use is limited.

Patient Accounts Receivable

Patient accounts receivable are recorded at net realizable value based on certain assumptions determined by each payor. For third-party payors including Medicare, Medicaid, Blue Cross and others, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay accounts receivable, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience without regard to aging category. These estimates are adjusted for estimated conversions of patient responsibility portions, expected recoveries and any anticipated changes in trends.

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Patient accounts receivable can be impacted by the effectiveness of the Hospital's collection efforts. Additionally, significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the net realizable value of accounts receivable. The Hospital also continually reviews the net realizable value of accounts receivable by monitoring historical cash collections as a percentage of trailing net operating revenues, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables and the impact of recent acquisitions and dispositions. Final settlements for some payors and programs are subject to adjustment based on administrative review and audit by third parties. As a result of these final settlements, the Hospital has recorded estimated third-party settlements. Net patient accounts receivable as of January 1, 2021 was approximately \$16,991,000.

Patient Service Revenue

Patient care service revenue is reported 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 payors), and others and include 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 the performance obligations are satisfied.

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 receiving inpatient acute care services or patients receiving services in outpatient centers or in their homes (home care). 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 healthcare 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 Financial Accounting Standards Board's Accounting Standards Codification 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.

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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, or 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 by class of patients.

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

Medicaid and Hospital Assessment Fee and Healthy Indiana Plan Programs

- The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost-based settlements.
- The Hospital participates in the Hospital Assessment Fee (HAF) Program which was approved by Centers for Medicare & Medicaid Services. The purpose of HAF is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. On July 1, 2017, hospitals also started funding the Healthy Indiana Plan (HIP), the State's Medicaid expansion program. The payments related to HIP mirror the Medicaid payments under HAF, but the funding includes physician, state administration, and certain non-hospital expenditures. During 2022 and 2021, the Hospital recognized HAF and HIP program expense of approximately \$5,529,000 and \$4,498,000, respectively, which resulted in Medicaid rate increases. The HAF and HIP program expense is included in other expenses in the consolidated statements of operations and changes in net assets. The Medicaid rate increases under HAF and HIP are included in patient service revenue in the consolidated statements of operations and changes in net assets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Other Payment Arrangements

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

The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The year-end cost reports filed with the Medicare and Medicaid programs through December 31, 2019 have been audited by these programs and any resulting differences are reflected in the consolidated financial statements. During 2022 and 2021, the differences between original estimates and subsequent revisions for the final settlement of cost reports recognized to patient service revenue were not significant to the consolidated financial statements.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care providers have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in providers entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital. In addition, the contracts the Hospital has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive revenue 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 subject to such audits, reviews, and investigations.

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 other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represents 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.

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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 based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

The Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Length of the patient's service or episode of care
- Geography of the service location
- Method of reimbursement (fee for service or capitation)
- Hospital's line of business that provided the service (for example, hospital inpatient, hospital outpatient, and so on)

For 2022 and 2021, the Hospital recognized revenue of approximately \$124,519,000 and \$119,593,000, respectively, from goods and services that transfer to the customer over time and no revenue from goods and services that transfer to the customer at a point in time. A summary of patient service revenue for 2022 and 2021 follows:

	2022	2021
Patient service revenue		
Inpatient	\$ 28,860,211	\$ 39,137,778
Outpatient	281,500,843	249,420,561
	<u>310,361,054</u>	<u>288,558,339</u>
Adjustments		
Contractual adjustments	(177,961,794)	(161,585,468)
Charity care	(1,098,134)	(1,634,136)
Implied price concessions	(6,782,454)	(5,745,593)
Total adjustments	<u>(185,842,382)</u>	<u>(168,965,197)</u>
Patient service revenue	<u>\$ 124,518,672</u>	<u>\$ 119,593,142</u>

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

A summary of patient service revenue by payor type and service line for 2022 and 2021 follows:

	2022	2021
Payor type		
Medicare	\$ 45,248,325	\$ 42,097,099
Medicaid	9,090,782	5,879,937
Blue Cross	26,646,834	27,881,592
Other third-party payors	40,859,960	40,077,620
Self pay	2,672,771	3,656,894
	<u>\$ 124,518,672</u>	<u>\$ 119,593,142</u>
Service line		
Hospital - inpatient	\$ 15,538,595	\$ 22,547,488
Hospital - outpatient	92,485,408	86,521,704
Physician services	16,494,669	10,523,950
	<u>\$ 124,518,672</u>	<u>\$ 119,593,142</u>

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. Of the Hospital's total expenses reported, an estimated \$456,000 and \$681,000 arose from providing services to charity patients during 2022 and 2021, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses to gross patient service revenue. The Hospital did not change its charity care and uninsured discount policies in 2022 and 2021.

Inventories and Other Current Assets

Inventories, consisting of mainly medical supplies and pharmaceuticals, are valued at the lower of cost or net realizable value with cost being determined on an average cost method. Inventories and other current assets are comprised of the following as of December 31, 2022 and 2021:

	2022	2021
Other receivables	\$ 2,176,263	\$ 896,099
Stop loss receivable	2,206,000	-0-
Inventories	1,513,421	1,305,709
Prepaid expenses	1,312,125	2,281,592
Other current assets	523,010	523,010
	<u>\$ 7,730,819</u>	<u>\$ 5,006,410</u>

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Property, Equipment and Depreciation

Property and equipment are recorded at historical cost except for donations, which are recorded at fair market value at the date of the donation. Property and equipment include expenditures for additions and repairs that substantially increase the useful lives of existing property and equipment. Maintenance, repairs and minor renewals are expensed as incurred. The property and equipment of the Hospital are being depreciated over their estimated useful lives using the straight-line method. The ranges of useful lives used in computing depreciation are as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	12-24 years
Buildings and improvements	10-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as without restrictions support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as with restrictions support. Absent explicit donor restrictions about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. During 2022 and 2021, there were no gifts of long-lived assets with restrictions.

