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November 24, 2020

Board of Trustees
Decatur County Memorial Hospital
720 North Lincoln Street
Greensburg, IN 47240

We have reviewed the audit report of Decatur County Memorial Hospital which was opined upon by BKD, LLP, Independent Public Accountants, for the period January 1, 2019 to December 31, 2019. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Decatur County Memorial Hospital as of December 31, 2019, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Independent Auditor's Report and Financial Statements
December 31, 2019 and 2018

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Decatur County Memorial Hospital
Greensburg, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Decatur County Memorial Hospital (Hospital), a component unit of Decatur County, Indiana, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Decatur County Memorial Hospital as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The combining schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedule information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedule information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated May 29, 2020, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
May 29, 2020

Decatur County Memorial Hospital

A Component Unit of Decatur County, Indiana

Management's Discussion and Analysis

December 31, 2019 and 2018

Introduction

This management's discussion and analysis of the financial performance of Decatur County Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2019 and 2018. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2019 by \$1,884,887 or 6.1% compared to an increase of \$3,233,104 or 11.8% in 2018.
- The Hospital's net position increased in 2019 by \$5,989,475 or 10.1% compared to an increase of \$2,565,573 or 4.5% in 2018. The increase in 2019 is a combination of the increase in net position of \$5,933,284 as shown in Table 2 and a beginning net position adjustment for adoption of a new accounting principle of \$56,191 which was effective January 1, 2019.
- The Hospital reported operating income of \$1,718,466 in 2019 compared to operating income of \$2,994,314 in 2018. The operating results in 2019 decreased by \$1,275,848, while in 2018, the operating results increased by \$1,055,961.
- Net nonoperating income for 2019 was \$4,293,412 compared to net nonoperating expenses of \$428,741 for 2018. This was an increase of \$4,722,153 or 1,101.4%. In 2018, net nonoperating revenues decreased by \$2,411,495 or 121.6%.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

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

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

The Statement of Cash Flows

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

The Hospital's Net Position

The Hospital's net position is equal to its assets plus deferred outflows of resources, less liabilities reported in the balance sheets. The Hospital's net position increased by \$5,989,475 or 10.1% in 2019 over 2018 compared to an increase in net position of \$2,565,573 or 4.5% in 2018 over 2017, as shown in Table 1.

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

	2019	2018	2017
Assets and Deferred Outflows of Resources			
Patient accounts receivable, net	\$ 12,129,641	\$ 10,100,576	\$ 9,572,995
Other current assets	37,168,896	32,369,790	28,252,860
Capital assets, net	33,550,026	33,646,867	35,668,227
Other noncurrent assets and deferred outflows of resources	2,278,302	3,256,070	3,797,755
Total assets and deferred outflows of resources	<u>\$ 85,126,865</u>	<u>\$ 79,373,303</u>	<u>\$ 77,291,837</u>
Liabilities			
Long-term debt	\$ 4,419,152	\$ 5,385,566	\$ 7,069,784
Other current and long-term liabilities	15,331,654	14,601,153	13,401,042
Total liabilities	<u>19,750,806</u>	<u>19,986,719</u>	<u>20,470,826</u>
Net Position			
Net investment in capital assets	27,541,355	26,274,267	26,799,547
Restricted	677,250	1,490,802	2,008,724
Unrestricted	37,157,454	31,621,515	28,012,740
Total net position	<u>65,376,059</u>	<u>59,386,584</u>	<u>56,821,011</u>
Total liabilities and net position	<u>\$ 85,126,865</u>	<u>\$ 79,373,303</u>	<u>\$ 77,291,837</u>

The increase in the Hospital's assets during 2019 was primarily a result of increases in patient accounts receivable and short-term investments. The increases in patient accounts receivable is primarily driven by the Hospital's skilled nursing facilities with the addition of two facilities during 2019. Total patient accounts receivable increased \$2,029,065 or 20.1% from 2018. The increase in short-term investments of \$3,746,228 or 22.2% was the result of overall market conditions during 2019.

The decrease in total liabilities of \$235,913 or 1.2% was driven by the Hospital paying off long-term debt balances during 2019, offset by increases in accounts payable and accrued expenses.

A significant change in the Hospital's assets in 2018 is the increase in cash and investments of \$3,233,104 (11.8%), which is primarily a result of decreased spending on capital assets and related financing. Another significant change is the decrease in net capital assets of \$2,021,360 (5.7%), with lower overall acquisition and construction of capital assets compared to 2017.

A significant change in the Hospital's liabilities in 2018 is the decrease of \$1,684,218 (23.8%) in long-term debt, as the Hospital continues to make payment on outstanding obligations with no new borrowings during the year.

Operating Results and Changes in the Hospital's Net Position

In 2019, the Hospital's total net position increased by \$5,989,475 or 10.1%, which is a combination of the increase in net position of \$5,933,284 as shown in Table 2 and a beginning net position adjustment for adoption of a new accounting principle of \$56,191 which was effective January 1, 2019. This increase is made up of several different components and represents an increase of 131.3% compared with the increase in net position for 2018 of \$2,565,573. The increase in net position for 2017 was \$3,921,107.

Table 2: Operating Results and Changes in Net Position

	2019	2018	2017
Operating Revenue			
Net patient service revenue	\$ 94,719,387	\$ 81,979,482	\$ 80,170,040
Other operating revenue	12,796,136	10,722,966	9,578,878
Total operating revenue	<u>107,515,523</u>	<u>92,702,448</u>	<u>89,748,918</u>
Operating Expenses			
Salaries, wages, contract labor and employee benefits	55,578,428	46,384,569	45,367,189
Purchased services and professional fees	16,622,313	14,419,554	13,802,349
Depreciation and amortization	3,847,803	3,869,463	3,883,418
Other operating expenses	29,748,513	25,034,548	24,757,609
Total operating expenses	<u>105,797,057</u>	<u>89,708,134</u>	<u>87,810,565</u>
Operating Income	<u>1,718,466</u>	<u>2,994,314</u>	<u>1,938,353</u>
Nonoperating Revenue (Expenses)			
Investment return	3,833,788	(844,567)	1,818,284
Interest expense	(185,657)	(266,086)	(308,473)
Noncapital grants and contributions	246,726	304,672	160,866
Noncapital appropriations - Decatur County	132,000	132,000	107,841
Other	266,555	245,240	204,236
Total nonoperating revenues (expenses)	<u>4,293,412</u>	<u>(428,741)</u>	<u>1,982,754</u>
Excess of Revenues Over Expenses	<u>6,011,878</u>	<u>2,565,573</u>	<u>3,921,107</u>
Other Changes in Net Position	<u>(78,594)</u>	<u>-</u>	<u>-</u>
Increase in Net Position	<u>\$ 5,933,284</u>	<u>\$ 2,565,573</u>	<u>\$ 3,921,107</u>

Operating Income

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

Operating income was \$1,718,466 for 2019 compared to an operating income of \$2,994,314 for 2018, which equates to a decrease of \$1,275,848 or 42.6%. The operating income for 2018 increased by \$1,055,961 or 54.5% as compared to 2017. The primary components of the change in operating income in 2019 are:

- Net patient service revenue was \$94,719,387 for 2019 compared to \$81,979,482 in 2018, which is an increase of \$12,739,905 or 15.5%. Net patient service revenue in 2018 represented an increase of \$1,809,442 or 2.3% compared to 2017.
- Salaries, wages, contract labor and employee benefits for the Hospital were \$55,578,428 for 2019 compared to \$46,384,569 for 2018, which results in an increase of \$9,193,859 or 19.8%. In 2018, salaries, wages and benefits increased by \$1,017,380 or 2.2% compared to 2017.
- Other operating revenues were \$12,796,136 for 2019 compared to \$10,722,966 in 2018, which is an increase of \$2,073,170 or 19.3%.