Assets Whose Use is Limited

Assets whose use is limited includes cash and marketable securities. Marketable securities include mutual funds and common stocks. Such securities are stated at fair market value. Assets held by a trustee include cash for debt service payments and/or capital improvements in compliance with the Indiana Health Facility Financing Authority bond issues described in the long-term debt note. These investments are recorded at fair value in the consolidated balance sheets. Donated securities are recorded at fair market value at the date of the donation. Therefore, investment return (loss), net includes interest, dividends, realized gains and losses, and unrealized gains and losses on investments as part of revenues over expenses.

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 consolidated financial statements.

Other Long-Term Liabilities

Other long-term liabilities consist primarily of deferred compensation agreements and other non-current obligations. The corresponding assets related to the deferred compensation agreements are included in the noncurrent portion of assets whose use is limited.

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Net Assets

Net assets, support, revenues, gains, and losses are classified based on the existence or absence of donor restrictions. Accordingly, the net assets of the Hospital are classified and reported as follows:

Net Assets without Donor Restrictions

Net assets that are currently available for operating purposes under the direction of the board or designated by the board for specific use. Net assets of approximately \$89,477,000 and \$117,636,000 as of December 31, 2022 and 2021, respectively, were designated primarily for capital improvements and retirement plan funding.

Net Assets with Donor Restrictions

Net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations or specific purposes. Net assets with donor restrictions were available for the following purposes as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose		
Health and wellness	\$ 411,987	\$ 345,590
Education	39,762	41,245
Hospice	255,673	236,183
Oncology	293,002	276,842
Other	93,892	95,902
	<u>1,094,316</u>	<u>995,762</u>
Funds of perpetual duration		
Various family funds	447,586	447,586
	<u>\$ 1,541,902</u>	<u>\$ 1,443,348</u>

All contributions are considered to be available for undesignated use unless specifically restricted by the donor. When a restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Contributions that are received and whose restrictions are satisfied within the same reporting period are reported as without donor restrictions.

Net assets released from restrictions related to the satisfaction of donor restrictions and totaled approximately \$43,000 and \$68,000 for 2022 and 2021, respectively.

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator, revenues over (under) expenses. Changes in net assets without donor restrictions that are excluded from the performance indicator include contributions of long-lived 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 consolidated 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 revenues (expenses) in the accompanying consolidated 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.

Federal and State Income Taxes

The Hospital and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code. As such, the Hospital and Foundation are generally exempt from income taxes. However, both are 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 the Foundation and recognize a tax liability if the Hospital and Foundation have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and the Foundation, and has concluded that as of December 31, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Hospital and Foundation are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Hospital and Foundation filed their federal and state income tax returns for periods through December 31, 2021. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Functional Expense Allocation

Certain costs have been allocated among the health care services, general and administrative and fundraising categories based on the actual direct expenditures 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 utilities, insurance, depreciation 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.

Costs of Borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds, as well as interest earned on those funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Advertising Costs

The Hospital's policy is to expense advertising costs when they first take place. These expenses were approximately \$612,000 and \$652,000 in 2022 and 2021, respectively.

Volunteer Services

The Hospital receives donated services from a variety of unpaid volunteers. No amounts are recognized in the accompanying consolidated statements of operations and changes in net assets because the criteria for recognition of such services does not meet the guidelines under the Financial Accounting Standards Board Accounting Standards Codification. The estimated hours related to the donated services approximated 2,000 and 2,700 in 2022 and 2021, respectively.

Going Concern Evaluation

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

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform with the current year presentation. Previously reported net assets and changes in net assets were not impacted by the reclassifications.

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were available to be issued which was April 18, 2023.

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Upcoming Accounting Standards Update

In June 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)*. This ASU, which the Hospital is not required to adopt until its year ending December 31, 2023, is intended to improve financial reporting about expected credit losses on financial assets by requiring entities to use the new current expected credit loss approach that will generally result in early recognition of allowances for credit losses. The ASU also requires a formal process to estimate current expected credit losses and will require specific, supporting calculations of the allowance for doubtful accounts supported by the formal process.

The Hospital is presently evaluating the effects that this ASU will have on its future consolidated financial statements, including related disclosures.

2. CHANGE IN ACCOUNTING PRINCIPLE

On January 1, 2022, the Hospital adopted the lease accounting standard issued by FASB and codified in the Accounting Standards Codification (ASC) as Topic 842 (ASC 842). The lease standard in ASC 842 intended to improve financial reporting about leasing transactions by requiring entities to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in ASC 842) of twelve months or less are not required to be reflected on an entity's balance sheet.

The Hospital applied the modified retrospective approach to all lease agreements when adopting ASC 842. ASC 842 was applied retrospectively to the beginning of the period of adoption through a cumulative-effect adjustment recognized as of January 1, 2022. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance in ASC 840. The adoption of ASC 842 had a material impact on the consolidated balance sheet but did not have a significant impact on the consolidated statement of operations and changes in net assets and the consolidated statement of cash flows. As of January 1, 2022, the Hospital's total assets and total liabilities increased by approximately \$637,000 as a result of ASC 842. The most significant impact was the recognition of right-of-use assets under operating leases and lease liabilities for operating leases.

The Hospital elected the available practical expedients to account for its existing capital leases and operating leases as financing leases and operating leases, respectively, under the new guidance, without reassessing (a) whether any expired or existing contracts contain a lease, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs, if any, before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement. In addition, the Hospital elected the hindsight practical expedient to determine the lease term for existing leases.

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

3. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited consist of the following as of December 31:

	2022	2021
Cash	\$ 1,392,630	\$ 1,382,486
Money market mutual funds	48,885	7,302,403
Mutual funds	93,424,335	115,045,589
	<u>\$ 94,865,850</u>	<u>\$ 123,730,478</u>

The following is a reconciliation of investment return (loss), net for 2022 and 2021:

	2022	2021
Interest and dividends	\$ 4,706,804	\$ 4,018,136
Realized gain (loss) on investments	(1,794,581)	1,824,184
Unrealized gain (loss) on investments	(16,445,316)	7,761,526
Investment fees	(110,974)	(58,304)
Investment return (loss), net	<u>\$ (13,644,067)</u>	<u>\$ 13,545,542</u>

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.

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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 December 31, 2022 and 2021:

- *Money market mutual funds*: Valued based at the subscription and redemption activity at a \$1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities.
- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.
- *Derivative (Interest rate swap agreement)*: Valued using pricing models that are derived principally from observable market data based on discounted cash flows and interest rate yield curves at quoted intervals for the full term of the swap. See the note disclosure "Derivatives Financial Instruments – Interest Rate Swaps" for additional information related to derivatives.

The following tables set forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021:

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Money market mutual fund	\$ 48,885	\$ -0-	\$ 48,885	\$ -0-
Mutual funds				
Foreign large blend	12,766,754	12,766,754	-0-	-0-
Intermediate-term bond	7,539,725	7,539,725	-0-	-0-
Large blend	20,633,886	20,633,886	-0-	-0-
Large growth	9,471,944	9,471,944	-0-	-0-
Large value	20,099,414	20,099,414	-0-	-0-
Short-term bond	7,259,750	7,259,750	-0-	-0-
Other	15,652,862	15,652,862	-0-	-0-
Total mutual funds	93,424,335	93,424,335	-0-	-0-
	93,473,220	\$ 93,424,335	\$ 48,885	\$ -0-
Cash	1,392,630			
Total assets whose use is limited	\$ 94,865,850			
Liabilities				
Derivative	\$ 232,193	\$ -0-	\$ 232,193	\$ -0-

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Money market mutual fund	\$ 7,302,403	\$ -0-	\$ 7,302,403	\$ -0-
Mutual funds				
Foreign large blend	14,216,835	14,216,835	-0-	-0-
Intermediate-term bond	10,228,209	10,228,209	-0-	-0-
Large blend	24,422,258	24,422,258	-0-	-0-
Large growth	11,657,990	11,657,990	-0-	-0-
Large value	12,371,236	12,371,236	-0-	-0-
Short-term bond	18,452,154	18,452,154	-0-	-0-
Other	23,696,907	23,696,907	-0-	-0-
Total mutual funds	115,045,589	115,045,589	-0-	-0-
	122,347,992	\$ 115,045,589	\$ 7,302,403	\$ -0-
Cash	1,382,486			
Total assets whose use is limited	\$ 123,730,478			
Liabilities				
Derivative	\$ 1,075,737	\$ -0-	\$ 1,075,737	\$ -0-

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	2022	2021
Land and improvements	\$ 6,077,267	\$ 6,077,267
Buildings and improvements	80,456,841	80,499,154
Fixed equipment	7,615,900	5,263,075
Movable and minor equipment	68,156,919	65,395,070
	162,306,927	157,234,566
Accumulated depreciation	(113,056,523)	(105,686,178)
	49,250,404	51,548,388
Construction in progress	1,071,585	799,494
	\$ 50,321,989	\$ 52,347,882

Depreciation expense for 2022 and 2021 was approximately \$7,641,000 and \$7,678,000 respectively. As of December 31, 2022, the Hospital had no significant outstanding commitments related to property and equipment.

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

6. LEASES

The Hospital recognizes right-of-use (ROU) assets and lease liabilities for leases with terms greater than twelve months or leases that contain a purchase option that is reasonably certain to be exercised. Leases are classified as either financing 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 financing leases for office facilities and equipment, respectively. 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 6 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 the risk-free 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 operating costs. 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 its ROU 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 twelve 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. The majority of the Hospital's short-term leases relate to equipment.

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 judgment.

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

Operating lease cost	\$	52,313
Financing lease cost		
Amortization expense		154,303
Interest on lease liabilities		1,859
Total financing lease cost		156,162
Variable lease cost		24,962
Short-term lease cost		104,226
Total lease expense	\$	<u>337,663</u>

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Certain of lease agreements include rental payments based on changes in the consumer price index (CPI). Lease liabilities are not remeasured as a result of changes in the CPI; instead, changes in the CPI are treated as variable lease payments and are excluded from the measurement of the right-of-use asset and lease liability. These payments are recognized in the period in which the related obligation was incurred.