The increase in net patient service revenue in 2019 was the result of two additional long-term care facilities and changes in Hospital volumes. In 2019, patient service revenue from long-term care operations increased \$9,260,515 or 11.3% compared to 2018. The remaining increase in 2019 of \$3,479,390 was attributed to Hospital operations.

Of the \$9,193,859 increase in salaries, wages, contract labor and employee benefits in 2019, \$6,621,829 was attributed to growth in long-term care operations.

The increase in net patient service revenue in 2018 was primarily the result of an increase in Hospital operations, including the conversion of two primary care sites to provider based rural health clinics. Employee salaries and wages and benefits increased in 2018 in connection with the Hospital's retention and recruitment efforts.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, noncapital grants and interest expense. Interest expense and noncapital grants and contributions remained relatively constant in 2019 as compared to 2018. Investment return increased in 2019 by \$4,678,355 as a result of improving market conditions.

The decrease in nonoperating revenues and expenses in 2018, as compared to 2017, was driven by the overall market conditions which resulted in a decrease in investment return of \$2,662,851 from 2017.

The Hospital's Cash Flows

The Hospital's cash flows fluctuated from the previous year with a decrease in net cash provided in operating cash receipts and an increase in net cash used in capital and related financing activities offset by an increase in investing activities. Decreases in cash balances provided by operating activities were attributed to increases in payments to suppliers and employees.

Capital Asset and Debt Administration

Capital Assets

At the end of 2019, the Hospital had \$33,550,026 invested in capital assets, net of accumulated depreciation, compared to \$33,646,867 at the end of 2018, as detailed in Note 6 to the financial statements. Current year additions were offset by continued depreciation of previous renovations and disposal activity during 2019.

Debt

At December 31, 2019, the Hospital had \$4,959,867 in revenue bonds, notes payable and capital lease obligations outstanding compared to \$7,059,675 at December 31, 2018. Borrowing and payment activity during the year are outlined in Note 10 to the financial statements.

Other Economic Factors

Management believes the health care industry's and Hospital's operating margins will continue to be under pressure due to changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payment received for services rendered. The ongoing challenge facing the Hospital is to continue to provide quality patient care in a competitive environment, and to attain reasonable rates for services provided while managing costs.

Additionally, uncertainty and business disruption surrounding the outbreak of COVID-19 will impact the operations of the Hospital. The economic impact, contingent on the overall impact of the outbreak, may negatively impact the Hospital's payor and service mix and overall operating expenses.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital's Administration by telephoning (812) 663-4331.

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Balance Sheets
December 31, 2019 and 2018

Assets and Deferred Outflows of Resources

	2019	2018
Current Assets		
Cash and cash equivalents	\$ 9,742,209	\$ 10,686,785
Short-term investments	20,587,563	16,841,335
Patient accounts receivable, net of allowance; 2019 - \$5,380,020; 2018 - \$5,510,871	12,129,641	10,100,576
Supplies	1,488,068	940,396
Estimated third-party settlements	2,257,817	1,591,147
Prepaid expenses and other assets	3,093,239	2,310,127
Total current assets	<u>49,298,537</u>	<u>42,470,366</u>
Noncurrent Cash and Investments		
Internally designated for capital improvements	1,704,265	1,704,265
Held by trustee for debt service	-	951,612
Restricted by contributors and grantors	574,037	539,190
	<u>2,278,302</u>	<u>3,195,067</u>
Capital Assets, net	<u>33,550,026</u>	<u>33,646,867</u>
Other Assets	<u>-</u>	<u>58,406</u>
Total assets	85,126,865	79,370,706
Deferred Outflows of Resources - losses on debt refunding	<u>-</u>	<u>2,597</u>
Total assets and deferred outflows of resources	<u><u>\$ 85,126,865</u></u>	<u><u>\$ 79,373,303</u></u>

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 540,715	\$ 1,674,109
Accounts payable and accrued expenses	14,505,054	12,128,405
Estimated third-party settlements	285,885	798,639
Total current liabilities	<u>15,331,654</u>	<u>14,601,153</u>
Long-Term Debt	<u>4,419,152</u>	<u>5,385,566</u>
Total liabilities	<u>19,750,806</u>	<u>19,986,719</u>
Net Position		
Net investment in capital assets	27,541,355	26,274,267
Restricted:		
For debt service	-	951,612
Expendable for capital acquisitions	229,323	225,573
Expendable for specific operating activities	344,714	313,617
Other	103,213	-
Unrestricted	<u>37,157,454</u>	<u>31,621,515</u>
Total net position	<u>65,376,059</u>	<u>59,386,584</u>
Total liabilities and net position	<u><u>\$ 85,126,865</u></u>	<u><u>\$ 79,373,303</u></u>

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 - \$9,123,069; 2018 - \$7,818,420	\$ 94,719,387	\$ 81,979,482
Other	12,796,136	10,722,966
Total operating revenues	<u>107,515,523</u>	<u>92,702,448</u>
Operating Expenses		
Salaries, wages and contract labor	48,956,285	40,207,498
Employee benefits	6,622,143	6,177,071
Purchased services and professional fees	16,622,313	14,419,554
Medical supplies, drugs and other supplies	13,813,301	12,278,154
Utilities	1,533,361	1,339,811
Repairs and maintenance	2,550,912	2,688,385
Lease and rentals	3,812,334	2,571,781
Insurance	1,265,120	1,056,484
Depreciation and amortization	3,847,803	3,869,463
Other	4,286,044	3,639,001
Provider hospital assessment fee	2,487,441	1,460,932
Total operating expenses	<u>105,797,057</u>	<u>89,708,134</u>
Operating Income	<u>1,718,466</u>	<u>2,994,314</u>
Nonoperating Revenues (Expenses)		
Investment return	3,833,788	(844,567)
Interest expense	(185,657)	(266,086)
Noncapital grants and contributions	246,726	304,672
Noncapital appropriations - Decatur County	132,000	132,000
Other	266,555	245,240
Total nonoperating revenues (expenses)	<u>4,293,412</u>	<u>(428,741)</u>
Excess of Revenues Over Expenses	6,011,878	2,565,573
Other Changes in Net Position	<u>(78,594)</u>	<u>-</u>
Increase in Net Position	<u>5,933,284</u>	<u>2,565,573</u>
Net Position, Beginning of Year, as Previously Reported	59,386,584	56,821,011
Cumulative Effect of Change in Accounting Principle	56,191	-
Net Position, Beginning of Year, as Restated	<u>59,442,775</u>	<u>56,821,011</u>
Net Position, End of Year	<u>\$ 65,376,059</u>	<u>\$ 59,386,584</u>

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients	\$ 93,467,469	\$ 82,311,798
Payments to suppliers and contractors	(43,109,635)	(36,597,754)
Payments to employees and contract labor	(55,622,486)	(46,079,310)
Other receipts, net	8,072,900	7,488,193
Net cash provided by operating activities	<u>2,808,248</u>	<u>7,122,927</u>
Noncapital Financing Activities		
Noncapital grants and contributions	246,726	322,489
Noncapital appropriations - Decatur County	132,000	132,000
Other	(78,594)	-
Net cash provided by noncapital financing activities	<u>300,132</u>	<u>454,489</u>
Capital and Related Financing Activities		
Acquisition and construction of capital assets	(3,089,572)	(1,855,016)
Proceeds from sale of capital assets	-	153,953
Principal paid on long-term debt	(2,080,075)	(1,772,632)
Principal paid on capital leases	(18,364)	(19,954)
Interest paid on long-term debt and capital leases	(184,429)	(251,336)
Net cash used in capital and related financing activities	<u>(5,372,440)</u>	<u>(3,744,985)</u>
Investing Activities		
Interest and dividends on investments	745,553	995,550
Purchase of investments	(12,768,142)	(5,363,414)
Proceeds from disposition of investments	12,703,338	1,628,130
Other investing activities	266,555	245,240
Net cash provided by (used in) investing activities	<u>947,304</u>	<u>(2,494,494)</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>(1,316,756)</u>	<u>1,337,937</u>
Cash and Cash Equivalents, Beginning of Year, as Previously Reported	11,132,153	9,794,216
Cumulative Effect of Change in Accounting Principle	48,604	-
Cash and Cash Equivalents, Beginning of Year, as Restated	<u>11,180,757</u>	<u>9,794,216</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,864,001</u>	<u>\$ 11,132,153</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 9,742,209	\$ 10,686,785
Noncurrent cash and cash equivalents	121,792	445,368
	<u>\$ 9,864,001</u>	<u>\$ 11,132,153</u>