The Hospital's right-of-use assets and lease liabilities as of and for the year ended December 31, 2022 are as follows:

Right-of-use assets

Financing lease assets	\$ 154,304
Operating lease assets	<u>279,656</u>
Total right-of-use assets	<u>\$ 433,960</u>

Lease liabilities

Financing lease liabilities, current	<u>\$ 154,906</u>
Operating lease liabilities, current	\$ 49,166
Operating lease liabilities, noncurrent	<u>230,490</u>
Total operating lease liabilities	<u>\$ 279,656</u>

Additional information regarding cash payments under the Hospital's operating and financing leases during 2022, as well as the inputs used in determining the ROU assets and liabilities as of December 31, 2022, is as follows:

Cash paid for amounts included in the measurement of the lease liabilities:

Operating cash flows from operating leases	\$ 52,313
Operating cash flows from financing leases	\$ 1,859
Financing cash flows from financing leases	\$ 153,702
ROU assets obtained in exchange for new operating lease liabilities	\$ -0-
ROU assets obtained in exchange for new financing lease liabilities	\$ 308,608
Weighted-average remaining lease term - operating leases	5.3 years
Weighted-average remaining lease term - financing leases	1.0 years
Weighted-average discount rate - operating leases	1.63%
Weighted-average discount rate - financing leases	0.78%

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Future payments of operating lease liabilities are as follows:

Year Ending December 31,	Financing Leases	Operating Leases
2023	\$ 155,561	\$ 53,359
2024	-0-	54,427
2025	-0-	55,515
2026	-0-	56,625
2027	-0-	57,758
Thereafter	-0-	14,511
Total lease payments	155,561	292,195
Interest	(655)	(12,539)
Present value of lease liabilities	<u>\$ 154,906</u>	<u>\$ 279,656</u>

Certain of the Hospital's leases include escalating lease payments that, under accounting principles generally accepted in the United States of America, are to be recognized on a straight-line basis.

Total lease expense for 2021 was approximately \$142,000.

7. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

Objectives and Strategies for Using Derivatives

The Hospital makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, forward interest rate swaps (which are designated as cash flow hedges) are used to manage the risk associated with interest rates on variable-rate borrowings and to lower its overall borrowing costs.

As of December 31, 2022, the Hospital had outstanding an interest rate swap agreement with a financial institution, having a notional amount of \$8,160,000. The agreement effectively changes the Hospital's interest rate exposure on its Variable Rate Demand Revenue Bonds Series 2004A-1 due 2029 to a fixed 3.48%. The interest rate swap agreement matures at the time the related long-term debt matures. The Hospital is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreement. However, the Hospital does not anticipate nonperformance by the counterparties.

The derivative is not designated as a hedging instrument, and is marked-to-market on the consolidated balance sheet at fair value. The related gains and losses are included in revenue over expenses, the performance indicator, for the reporting period. Cash flows from interest rate swap contracts are classified as an operating activity on the consolidated statements of cash flows.

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

The asset derivatives are reported in the consolidated balance sheets as other assets and liability derivatives are reported as derivative liabilities. As of December 31, 2022 and 2021, the fair values of derivatives recorded in the consolidated balance sheets are as follows:

	2022	2021
Derivative liability	\$ 232,193	\$ 1,075,737

During 2022 and 2021, the amount of gain or loss recognized in the consolidated statements of operations and changes in net assets and reported as a component of nonoperating gain (loss) is as follows:

	2022	2021
Unrealized gain on derivative	\$ 843,544	\$ 545,215

Additional information regarding fair value measurements of the interest rate swap agreements is disclosed in Fair Value Measurements note.

8. LONG-TERM DEBT

The following is the summary of long-term debt as of December 31:

	2022	2021
Indiana Finance Authority Health Facility Variable Rate Demand Revenue Bonds Series 2004A-1; dated March 1, 2004, due 2029	\$ 8,160,000	\$ 9,175,000
Indiana Finance Authority Health Facility Revenue Bonds Series 2010; dated December 1, 2010, due 2035	6,835,240	7,911,446
	14,995,240	17,086,446
Unamortized debt issue costs	(134,852)	(152,155)
Current portion	(2,157,943)	(2,091,206)
	\$ 12,702,445	\$ 14,843,085

In 2004, the Hospital borrowed from the Indiana Finance Authority (the Authority) \$22,000,000 for additions and improvements of the Hospital facilities. The Authority, created under Indiana Code 5-1-16, provides funds to eligible health facilities for financing capital expenditures. In 2009, the Hospital, the Authority and Branch Banking and Trust Company, Inc. (BB&T) entered into a Bond Purchase Agreement whereby BB&T purchased from the Authority all of the Series 2004A Bonds in a private placement. The interest rate on the Series 2004A Bonds is 68% of one month LIBOR plus .95% with no floor. The rate as of December 31, 2022 and 2021 was 3.94% and 1.02%, respectively. BB&T agreed to hold the Series 2004A Bonds through the maturity date in 2029.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

In 2010, the Hospital borrowed \$16,625,235 from the Authority, the Health Facility Revenue Bonds, Series 2010, for capital projects. The Series 2010 Bonds bear interest at rates as determined by daily, weekly, flexible, semiannual or long modes. The Hospital, the Authority and Key Government Finance, Inc. (Key) entered into a Bond Purchase Agreement whereby Key purchased from the Authority all of the Series 2010 Bonds in a private placement. The interest rate on the Series 2010 Bonds is under the long mode with a fixed interest rate of 3.36%. The long mode period runs through 2028. Additionally, Key agreed to hold the Series 2010 Bonds through 2028 compared to the Series 2010 Bond maturity date in 2035. At the end of the long mode period in 2028, the Series 2010 Bonds could be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another long mode period with Key. If the Series 2010 Bonds cannot be remarketed at the end of the long mode period in 2028, the Hospital would be subject to payment of the remaining principal balance at that time.

Both the Series 2004A and 2010 Bonds are covered under a Master Trust Indenture and are secured by an interest in the gross revenues of the Hospital.

Annual maturities of long-term debt for the years succeeding December 31, 2022 are as follows:

Year Ending December 31,	
2023	\$ 2,157,943
2024	2,235,935
2025	2,315,223
2026	2,395,852
2027	2,477,869
Thereafter	<u>3,412,418</u>
	<u>\$ 14,995,240</u>

9. LIQUIDITY AND AVAILABILITY OF RESOURCES

As of December 31, 2022, the Hospital had approximately \$27,782,000 of financial assets available within one year of the consolidated balance sheet date to meet cash needs for general expenditure consisting of cash of \$6,284,000, patient accounts receivable of \$17,116,000 and other receivables (included in other current assets) of \$4,382,000. 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 consolidated balance sheet date. Patient accounts receivable and other receivables are subject to implied time restrictions, but are expected to be collected within one year. The Hospital's policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Hospital invests cash in excess of daily requirements in various investments, including mutual funds and common stocks.

As of December 31, 2022, the Hospital had approximately \$89,477,000 in long-term investments that were without donor restrictions, but rather internally designated by the board. While there is no intent to liquidate these investments, they are available to the Hospital with board approval.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

As of December 31, 2021, the Hospital had approximately \$26,569,000 of financial assets available within one year of the consolidated balance sheet date to meet cash needs for general expenditure consisting of cash of \$7,093,000, patient accounts receivable of \$18,580,000 and other receivables (included in other current assets) of \$896,000.

10. RETIREMENT PLANS

The Hospital has a defined contribution pension plan, which covers all eligible employees. Hospital contributions are based on the earnings of qualified employees. Contribution percentages are at the discretion of the Hospital. The Hospital offers a 403(b) tax deferred annuity retirement plan for the benefit of its eligible employees. The 403(b) plan allows for discretionary Hospital matching contributions based on employee deferrals to the 403(b) plan. The maximum matching contribution is up to \$1,500 per participating employee. The Hospital has a 457(b) deferred compensation plan that provides for non-elective employer deferrals covering certain eligible participants. Total pension expense under all retirement plans was approximately \$1,391,000 and \$1,803,000 for 2022 and 2021, respectively.

11. CONCENTRATIONS OF CREDIT RISK

The Hospital is located in Batesville, Indiana and grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Accounts receivable and revenues from self-pay and third-party payors as of December 31, 2022 and 2021 and for the years then ended were:

	Receivables		Revenues	
	2022	2021	2022	2021
Medicare	26%	24%	36%	35%
Medicaid	16%	13%	7%	5%
Blue Cross	14%	19%	22%	23%
Other third-party payors	29%	34%	33%	34%
Self pay	15%	10%	2%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

12. COMMITMENTS AND CONTINGENCIES

Self-Funded Health Plan

The Hospital is committed to pay for employees' health care costs. A third-party administrator has been retained to process and present all benefit claims to the Hospital for payment. Under a stop loss agreement, the Hospital is responsible for the funding of all claims and related administrative costs up to \$300,000 per individual per policy year. There is no aggregate limit for the Plan under the stop loss agreement. Group health insurance expense for 2022 and 2021 totaled approximately \$12,560,000 and \$8,206,000, respectively. As of December 31, 2022 and 2021, the Hospital recognized a stop loss receivable of \$4,200,000 and \$-0-, respectively, for claims that exceeded the stop loss threshold.

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Litigation

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

13. RISK MANAGEMENT

Malpractice Coverage

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

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

The Hospital is a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund the Hospital's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage. This provides protection from liability in an amount not to exceed \$500,000 per incident and aggregate liability protection not to exceed \$10,000,000 per year. In addition, the Hospital maintains a commercial umbrella/excess liability policy with a limit of \$1,000,000 each occurrence, \$1,000,000 completed operations aggregate limit, \$1,000,000 personal and advertising injury, \$100,000 fire damage, and a \$3,000,000 total policy aggregate.

Workers' Compensation

The Hospital has a \$250,000 letter of credit available with a local financial institution to cover unfunded workers' compensation claims. The letter of credit expires in February 2024. There was no outstanding balance on the letter of credit as of December 31, 2022 and 2021.

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

14. FEDERAL, STATE AND LOCAL AWARDS

Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Government Sources, issued by the Indiana State Board of Accounts, requires Indiana not-for-profit entities to disclose Federal, state and local awards expended during an entities' annual reporting period. Although the following grants originated at the Federal level, the Hospital was considered a vendor under these funding agreements rather than a subrecipient. The following is a summary of Federal grants received by the Hospital under the vendor classification:

	2022	2021
U.S. Dept of Health and Human Services to		
Indiana Dept. of Health through Indiana Hospital Association		
COVID-19 - Small Rural Hospital Improvement Program	\$ 252,916	\$ -0-
U.S. Department of Homeland Security to		
Indiana Dept. of Health		
COVID-19 - Vaccine Distribution Support	-0-	355,130
	<u>\$ 252,916</u>	<u>\$ 355,130</u>

Federal grants and expenditures where the Hospital is considered a subrecipient rather than a vendor are included in the Hospital's schedule of federal awards as required by the Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

15. COVID-19

In March 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may continue to adversely impact the local, regional, national and global economies. The extent to which COVID-19 continues to impact the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of health care personnel, shortages of clinical supplies, and loss of, or reduction to, revenue. Management believes the Hospital is taking appropriate actions to respond to the pandemic. However, the full impact is unknown and cannot be reasonably estimated at the date the consolidated financial statements were available to be issued.