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities		
Operating income	\$ 1,718,466	\$ 2,994,314
Depreciation and amortization	3,847,803	3,869,463
Provision for uncollectible accounts	9,123,069	7,818,420
Loss on sale of capital assets	74,489	23,385
Changes in operating assets and liabilities:		
Patient accounts receivable	(11,152,134)	(8,346,001)
Supplies and other current assets	(1,330,708)	1,200,020
Estimated third-party settlements	(1,179,424)	(1,659,649)
Accounts payable and accrued expenses	<u>1,706,687</u>	<u>1,222,975</u>
Net cash provided by operating activities	<u><u>\$ 2,808,248</u></u>	<u><u>\$ 7,122,927</u></u>
Supplemental Cash Flows Information		
Capital asset additions included in accounts payable and accrued expenses	\$ 1,048,804	\$ 312,925

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Notes to Financial Statements
December 31, 2019 and 2018

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

Nature of Operations and Reporting Entity

Decatur County Memorial Hospital (Hospital) is an acute care hospital located in Greensburg, Indiana. The Hospital is a component unit of Decatur County (County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital pursuant to the provisions of Indiana Code 16-22-2-2. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Decatur County area.

The Hospital operates six long-term care facilities (LTC) through various lease arrangements. These facilities provide inpatient and therapy services in their geographic area and support the Hospital's mission to provide quality care and services to the facilities' residents. The facilities are managed by third parties under various management agreements. The revenues from operations are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. During 2019, the Hospital began operating two new long-term care facilities, increasing from the four in operation at December 31, 2018.

In accordance with GASB Statement No. 61, the financial statements include the financial statements of the Decatur County Memorial Hospital Foundation (Foundation). The Foundation's purpose is to provide philanthropic support through fundraising and other activities for the acquisition of equipment, facility development and support of programs at the Hospital, and has therefore been reported as a blended component unit.

The Hospital has a 51% ownership interest in Decatur County Memorial Pain Management, LLC (Pain Management), which is organized to offer pain management services in the Hospital's primary service area. Effective January 1, 2019, upon adoption of Governmental Accounting Standards Board (GASB) Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, the operations of Pain Management are reported as a blended component unit, as the Hospital holds a majority equity interest. Although it is legally separate from the Hospital, Pain Management is reported as if it were a part of the Hospital. This change was applied prospectively at the adoption date, and resulted in an increase in net position of \$56,191. Prior to the adoption of GASB Statement No. 90, the Hospital's ownership interest was accounted for under the equity method. Separate audited financial statements are not issued for Pain Management.

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Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities and deferred outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts with brokers.

Risk Management

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

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

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Investments and Investment Income

Investments in U.S. agency obligations with a remaining maturity of one year or less at time of acquisition are carried at amortized cost. The investment in equity investee was previously reported on the equity method of accounting prior to the adoption of GASB Statement No. 90. All other investments are carried at fair value. Fair value is determined using quoted market prices.

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

Land improvements	5 - 25 years
Buildings and improvements	5 - 40 years
Equipment	5 - 25 years
Major moveable equipment	3 - 25 years
Vehicles	4 years

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. No interest amounts were capitalized in 2019 or 2018.

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Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Deferred Outflows of Resources

The Hospital reports the consumption of net position that is applicable to a future period as deferred outflows of resources in a separate section of its balance sheets.

Compensated Absences

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

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets, consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted component of net position is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

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

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Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Charges excluded from revenue under the Hospital's charity care policy were \$2,103,270 and \$3,314,357 for 2019 and 2018, respectively. The costs of charity care provided under the Hospital's charity care policy were \$814,191 and \$1,253,128 for 2019 and 2018, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Operating Activities

The Hospital defines operating activities, as reported in the statement of revenues, expenses and changes in net position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Nearly all of the Hospital's expenses are from exchange transactions. Certain revenues relied upon for operations, such as county appropriations, contributions and investment income, are recorded as nonoperating revenues in accordance with GASB Statement No. 35.

Income Taxes

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

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

Pain Management is not directly subject to income taxes under the provision of the Internal Revenue Code and applicable state laws. Taxable income or loss is allocated to its members in accordance with their respective percentage ownership for inclusion in their respective tax returns.

Foundation

The Foundation is a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs. The board of the Foundation is self-perpetuating. Separate financial statements of the Foundation may be obtained by contacting their office at 720 North Lincoln Street, Greensburg, Indiana 47240.

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Future Accounting Standards

In fiscal year 2020, the Hospital will implement GASB Statement No. 84, *Fiduciary Activities*. The statement was issued to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Hospital has not determined the impact of this new standard on its financial statements; however, it could have a material future impact.

In fiscal year 2022, the Hospital will implement GASB Statement No. 87, *Leases*. The statement provides a new framework for accounting for leases under the principle that leases are financings and lessees should recognize an intangible asset and a corresponding liability, while the lessor will recognize a lease receivable and related deferred inflow of resources. The Hospital has not determined the impact of this new standard on its financial statements, however, it could have a material future impact.

Note 2: Net Patient Service Revenue

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

Medicare

The Hospital is designated by Medicare as a critical access hospital (CAH). Inpatient acute care and swing bed services, and most outpatient services, are reimbursed based on a cost reimbursement methodology. Interim per diem rates for inpatient services and percent of charges for outpatient services are reimbursed throughout the year, with final settlement determined after submission of the annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Long-term care services rendered to Medicare program beneficiaries are paid under a prospectively determined payment system on a per diem basis based on each resident's health at admission. Medicare reimburses for 100 days of skilled nursing facility care subject to certain eligibility requirements.

Medicaid

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

Long-term care services rendered to Medicaid program beneficiaries are paid on a per diem basis.

Approximately 65% and 58% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately \$1.3 million within net patient service revenue related to this supplemental payment program for each of the years ended December 31, 2019 and 2018. Amounts outstanding at December 31, 2019 approximated \$674,000 and are accrued as a receivable in estimated third-party settlements. Net deferred revenue at December 31, 2018 related to advance funding of payments totaled \$135,000 and was included in accounts payable and accrued expenses. These amounts represent management's best estimate of DSH funds due to the Hospital, which are typically paid in arrears.

The Hospital participates in a state-specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$2,487,000 and \$1,460,000 related to this Medicaid program for 2019 and 2018, respectively, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position.

The Hospital's Medicaid Inpatient Utilization Rate (MIUR) exceeded state-wide thresholds, as defined by state regulation, during its most recent measurement period. A benefit of having the Hospital's MIUR over state-wide thresholds includes paying 75% of the provider assessment fee, where nonqualified hospitals must pay 100% of the provider assessment fee. While qualifying for reduced rates, the Hospital continued to be assessed fees at 100% for the period July 1, 2017 through June 30, 2019. During 2018, the Hospital recognized expense reduction approximating \$860,000 related to MIUR status retroactive to July 1, 2017 through December 31, 2018. The benefit recognized in 2019 for the period January 1, 2019 through June 30, 2019 approximated \$350,000. Amounts due to the Hospital related to the fee reduction approximated \$699,000 and \$766,000 at December 31, 2019 and 2018, respectively, and are included in estimated third-party settlements. The Hospital's assessments beginning July 1, 2019 included the 25% fee reduction within the assessed rates.