During COVID-19, grants under the American Rescue Plan (ARP) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act were distributed to health care providers impacted by the COVID-19 pandemic. Revenues from ARP and CARES grants are recognized to the extent of expenses incurred specific to responding to the COVID-19 pandemic. Eligible expenses must not be reimbursed from another source and not obligated to be reimbursed from another source. ARP and CARES grants that are not fully expended on eligible expenses can then be applied to lost revenues as defined by the specific guidance issued by the grantor. During 2022 and 2021, the Hospital received ARP and CARES grants of \$-0- and approximately \$2,803,000, respectively. ARP and CARES funds are subject to recoupment by the grantor in the event that the conditions for recognition are not satisfied. During 2022 and 2021, the Hospital recognized \$2,803,000 and

MARGARET MARY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

\$2,600,000, respectively, of ARP and CARES grants as revenue, recorded in other operating revenue within the consolidated statements of operations and changes in net assets. Amounts received where the conditions of the grants have not been satisfied are recorded as refundable advance liabilities. As of December 31, 2022, 2021 and 2020, refundable advances of \$-0-, \$2,803,000 and \$2,600,000, respectively, were recorded in current liabilities on the consolidated balance sheets.

The CARES Act also allowed health care providers to request advanced or accelerated payments for Medicare services. The Hospital received approximately \$11,568,000 of accelerated and advanced Medicare payments under this CARES Act provision. Settlement of these funds began in the second quarter of 2021. As of December 31, 2022 and 2021 advanced payments of \$-0- and \$8,585,000 were included on the consolidated balance sheets in other current liabilities.

SUPPLEMENTARY INFORMATION

MARGARET MARY HEALTH

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2022

ASSETS	Hospital	Foundation	Eliminations	Total
Current assets				
Cash	\$ 5,584,760	\$ 699,621	\$ -0-	\$ 6,284,381
Patient accounts receivable	17,116,362	-0-	-0-	17,116,362
Inventories and other current assets	7,877,206	28,997	(175,384)	7,730,819
Current portion of assets whose use is limited	2,157,943	-0-	-0-	2,157,943
Total current assets	32,736,271	728,618	(175,384)	33,289,505
Assets whose use is limited				
Board designated for capital improvements	88,223,517	-0-	-0-	88,223,517
Board designated for retirement plan	1,253,353	-0-	-0-	1,253,353
Held by Foundation	-0-	3,728,451	-0-	3,728,451
Donor restricted	114,202	1,427,700	-0-	1,541,902
Held by trustee for debt service	118,627	-0-	-0-	118,627
	89,709,699	5,156,151	-0-	94,865,850
Current portion	(2,157,943)	-0-	-0-	(2,157,943)
Assets whose use is limited - noncurrent	87,551,756	5,156,151	-0-	92,707,907
Other assets				
Property and equipment, net	50,321,989	-0-	-0-	50,321,989
Right-of-use assets under financing leases, net	154,304	-0-	-0-	154,304
Right-of-use assets under operating leases, net	279,656	-0-	-0-	279,656
Total other assets	50,755,949	-0-	-0-	50,755,949
Total assets	\$ 171,043,976	\$ 5,884,769	\$ (175,384)	\$ 176,753,361
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 2,178,324	\$ -0-	\$ -0-	\$ 2,178,324
Accrued wages and related liabilities	9,384,783	-0-	-0-	9,384,783
Estimated third-party settlements	3,153,308	-0-	-0-	3,153,308
Other current liabilities	1,109,507	175,384	(175,384)	1,109,507
Current portion of long-term debt	2,157,943	-0-	-0-	2,157,943
Current portion of financing leases	154,906	-0-	-0-	154,906
Current portion of operating leases	49,166	-0-	-0-	49,166
Total current liabilities	18,187,937	175,384	(175,384)	18,187,937
Long-term liabilities				
Derivative liability	232,193	-0-	-0-	232,193
Long-term debt, less current portion	12,702,445	-0-	-0-	12,702,445
Operating leases, less current portion	230,490	-0-	-0-	230,490
Other long-term liabilities	1,177,964	-0-	-0-	1,177,964
Total long-term liabilities	14,343,092	-0-	-0-	14,343,092
Total liabilities	32,531,029	175,384	(175,384)	32,531,029
Net assets				
Without donor restrictions				
Undesignated	48,921,875	4,281,685	-0-	53,203,560
Board designated	89,476,870	-0-	-0-	89,476,870
Total without donor restrictions	138,398,745	4,281,685	-0-	142,680,430
With donor restrictions				
	114,202	1,427,700	-0-	1,541,902
Total net assets	138,512,947	5,709,385	-0-	144,222,332
Total liabilities and net assets	\$ 171,043,976	\$ 5,884,769	\$ (175,384)	\$ 176,753,361

See report of independent auditors on pages 1 through 3.