The state measures the MIUR no less than every four years and no more than every two years. At each measurement period, the state-defined MIUR changes, which may affect the Hospital's eligibility status and ability to receive the 25% provider assessment fee reduction. Any change in the amount of tax due as a result of eligibility changes will be recorded in the period the state has made its determination. The provider assessment fee program is subject to further retroactive rate setting by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital, including the 25% benefit approximating \$401,000 for the period July 1 through December 31, 2019.

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The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital is responsible for funding the IGT for the long-term care operations. Revenue associated with the UPL program is recorded net of IGT payments made to the program and is included in other operating revenue. The Hospital recognized approximately \$4.8 million and \$3.2 million related to this supplemental payment program for the years ended December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, \$1.3 million and \$781,000, respectively, are accrued and included in prepaid expenses and other current assets.

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

Note 3: Deposits, Investments and Investment Return

Deposits

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

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

Investments

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

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At December 31, 2019 and 2018, the Hospital had the following investments and maturities:

Type	Fair Value	2019			
		Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 788,229	788,229	\$ -	\$ -	\$ -
Equity mutual funds	15,480,626	15,480,626	-	-	-
Fixed income mutual funds	5,823,844	5,823,844	-	-	-
Balanced mutual funds	164,578	164,578	-	-	-
U.S. agency obligations	486,796	-	-	-	486,796
	<u>\$ 22,744,073</u>	<u>\$ 22,257,277</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 486,796</u>

Type	Fair Value	2018			
		Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 1,033,229	\$ 1,033,229	\$ -	\$ -	\$ -
Equity mutual funds	11,655,800	11,655,800	-	-	-
Fixed income mutual funds	5,851,440	5,851,440	-	-	-
Balanced mutual funds	1,050,565	1,050,565	-	-	-
	<u>\$ 19,591,034</u>	<u>\$ 19,591,034</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy for interest rate risk.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital does not have a formal investment policy for credit risk. At December 31, 2019 and 2018, the Hospital's investments were not rated by Standard & Poor's or Moody's Investors Service.

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

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer. The Hospital's policy is to limit holdings in equities to 70% and to limit fixed income holdings to 60%.

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Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2019	2018
Carrying value:		
Deposits	\$ 9,864,001	\$ 11,132,153
Investments	<u>22,744,073</u>	<u>19,591,034</u>
	<u><u>\$ 32,608,074</u></u>	<u><u>\$ 30,723,187</u></u>
Included in the following balance sheets captions:		
Cash and cash equivalents	\$ 9,742,209	\$ 10,686,785
Short-term investments	20,587,563	16,841,335
Noncurrent cash and investments		
Internally designated for capital improvements	1,704,265	1,704,265
Held by trustee for debt service	-	951,612
Restricted by contributors and grantors	<u>574,037</u>	<u>539,190</u>
	<u><u>\$ 32,608,074</u></u>	<u><u>\$ 30,723,187</u></u>

Investment Return

Investment return for the years ended December 31 consisted of:

	2019	2018
Interest and dividend income	\$ 745,553	\$ 995,550
Net increase (decrease) in fair value of investments	<u>3,088,235</u>	<u>(1,840,117)</u>
	<u><u>\$ 3,833,788</u></u>	<u><u>\$ (844,567)</u></u>

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Note 4: Patient Accounts Receivable

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

	2019	2018
Medicare	\$ 3,417,041	\$ 2,622,669
Medicaid	2,959,357	2,120,982
Other third-party payors	4,409,964	3,776,608
Patients	6,723,299	7,091,188
	<u>17,509,661</u>	<u>15,611,447</u>
Less allowance for uncollectible accounts	<u>5,380,020</u>	<u>5,510,871</u>
	<u><u>\$ 12,129,641</u></u>	<u><u>\$ 10,100,576</u></u>

Note 5: Investment in Equity Investee

The investment in equity investee relates to a 51% ownership of Decatur County Memorial Pain Management, LLC (Pain Management). The Hospital's investment in Pain Management was \$107,427 and \$58,406 at December 31, 2019 and 2018, respectively, which represents its share of operating gains. Effective January 1, 2019, upon adoption of Governmental Accounting Standards Board (GASB) Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, the operations of Pain Management are reported as a blended component unit and the Hospital's investment is now eliminated. At December 31, 2018, the Hospital's net investment in Pain Management was recorded in other noncurrent assets. The Hospital provides support to the joint venture through labor and supply costs, which are billed to Pain Management on a monthly basis. The Hospital also provides billing and collections services for Pain Management and remits patient collections to the joint venture to satisfy operating expenses. Effective January 1, 2019, all intercompany transactions are now eliminated.

Financial position and results of operations of the investee for the year ended December 31, 2018 are summarized below:

	2018
Current and total assets	\$ 139,426
Current and total liabilities	<u>24,905</u>
Net assets	<u><u>\$ 114,521</u></u>
Revenues	<u><u>\$ 440,836</u></u>
Excess of revenues over expenses	<u><u>\$ 104,769</u></u>

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Note 6: Capital Assets

Capital assets activity for the years ended December 31 was:

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,134,637	\$ -	\$ -	\$ 187,768	\$ 1,322,405
Land improvements	591,946	4,000	-	-	595,946
Buildings and leasehold improvements	41,325,387	209,401	(74,272)	86,185	41,546,701
Equipment	3,576,931	199,228	(281,285)	326,474	3,821,348
Major moveable equipment	27,144,533	702,640	(3,039,873)	701,195	25,508,495
Vehicles	121,373	-	(23,784)	169,869	267,458
Construction in progress	576,506	2,710,182	-	(1,471,491)	1,815,197
	<u>74,471,313</u>	<u>3,825,451</u>	<u>(3,419,214)</u>	<u>-</u>	<u>74,877,550</u>
Less accumulated depreciation:					
Land improvements	426,186	23,272	-	-	449,458
Buildings and leasehold improvements	16,595,193	1,397,485	(68,685)	-	17,923,993
Equipment	2,648,528	245,246	(272,792)	-	2,620,982
Major moveable equipment	21,054,986	2,152,364	(2,980,476)	-	20,226,874
Vehicles	99,553	29,436	(22,772)	-	106,217
	<u>40,824,446</u>	<u>3,847,803</u>	<u>(3,344,725)</u>	<u>-</u>	<u>41,327,524</u>
Capital assets, net	<u>\$ 33,646,867</u>	<u>\$ (22,352)</u>	<u>\$ (74,489)</u>	<u>\$ -</u>	<u>\$ 33,550,026</u>

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,127,637	\$ 7,000	\$ -	\$ -	\$ 1,134,637
Land improvements	546,014	-	-	45,932	591,946
Buildings and leasehold improvements	40,834,503	350,583	-	140,301	41,325,387
Equipment	3,359,261	93,337	-	124,333	3,576,931
Major moveable equipment	26,751,076	628,851	(414,745)	179,351	27,144,533
Vehicles	121,373	-	-	-	121,373
Construction in progress	120,753	945,670	-	(489,917)	576,506
	<u>72,860,617</u>	<u>2,025,441</u>	<u>(414,745)</u>	<u>-</u>	<u>74,471,313</u>
Less accumulated depreciation:					
Land improvements	404,664	21,522	-	-	426,186
Buildings and leasehold improvements	15,219,049	1,376,144	-	-	16,595,193
Equipment	2,417,256	231,272	-	-	2,648,528
Major moveable equipment	19,061,081	2,231,312	(237,407)	-	21,054,986
Vehicles	90,340	9,213	-	-	99,553
	<u>37,192,390</u>	<u>3,869,463</u>	<u>(237,407)</u>	<u>-</u>	<u>40,824,446</u>
Capital assets, net	<u>\$ 35,668,227</u>	<u>\$ (1,844,022)</u>	<u>\$ (177,338)</u>	<u>\$ -</u>	<u>\$ 33,646,867</u>

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Note 7: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	<u>2019</u>	<u>2018</u>
Payable to suppliers and contractors	\$ 11,235,535	\$ 8,814,828
Payable to employees (including payroll taxes and benefits)	<u>3,269,519</u>	<u>3,313,577</u>
Balance, end of year	<u><u>\$ 14,505,054</u></u>	<u><u>\$ 12,128,405</u></u>

Note 8: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance up to coverage limits under the Indiana Malpractice Act (the Act) under a claims-made policy on a fixed premium basis. The Hospital is covered under the Act which limits professional liability for claims prior to July 1, 2017 to a maximum recovery of \$1,250,000 per occurrence, \$250,000 of which would be paid through malpractice insurance coverage, while the remaining balance would be paid by the State of Indiana Patient Compensation Fund (the Fund). For claims on or after July 1, 2017, the maximum recovery is \$1,650,000 per occurrence, \$400,000 of which would be paid through malpractice insurance coverage, with the remainder due from the Fund. For claims on or after July 1, 2019, the maximum recovery is \$1,800,000 per occurrence, \$500,000 of which would be paid through commercial insurance coverage, with the remainder due from the Fund.

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

Note 9: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents. Commercial stop-loss insurance coverage is purchased for claims in excess of a \$50,000 aggregate specific deductible on top of a \$150,000 aggregate group specific deductible for a maximum annual reimbursement of \$1,000,000. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

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Activity in the Hospital's accrued employee health claims liability during 2019 and 2018 is summarized as follows:

	2019	2018
Balance, beginning of year	\$ 300,080	\$ 250,080
Current year claims incurred and changes in estimates for claims incurred in prior years	3,258,113	2,969,428
Claims and expenses paid	<u>(3,283,193)</u>	<u>(2,919,428)</u>
Balance, end of year	<u><u>\$ 275,000</u></u>	<u><u>\$ 300,080</u></u>

Note 10: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds payable:					
First mortgage refunding bonds, series 2011	\$ 177,500	\$ -	\$ (177,500)	\$ -	\$ -
Capital improvement bond, series 2012	5,427,697	-	(509,370)	4,918,327	521,300
Note payable to bank	1,393,205	-	(1,393,205)	-	-
Plus: bond premium	1,369	-	(1,369)	-	-
Capital lease obligations	<u>59,904</u>	<u>-</u>	<u>(18,364)</u>	<u>41,540</u>	<u>19,415</u>
Total long-term debt	<u><u>\$ 7,059,675</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (2,099,808)</u></u>	<u><u>\$ 4,959,867</u></u>	<u><u>\$ 540,715</u></u>

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds payable:					
First mortgage refunding bonds, series 2011	\$ 522,500	\$ -	\$ (345,000)	\$ 177,500	\$ 177,500
Capital improvement bond, series 2012	5,923,566	-	(495,869)	5,427,697	508,992
Note payable to bank	2,324,968	-	(931,763)	1,393,205	969,253
Plus: bond premium	17,788	-	(16,419)	1,369	-
Capital lease obligations	<u>79,858</u>	<u>-</u>	<u>(19,954)</u>	<u>59,904</u>	<u>18,364</u>
Total long-term debt	<u><u>\$ 8,868,680</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (1,809,005)</u></u>	<u><u>\$ 7,059,675</u></u>	<u><u>\$ 1,674,109</u></u>

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First Mortgage Refunding Bonds, Series 2011

The First Mortgage Refunding Bonds, Series 2011 (Series 2011 Bonds) consist of bonds payable in the original amount of \$5,595,000 dated December 1, 2011, issued by the Decatur County Hospital Association (Association). These bonds were made up of two components referred to as: a) 2011 lease revenue refunding bonds and b) 2011 revenue refunding bonds. The Hospital entered into an agreement with the Association where the Hospital would be responsible for 50% of principal and interest on the 2011 lease revenue refunding bonds totaling \$4,515,000. The County was responsible for the remaining 50% of principal and interest payments on these bonds. The bonds are payable in semiannual installments through January 2019 and bear interest at 2.0% to 4.0%. The bonds were paid in full in January 2019.

The Hospital was required to make monthly deposits to the debt service fund held by the trustee. Accordingly, these funds were included as assets held by trustee for debt service in the balance sheets. The Series 2011 Bonds were not subject to optional redemption prior to maturity. The Series 2011 Bonds were secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement.

Capital Improvements Bond, Series 2012

The Capital Improvements Bond, Series 2012 (Series 2012 Bond) consist of bonds payable in the original amount up to \$8,000,000 dated August 1, 2012, issued by the Hospital. The bonds were issued to fund certain expansions of the Hospital. During the construction phase, bond advances were made to fund the costs of the construction project. The bond is payable in monthly installments of \$54,059 through June 2028 and bears interest at 2.65%. The Series 2012 Bond is secured by a mortgage on certain improvements and real property of the Hospital.

Note Payable to Bank

The Hospital borrowed funds to finance the acquisition of certain information technology improvements. The note payable to bank, dated May 18, 2015, allowed for borrowings up to \$5 million bearing interest at 1-month LIBOR plus 2.5%. The Hospital was required to make interest-only payments through March 2016, followed by 50 monthly principal and interest payments through May 2020. During 2019, the Hospital made advance payments to satisfy the note payable balance in full. The note was secured by certain inventories, accounts receivable and capital assets of the Hospital.

The Hospital is required to comply with certain restrictive covenants including maintaining a historical debt-service coverage ratio of at least 1.5 to 1.0, maintenance of minimum working capital of \$8,000,000 and maintenance of a current ratio of at least 2.0 to 1.0.

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The debt service requirements on the bonds payable as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2020	\$ 648,703	\$ 521,300	\$ 127,403
2021	648,703	537,049	111,654
2022	648,703	551,657	97,046
2023	648,703	566,663	82,040
2024	648,703	581,874	66,829
2025 - 2028	<u>2,324,520</u>	<u>2,159,784</u>	<u>164,736</u>
	<u><u>\$ 5,568,035</u></u>	<u><u>\$ 4,918,327</u></u>	<u><u>\$ 649,708</u></u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 5.5% to 5.6% together with the present value of the future minimum lease payments as of December 31, 2019:

2020	\$ 21,241
2021	21,160
2022	<u>1,689</u>
Total minimum lease payments	44,090
Less amount representing interest	<u>2,550</u>
Present value of future minimum lease payments	<u><u>\$ 41,540</u></u>

Assets under capital leases at December 31, 2019 and 2018, totaled:

	<u>2019</u>	<u>2018</u>
Machinery and equipment	\$ 88,219	\$ 92,492
Accumulated depreciation	<u>(44,110)</u>	<u>(28,602)</u>
	<u><u>\$ 44,109</u></u>	<u><u>\$ 63,890</u></u>

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Note 11: Pension Plan

The Hospital contributes to a defined-contribution pension plan, as authorized by Indiana Code 16-22-3-11, covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan administrator is the Executive Director of Human Resources for the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. The Hospital is required to match 100% of the employee contribution up to 1% of employee's compensation. In addition, the Hospital may make a discretionary contribution as determined by the Hospital Board, which was 3% for 2019 and 2018. Hospital expense related to the employer contributions to the plan approximated \$860,000 for 2019 compared to \$842,000 for 2018.