MARGARET MARY HEALTH

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2022

	Hospital	Foundation	Eliminations	Total
Revenues				
Patient service revenue	\$ 124,518,672	\$ -0-	\$ -0-	\$ 124,518,672
Other operating revenue	6,145,731	-0-	-0-	6,145,731
Total revenues	130,664,403	-0-	-0-	130,664,403
Expenses				
Salaries and wages	51,701,274	-0-	-0-	51,701,274
Employee benefits	18,084,181	-0-	-0-	18,084,181
Physician fees	7,753,846	-0-	-0-	7,753,846
Medical and surgical supplies	18,585,885	-0-	-0-	18,585,885
Purchased services	13,002,843	-0-	-0-	13,002,843
Utilities	1,612,970	-0-	-0-	1,612,970
Insurance	862,518	-0-	-0-	862,518
Depreciation	7,641,056	-0-	-0-	7,641,056
Interest	713,666	-0-	-0-	713,666
Other	9,021,605	-0-	-0-	9,021,605
Total expenses	128,979,844	-0-	-0-	128,979,844
Operating income	1,684,559	-0-	-0-	1,684,559
Nonoperating revenues (expenses)				
Contributions	173,680	338,083	(175,384)	336,379
Gain on disposal of property and equipment	160,756	-0-	-0-	160,756
Program expenses	-0-	(175,384)	175,384	-0-
In-kind revenue	-0-	325,526	(325,526)	-0-
In-kind expense	-0-	(325,526)	325,526	-0-
Investment return (loss), net	(12,912,113)	(731,954)	-0-	(13,644,067)
Unrealized gain on derivative	843,544	-0-	-0-	843,544
Net assets released from restrictions	17,176	25,667	-0-	42,843
Total nonoperating revenues (expenses)	(11,716,957)	(543,588)	-0-	(12,260,545)
Expenses over revenues	(10,032,398)	(543,588)	-0-	(10,575,986)
Net assets with donor restrictions				
Contributions	2,379	139,018	-0-	141,397
Net assets released from restrictions	(17,176)	(25,667)	-0-	(42,843)
Change in net assets with donor restrictions	(14,797)	113,351	-0-	98,554
Change in net assets	(10,047,195)	(430,237)	-0-	(10,477,432)
Net assets				
Beginning of year	148,560,142	6,139,622	-0-	154,699,764
End of year	\$ 138,512,947	\$ 5,709,385	\$ -0-	\$ 144,222,332

See report of independent auditors on pages 1 through 3.

MARGARET MARY HEALTH

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2021

ASSETS	Hospital	Foundation	Eliminations	Total
Current assets				
Cash	\$ 6,802,841	\$ 290,248	\$ -0-	\$ 7,093,089
Patient accounts receivable	18,579,944	-0-	-0-	18,579,944
Inventories and other current assets	4,995,140	115,500	(104,230)	5,006,410
Current portion of assets whose use is limited	2,091,206	-0-	-0-	2,091,206
Total current assets	32,469,131	405,748	(104,230)	32,770,649
Assets whose use is limited				
Board designated for capital improvements	116,400,614	-0-	-0-	116,400,614
Board designated for retirement plan	1,235,678	-0-	-0-	1,235,678
Held by Foundation	-0-	4,523,755	-0-	4,523,755
Donor restricted	128,999	1,314,349	-0-	1,443,348
Held by trustee for debt service	127,083	-0-	-0-	127,083
	117,892,374	5,838,104	-0-	123,730,478
Current portion	(2,091,206)	-0-	-0-	(2,091,206)
Assets whose use is limited - noncurrent	115,801,168	5,838,104	-0-	121,639,272
Property and equipment, net	52,347,882	-0-	-0-	52,347,882
Total assets	<u>\$ 200,618,181</u>	<u>\$ 6,243,852</u>	<u>\$ (104,230)</u>	<u>\$ 206,757,803</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 6,108,044	\$ -0-	\$ -0-	\$ 6,108,044
Accrued wages and related liabilities	8,572,405	-0-	-0-	8,572,405
Refundable advances	2,803,364	-0-	-0-	2,803,364
Estimated third-party settlements	3,805,000	-0-	-0-	3,805,000
Other current liabilities	11,513,463	104,230	(104,230)	11,513,463
Current portion of long-term debt	2,091,206	-0-	-0-	2,091,206
Total current liabilities	34,893,482	104,230	(104,230)	34,893,482
Long-term liabilities				
Derivative liability	1,075,737	-0-	-0-	1,075,737
Long-term debt, less current portion	14,843,085	-0-	-0-	14,843,085
Other long-term liabilities	1,245,735	-0-	-0-	1,245,735
Total long-term liabilities	17,164,557	-0-	-0-	17,164,557
Total liabilities	52,058,039	104,230	(104,230)	52,058,039
Net assets				
Without donor restrictions				
Undesignated	30,794,851	4,825,273	-0-	35,620,124
Board designated	117,636,292	-0-	-0-	117,636,292
Total without donor restrictions	148,431,143	4,825,273	-0-	153,256,416
With donor restrictions				
	128,999	1,314,349	-0-	1,443,348
Total net assets	148,560,142	6,139,622	-0-	154,699,764
Total liabilities and net assets	<u>\$ 200,618,181</u>	<u>\$ 6,243,852</u>	<u>\$ (104,230)</u>	<u>\$ 206,757,803</u>

See report of independent auditors on pages 1 through 3.