Note 12: Disclosures About Fair Value of Assets

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Investments by fair value level				
Equity mutual funds	\$ 15,480,626	\$ 15,480,626	\$ -	\$ -
Fixed income mutual funds	5,823,844	5,823,844	-	-
Balanced mutual funds	164,578	164,578	-	-
U.S. agency obligations	486,796	-	486,796	-
Total investments measured by fair value level	21,955,844	<u>\$ 21,469,048</u>	<u>\$ 486,796</u>	<u>\$ -</u>
Investments measured at the net asset value (NAV)				
Money market mutual funds	<u>788,229</u>			
Total investments measured at fair value	<u>\$ 22,744,073</u>			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Investments by fair value level				
Equity mutual funds	\$ 11,655,800	\$ 11,655,800	\$ -	\$ -
Fixed income mutual funds	5,851,440	5,851,440	-	-
Balanced mutual funds	1,050,565	1,050,565	-	-
Total investments measured by fair value level	18,557,805	<u>\$ 18,557,805</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at the net asset value (NAV)				
Money market mutual funds	<u>1,033,229</u>			
Total investments measured at fair value	<u>\$ 19,591,034</u>			

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Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Hospital does not have any Level 3 assets at December 31, 2019 and 2018.

Note 13: Commitments and Contingencies

Litigation

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

Note 14: Noncapital Appropriations - Decatur County

Decatur County, of which the Hospital is a component unit, subsidized the Hospital for providing the County with ambulance service. The Hospital recognizes these payments as nonoperating revenue. The Hospital recognized subsidy revenue of approximately \$132,000 for 2019 and 2018.

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Note 15: Condensed Combining Information

The following tables include condensed combining balance sheet information for the Hospital and its blended component units as of December 31, 2019 and 2018:

	December 31, 2019				
	Hospital	Foundation	Pain Management	Eliminations	Total
Assets					
Current assets	\$ 48,414,776	\$ 772,618	\$ 111,143	\$ -	\$ 49,298,537
Due from related party	43,834	-	124,322	(168,156)	-
Capital assets, net	33,550,026	-	-	-	33,550,026
Other assets	1,819,224	566,505	-	(107,427)	2,278,302
Total assets	<u>\$ 83,827,860</u>	<u>\$ 1,339,123</u>	<u>\$ 235,465</u>	<u>\$ (275,583)</u>	<u>\$ 85,126,865</u>
Liabilities					
Current liabilities	\$ 15,329,386	\$ -	\$ 2,268	\$ -	\$ 15,331,654
Due to related party	125,884	19,715	22,557	(168,156)	-
Noncurrent liabilities	4,419,152	-	-	-	4,419,152
Total liabilities	<u>19,874,422</u>	<u>19,715</u>	<u>24,825</u>	<u>(168,156)</u>	<u>19,750,806</u>
Net Position					
Net investment in capital assets	27,541,355	-	-	-	27,541,355
Restricted	7,532	566,505	103,213	-	677,250
Unrestricted	36,404,551	752,903	107,427	(107,427)	37,157,454
Total net position	<u>63,953,438</u>	<u>1,319,408</u>	<u>210,640</u>	<u>(107,427)</u>	<u>65,376,059</u>
Total liabilities and net position	<u>\$ 83,827,860</u>	<u>\$ 1,339,123</u>	<u>\$ 235,465</u>	<u>\$ (275,583)</u>	<u>\$ 85,126,865</u>

	December 31, 2018			
	Hospital	Foundation	Eliminations	Total
Assets				
Current assets	\$ 41,882,858	\$ 587,508	\$ -	\$ 42,470,366
Due from related party	23,301	-	(23,301)	-
Capital assets, net	33,646,867	-	-	33,646,867
Other assets	2,722,152	531,321	-	3,253,473
Total assets	<u>78,275,178</u>	<u>1,118,829</u>	<u>(23,301)</u>	<u>79,370,706</u>
Deferred Outflows of Resources	<u>2,597</u>	<u>-</u>	<u>-</u>	<u>2,597</u>
Total assets and deferred outflows of resources	<u>\$ 78,277,775</u>	<u>\$ 1,118,829</u>	<u>\$ (23,301)</u>	<u>\$ 79,373,303</u>
Liabilities				
Current liabilities	\$ 14,601,153	\$ -	\$ -	\$ 14,601,153
Due to related party	-	23,301	(23,301)	-
Noncurrent liabilities	5,385,566	-	-	5,385,566
Total liabilities	<u>19,986,719</u>	<u>23,301</u>	<u>(23,301)</u>	<u>19,986,719</u>
Net Position				
Net investment in capital assets	26,274,267	-	-	26,274,267
Restricted	959,481	531,321	-	1,490,802
Unrestricted	31,057,308	564,207	-	31,621,515
Total net position	<u>58,291,056</u>	<u>1,095,528</u>	<u>-</u>	<u>59,386,584</u>
Total liabilities and net position	<u>\$ 78,277,775</u>	<u>\$ 1,118,829</u>	<u>\$ (23,301)</u>	<u>\$ 79,373,303</u>

Decatur County Memorial Hospital

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Notes to Financial Statements

December 31, 2019 and 2018

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component units for the years ended December 31, 2019 and 2018.

	December 31, 2019				Total
	Hospital	Foundation	Pain Management	Eliminations	
Operating Revenue					
Net patient service revenue	\$ 94,084,773	\$ -	\$ 634,614	\$ -	\$ 94,719,387
Other operating revenue	12,927,035	-	-	(130,899)	12,796,136
Total operating revenue	107,011,808	-	634,614	(130,899)	107,515,523
Operating Expenses					
Salaries, wages, contract labor and employee benefits	55,359,475	-	218,953	-	55,578,428
Purchased services and professional fees	16,536,018	-	86,295	-	16,622,313
Depreciation and amortization	3,847,803	-	-	-	3,847,803
Other operating expenses	29,675,662	-	72,851	-	29,748,513
Total operating expenses	105,418,958	-	378,099	-	105,797,057
Operating Income	1,592,850	-	256,515	(130,899)	1,718,466
Nonoperating Revenue (Expenses)					
Investment return	3,712,519	121,269	-	-	3,833,788
Interest expense	(185,657)	-	-	-	(185,657)
Noncapital grants and contributions	-	246,726	-	-	246,726
Noncapital appropriations - Decatur County	132,000	-	-	-	132,000
Other	410,670	(144,115)	-	-	266,555
Total nonoperating revenues (expenses)	4,069,532	223,880	-	-	4,293,412
Excess of Revenues Over Expenses	5,662,382	223,880	256,515	(130,899)	6,011,878
Other Changes in Net Position	-	-	(160,396)	81,802	(78,594)
Increase in Net Position	\$ 5,662,382	\$ 223,880	\$ 96,119	\$ (49,097)	\$ 5,933,284

	December 31, 2018				Total
	Hospital	Foundation	Eliminations		
Operating Revenue					
Net patient service revenue	\$ 81,979,482	\$ -	\$ -	\$ -	\$ 81,979,482
Other operating revenue	10,722,966	-	-	-	10,722,966
Total operating revenue	92,702,448	-	-	-	92,702,448
Operating Expenses					
Salaries, wages, contract labor and employee benefits	46,384,569	-	-	-	46,384,569
Purchased services and professional fees	14,419,554	-	-	-	14,419,554
Depreciation and amortization	3,869,463	-	-	-	3,869,463
Other operating expenses	25,034,548	-	-	-	25,034,548
Total operating expenses	89,708,134	-	-	-	89,708,134
Operating Income	2,994,314	-	-	-	2,994,314
Nonoperating Revenue (Expenses)					
Investment return	(798,598)	(45,969)	-	-	(844,567)
Interest expense	(266,086)	-	-	-	(266,086)
Noncapital grants and contributions	631,598	304,922	(631,848)	-	304,672
Noncapital appropriations - Decatur County	132,000	-	-	-	132,000
Other	436,409	(823,017)	631,848	-	245,240
Total nonoperating revenues	135,323	(564,064)	-	-	(428,741)
Increase (Decrease) in Net Position	\$ 3,129,637	\$ (564,064)	\$ -	\$ -	\$ 2,565,573

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Note 16: Long-Term Care Operating Lease and Management Agreements

The Hospital has entered into various agreements to lease the facilities and equipment for the operation of six nursing homes. Along with the lease agreements, the Hospital also entered into management agreements with the facilities' previous managers (Managers) to continue to operate the facilities. These agreements included original terms of two years with optional two year extension periods. The management agreements include optional termination clauses by either party if material changes in circumstances, as defined in the agreements, occur. The leases include termination clauses where the lease shall automatically end at the termination of the management agreement between the Hospital and the Managers.

The lease agreements call for monthly base rent payments as outlined in the agreements. Rental expense approximated \$3.4 million and \$2.6 million in 2019 and 2018, respectively. Future minimum rent payments for the years ending December 31, 2020 and 2021, approximate \$4,490,000 and \$890,000, respectively, which include future minimum rentals required during the two year extension period for properties where the base rental term has ended.

The management agreements include management fees consisting of base management fees, subordinated management fees and incentive management fees. Base and subordinate management fees are determined on percentages of net patient service revenue of the individual facilities and range from 2% to 5%. Incentive management fees are to be paid only if sufficient working capital exists. The agreements also call for quality, royalty and capital improvement fees to be paid to the Managers. Management and other fees approximated \$2.1 million and \$1.8 million in 2019 and 2018, respectively, and include waivers of certain fees as insufficient cash flows existed to fund the amounts due.

Under the management agreements, the employees necessary to operate the facilities are contracted by the Hospital. The majority of all costs in the ordinary course of business are paid by the Managers who are then reimbursed by the Hospital from operations of the facilities. Similarly, Managers of certain facilities have provided working capital to cover insufficient cash flows from operations. Consequently, the majority of accounts payable and accrued expenses of the long-term care operations approximating \$8.1 million and \$6.4 million at December 31, 2019 and 2018, reflect amounts due to the Managers and their vendors.

Subsequent to year-end, the Hospital notified Indiana Medicaid of its intent to transfer operations of a single facility to a new provider upon licensure approval.

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Note 17: Subsequent Events

In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced. Subsequent to year-end, the worldwide spread of COVID-19 began to cause some business disruption throughout the United States as local governments implemented orders to reduce non-essential business operations and advised citizens to shelter-in place. The Hospital has continued to operate as an essential healthcare provider and experienced declines in volumes related to elective procedure cancellations and lower physician office visits.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the magnitude and duration. The Hospital expects this matter to negatively impact its financial condition and operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

In 2020, the Hospital received approximately \$8.1 million in funding through the Public Health and Social Services Emergency Fund as authorized in the Coronavirus Aid, Relief and Economic Security (CARES) Act, which was made available to prevent, prepare for and respond to the coronavirus and reimburse providers for eligible expenses and lost revenues. Similarly, the Hospital applied for and received a loan totaling \$6.1 million under the Small Business Administration Paycheck Protection Program authorized in the CARES Act and entered into a \$3.0 million line of credit to provide for future liquidity needs.

Supplementary Information

Decatur County Memorial Hospital

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Combining Balance Sheet Information

December 31, 2019

	2019					
	Hospital	LTC	Hospital Foundation	Pain Management	Eliminations	Total
Assets						
Current Assets						
Cash and cash equivalents	\$ 6,600,391	\$ 2,471,375	\$ 559,300	\$ 111,143	\$ -	\$ 9,742,209
Short-term investments	20,374,245	-	213,318	-	-	20,587,563
Patient accounts receivable, net of allowance of						
Hospital - \$4,081,986; LTC - \$1,298,034	8,402,545	3,727,096	-	-	-	12,129,641
Supplies	1,488,068	-	-	-	-	1,488,068
Estimated third-party settlements	2,098,137	159,680	-	-	-	2,257,817
Prepaid expenses and other assets	1,540,341	1,552,898	-	-	-	3,093,239
Due from related party	43,834	-	-	124,322	(168,156)	-
Total current assets	<u>40,547,561</u>	<u>7,911,049</u>	<u>772,618</u>	<u>235,465</u>	<u>(168,156)</u>	<u>49,298,537</u>
Noncurrent Cash and Investments						
Internally designated for capital improvements	1,704,265	-	-	-	-	1,704,265
Restricted by contributors and grantors	7,532	-	566,505	-	-	574,037
	<u>1,711,797</u>	<u>-</u>	<u>566,505</u>	<u>-</u>	<u>-</u>	<u>2,278,302</u>
Capital Assets, net	<u>33,550,026</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,550,026</u>
Other Assets	<u>107,427</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(107,427)</u>	<u>-</u>
Total assets	<u>\$ 75,916,811</u>	<u>\$ 7,911,049</u>	<u>\$ 1,339,123</u>	<u>\$ 235,465</u>	<u>\$ (275,583)</u>	<u>\$ 85,126,865</u>
Liabilities and Net Position						
Current Liabilities						
Current maturities of long-term debt	\$ 540,715	\$ -	\$ -	\$ -	\$ -	\$ 540,715
Accounts payable and accrued expenses	6,507,216	7,995,570	-	2,268	-	14,505,054
Estimated third-party settlements	175,000	110,885	-	-	-	285,885
Due to related party	125,884	-	19,715	22,557	(168,156)	-
Total current liabilities	<u>7,348,815</u>	<u>8,106,455</u>	<u>19,715</u>	<u>24,825</u>	<u>(168,156)</u>	<u>15,331,654</u>
Long-Term Debt	<u>4,419,152</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,419,152</u>
Total liabilities	<u>11,767,967</u>	<u>8,106,455</u>	<u>19,715</u>	<u>24,825</u>	<u>(168,156)</u>	<u>19,750,806</u>
Net Position						
Net investment in capital assets	27,541,355	-	-	-	-	27,541,355
Restricted:						
Expendable for capital acquisitions	-	-	229,323	-	-	229,323
Expendable for specific operating activities	7,532	-	337,182	-	-	344,714
Other	-	-	-	103,213	-	103,213
Unrestricted	<u>36,599,957</u>	<u>(195,406)</u>	<u>752,903</u>	<u>107,427</u>	<u>(107,427)</u>	<u>37,157,454</u>
Total net position	<u>64,148,844</u>	<u>(195,406)</u>	<u>1,319,408</u>	<u>210,640</u>	<u>(107,427)</u>	<u>65,376,059</u>
Total liabilities and net position	<u>\$ 75,916,811</u>	<u>\$ 7,911,049</u>	<u>\$ 1,339,123</u>	<u>\$ 235,465</u>	<u>\$ (275,583)</u>	<u>\$ 85,126,865</u>

Decatur County Memorial Hospital

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Combining Balance Sheet Information