MARGARET MARY HEALTH

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2021

	Hospital	Foundation	Eliminations	Total
Revenues				
Patient service revenue	\$ 119,593,142	\$ -0-	\$ -0-	\$ 119,593,142
Other operating revenue	4,819,598	-0-	-0-	4,819,598
Total revenues	124,412,740	-0-	-0-	124,412,740
Expenses				
Salaries and wages	50,986,147	-0-	-0-	50,986,147
Employee benefits	14,139,194	-0-	-0-	14,139,194
Physician fees	6,872,703	-0-	-0-	6,872,703
Medical and surgical supplies	18,249,401	-0-	-0-	18,249,401
Purchased services	11,462,296	-0-	-0-	11,462,296
Utilities	1,486,113	-0-	-0-	1,486,113
Insurance	775,952	-0-	-0-	775,952
Depreciation	7,677,973	-0-	-0-	7,677,973
Interest	784,230	-0-	-0-	784,230
Other	7,742,589	-0-	-0-	7,742,589
Total expenses	120,176,598	-0-	-0-	120,176,598
Operating income	4,236,142	-0-	-0-	4,236,142
Nonoperating revenues (expenses)				
Contributions	57,807	341,762	(15,969)	383,600
Gain on disposal of property and equipment	27,000	-0-	-0-	27,000
Program expenses	-0-	(15,969)	15,969	-0-
In-kind revenue	-0-	292,064	(292,064)	-0-
In-kind expense	-0-	(292,064)	292,064	-0-
Investment return, net	12,874,274	671,268	-0-	13,545,542
Unrealized gain on derivative	545,215	-0-	-0-	545,215
Net assets released from restrictions	12,649	55,066	-0-	67,715
Total nonoperating revenues (expenses)	13,516,945	1,052,127	-0-	14,569,072
Revenues over expenses	17,753,087	1,052,127	-0-	18,805,214
Net assets with donor restrictions				
Contributions	18,079	131,137	-0-	149,216
Net assets released from restrictions	(12,649)	(55,066)	-0-	(67,715)
Change in net assets with donor restrictions	5,430	76,071	-0-	81,501
Change in net assets	17,758,517	1,128,198	-0-	18,886,715
Net assets				
Beginning of year	130,801,625	5,011,424	-0-	135,813,049
End of year	\$ 148,560,142	\$ 6,139,622	\$ -0-	\$ 154,699,764

See report of independent auditors on pages 1 through 3.



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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 CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Margaret Mary Health
Batesville, Indiana

Report on the Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Margaret Mary Community Hospital, Inc. d/b/a Margaret Mary Health (the Hospital), which comprise the consolidated balance sheets as of December 31, 2022, and the related consolidated statements of operations, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 18, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

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

Board of Directors
Margaret Mary Health
Batesville, Indiana

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated 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 consolidated 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 entity'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
April 18, 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
 Margaret Mary Health
 Batesville, Indiana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Margaret Mary Community Hospital, Inc.'s d/b/a Margaret Mary Health (the Hospital) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2022. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Board of Directors
Margaret Mary Health
Batesville, Indiana

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 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 consolidated financial statements of the Hospital as of and for the year ended December 31, 2022 and have issued our report thereon dated April 18, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
April 18, 2023

MARGARET MARY HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Grant ID #</u>	<u>Assistance Listing #</u>	<u>Federal Expenditures</u>
Major program			
U.S. Department of Health and Human Services			
COVID-19 - Provider Relief Fund under CARES Act	N/A	93.498	<u>\$ 2,803,364</u>
Total federal expenditures			<u>\$ 2,803,364</u>

See Report on Schedule of Expenditures of Federal Awards Required by the *Uniform Guidance* on page 40.
See notes to schedule of expenditures of federal awards.

MARGARET MARY HEALTH

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Margaret Mary Community Hospital, Inc. d/b/a Margaret Mary Health (the Hospital) under programs of the federal government for the year ended December 31, 2022 and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the *Uniform Guidance*). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of the Hospital.

2. SUMMARY OF SIGNIFICANT POLICIES

Expenditures reported on the Schedule 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. PASS-THROUGH FUNDS TO SUB-RECIPIENTS

During 2022, the Hospital did not pass-through funds to sub-recipients.

4. COVID-19 FEDERAL GRANTS

During the COVID-19 pandemic, the Hospital received grants from the American Rescue Plan (ARP) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Under terms and conditions of ARP and CARES, 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 Hospital received approximately \$9,713,000 in ARP and CARES funding prior to December 31, 2020. This amount was reported on the 2021 Schedule based on the HHS guidance. During 2021, the Hospital received \$2,803,000 in ARP and CARES funding and recorded it as a refundable advance liability as the terms and conditions had not been satisfied as of December 31, 2021. It was recognized as revenue during 2022 when the terms and conditions were met and is reported on the 2022 Schedule based on HHS guidance.

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

During 2022, the Hospital did not receive donated personal protective equipment from federal sources.

MARGARET MARY HEALTH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2022

Section I - Summary of Audit Results

Consolidated Financial Statements

Type of auditor's report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? ___ yes ___√ none reported
Significant deficiency(s) identified that are not considered material weakness(es) noted? ___ yes ___√ none reported
Noncompliance material to consolidated financial statements noted? ___ yes ___√ no

Federal Awards

Internal controls over major programs:
Material weakness(es) identified? ___ yes ___√ none reported
Significant deficiency(s) identified that are not considered material weakness(es) noted? ___ yes ___√ 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 ___√ no

Assistance

Identification of major program(s): Listing # Name of Federal Program
93.498 COVID-19 - Provider Relief Fund
Threshold used to distinguish between Type A and B programs: \$750,000
Auditee qualified as low-risk auditee? ___ yes ___√ no

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

No matters reported

Section III - Findings and Questioned Costs Relating to Federal Awards

No matters reported

Section IV - Summary Schedule of Prior Audit Findings

Not applicable