December 31, 2018

	2018				
	Hospital	LTC	Hospital Foundation	Eliminations	Total
Assets and Deferred Outflows of Resources					
Current Assets					
Cash and cash equivalents	\$ 7,357,373	\$ 2,864,949	\$ 464,463	\$ -	\$ 10,686,785
Short-term investments	16,718,290	-	123,045	-	16,841,335
Patient accounts receivable, net of allowance of Hospital - \$4,532,076; LTC - \$978,795	7,857,769	2,242,807	-	-	10,100,576
Supplies	940,396	-	-	-	940,396
Estimated third-party settlements	1,015,345	575,802	-	-	1,591,147
Prepaid expenses and other assets	1,524,322	785,805	-	-	2,310,127
Due from related party	23,301	-	-	(23,301)	-
Total current assets	35,436,796	6,469,363	587,508	(23,301)	42,470,366
Noncurrent Cash and Investments					
Internally designated for capital improvements	1,704,265	-	-	-	1,704,265
Held by trustee for debt service	951,612	-	-	-	951,612
Restricted by contributors and grantors	7,869	-	531,321	-	539,190
	2,663,746	-	531,321	-	3,195,067
Capital Assets, net					
	33,646,867	-	-	-	33,646,867
Other Assets					
	58,406	-	-	-	58,406
Total assets	71,805,815	6,469,363	1,118,829	(23,301)	79,370,706
Deferred Outflows of Resources - debt defeasance costs					
	2,597	-	-	-	2,597
Total assets and deferred outflows of resources	\$ 71,808,412	\$ 6,469,363	\$ 1,118,829	\$ (23,301)	\$ 79,373,303
Liabilities and Net Position					
Current Liabilities					
Current maturities of long-term debt	\$ 1,674,109	\$ -	\$ -	\$ -	\$ 1,674,109
Accounts payable and accrued expenses	5,932,788	6,195,617	-	-	12,128,405
Estimated third-party settlements	632,486	166,153	-	-	798,639
Due to related party	-	-	23,301	(23,301)	-
Total current liabilities	8,239,383	6,361,770	23,301	(23,301)	14,601,153
Long-Term Debt					
	5,385,566	-	-	-	5,385,566
Total liabilities	13,624,949	6,361,770	23,301	(23,301)	19,986,719
Net Position					
Net investment in capital assets	26,274,267	-	-	-	26,274,267
Restricted:					
For debt service	951,612	-	-	-	951,612
Expendable for capital acquisitions	-	-	225,573	-	225,573
Expendable for specific operating activities	7,869	-	305,748	-	313,617
Unrestricted	30,949,715	107,593	564,207	-	31,621,515
Total net position	58,183,463	107,593	1,095,528	-	59,386,584
Total liabilities and net position	\$ 71,808,412	\$ 6,469,363	\$ 1,118,829	\$ (23,301)	\$ 79,373,303

Decatur County Memorial Hospital

A Component Unit of Decatur County, Indiana

Combining Statement of Revenues, Expenses and Changes in Net Position Information Year Ended December 31, 2019

	2019					Total
	Hospital	LTC	Hospital Foundation	Pain Management	Eliminations	
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts of Hospital - \$7,724,594; LTC - \$1,398,475	\$ 60,703,627	\$ 33,381,146	\$ -	\$ 634,614	\$ -	\$ 94,719,387
Other	8,087,078	4,839,957	-	-	(130,899)	12,796,136
Total operating revenues	68,790,705	38,221,103	-	634,614	(130,899)	107,515,523
Operating Expenses						
Salaries, wages and contract labor	29,374,072	19,408,303	-	173,910	-	48,956,285
Employee benefits	6,577,100	-	-	45,043	-	6,622,143
Purchased services and professional fees	10,239,598	6,296,420	-	86,295	-	16,622,313
Medical supplies, drugs and other supplies	10,682,372	3,105,332	-	25,597	-	13,813,301
Utilities	726,956	806,405	-	-	-	1,533,361
Repairs and maintenance	2,319,491	231,421	-	-	-	2,550,912
Lease and rentals	72,755	3,715,483	-	24,096	-	3,812,334
Insurance	671,491	587,529	-	6,100	-	1,265,120
Depreciation and amortization	3,847,803	-	-	-	-	3,847,803
Other	1,213,745	3,055,241	-	17,058	-	4,286,044
Provider hospital assessment fee	2,487,441	-	-	-	-	2,487,441
Total operating expenses	68,212,824	37,206,134	-	378,099	-	105,797,057
Operating Income	577,881	1,014,969	-	256,515	(130,899)	1,718,466
Nonoperating Revenues (Expenses)						
Investment return	3,712,519	-	121,269	-	-	3,833,788
Interest expense	(185,657)	-	-	-	-	(185,657)
Noncapital grants and contributions	-	-	246,726	-	-	246,726
Noncapital appropriations - Decatur County	132,000	-	-	-	-	132,000
Other	410,670	-	(144,115)	-	-	266,555
Total nonoperating revenues (expenses)	4,069,532	-	223,880	-	-	4,293,412
Excess of Revenues Over Expenses Before Transfers	4,647,413	1,014,969	223,880	256,515	(130,899)	6,011,878
Transfers	1,317,968	(1,317,968)	-	-	-	-
Other Changes in Net Position	-	-	-	(160,396)	81,802	(78,594)
Increase (Decrease) in Net Position	5,965,381	(302,999)	223,880	96,119	(49,097)	5,933,284
Net Position, Beginning of Year, as Previously Reported	58,183,463	107,593	1,095,528	-	-	59,386,584
Cumulative Effect of Change in Accounting Principle	-	-	-	114,521	(58,330)	56,191
Net Position, Beginning of Year, as Restated	58,183,463	107,593	1,095,528	114,521	(58,330)	59,442,775
Net Position, End of Year	\$ 64,148,844	\$ (195,406)	\$ 1,319,408	\$ 210,640	\$ (107,427)	\$ 65,376,059

Decatur County Memorial Hospital

A Component Unit of Decatur County, Indiana

Combining Statement of Revenues, Expenses and Changes in Net Position Information Year Ended December 31, 2018

	2018				
	Hospital	LTC	Hospital Foundation	Eliminations	Total
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts of Hospital - \$7,247,634; LTC - \$570,786	\$ 57,858,851	\$ 24,120,631	\$ -	\$ -	\$ 81,979,482
Other	7,347,002	3,375,964	-	-	10,722,966
Total operating revenues	65,205,853	27,496,595	-	-	92,702,448
Operating Expenses					
Salaries, wages and contract labor	27,421,024	12,786,474	-	-	40,207,498
Employee benefits	6,177,071	-	-	-	6,177,071
Purchased services and professional fees	9,418,120	5,001,434	-	-	14,419,554
Medical supplies, drugs and other supplies	10,169,985	2,108,169	-	-	12,278,154
Utilities	730,073	609,738	-	-	1,339,811
Repairs and maintenance	2,542,174	146,211	-	-	2,688,385
Lease and rentals	74,215	2,497,566	-	-	2,571,781
Insurance	649,961	406,523	-	-	1,056,484
Depreciation and amortization	3,869,463	-	-	-	3,869,463
Other	1,054,059	2,584,942	-	-	3,639,001
Provider hospital assessment fee	1,460,932	-	-	-	1,460,932
Total operating expenses	63,567,077	26,141,057	-	-	89,708,134
Operating Income	1,638,776	1,355,538	-	-	2,994,314
Nonoperating Revenues (Expenses)					
Investment return	(798,598)	-	(45,969)	-	(844,567)
Interest expense	(266,086)	-	-	-	(266,086)
Noncapital grants and contributions	631,598	-	304,922	(631,848)	304,672
Noncapital appropriations - Decatur County	132,000	-	-	-	132,000
Other	436,409	-	(823,017)	631,848	245,240
Total nonoperating revenues (expenses)	135,323	-	(564,064)	-	(428,741)
Excess (Deficiency) of Revenues Over Expenses Before Transfers	1,774,099	1,355,538	(564,064)	-	2,565,573
Transfers	1,118,271	(1,118,271)	-	-	-
Increase (Decrease) in Net Position	2,892,370	237,267	(564,064)	-	2,565,573
Net Position, Beginning of Year	55,291,093	(129,674)	1,659,592	-	56,821,011
Net Position, End of Year	\$ 58,183,463	\$ 107,593	\$ 1,095,528	\$ -	\$ 59,386,584

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

Independent Auditor's Report

Board of Trustees
Decatur County Memorial Hospital
Greensburg, Indiana

We have audited, 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, the financial statements of Decatur County Memorial Hospital (Hospital), a component unit of Decatur County, Indiana, which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 29, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Indianapolis, Indiana
May 29, 2020