



STATE OF INDIANA
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December 23, 2020

Board of Trustees
Adams County Memorial Hospital
1100 Mercer Avenue, P.O. Box 151
Decatur, IN 46733

We have reviewed the audit report of Adams County Memorial Hospital which was opined upon by Somerset CPAs, Independent Public Accountants, for the period January 1, 2019 to December 31, 2019. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Adams 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, the audit report was prepared 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

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF
ADAMS COUNTY, INDIANA
Consolidated Financial Statements
December 31, 2019**

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

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Independent Auditor's Report

**To the Governing Board of the Hospital
ADAMS COUNTY MEMORIAL HOSPITAL
Decatur, Indiana**

We have audited the accompanying consolidated financial statements of ADAMS COUNTY MEMORIAL HOSPITAL (Hospital), a component unit of Adams County, Indiana, which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the consolidated 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 Hospital'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 consolidated financial statements.

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

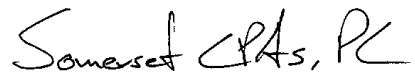


Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, a component unit of Adams County, Indiana, as of December 31, 2019, and the results of its operations, changes in its net position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

A handwritten signature in black ink that reads "Somerset CPAs, PC". The signature is written in a cursive, flowing style.

Indianapolis, Indiana
September 28, 2020

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Consolidated Balance Sheet
December 31, 2019

| | Primary Government | Discrete Component Unit | Total Reporting Entity |
|--|-------------------------------|--|---------------------------------------|
| Assets and Deferred Outflows | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 57,004,372 | \$ 369,753 | \$ 57,374,125 |
| Patient accounts receivable, net of estimated allowance for uncollectible accounts of \$25,261,752 | 35,958,451 | - | 35,958,451 |
| Supplies and other current assets | 4,550,389 | 7,098 | 4,557,487 |
| Total Current Assets | 97,513,212 | 376,851 | 97,890,063 |
| Investments | 24,883,015 | - | 24,883,015 |
| Cash Held by Trustee for Debt Service | 4,692,669 | - | 4,692,669 |
| Capital Assets | | | |
| Land and construction in progress | 4,607,151 | - | 4,607,151 |
| Depreciable capital assets, net | 54,040,890 | - | 54,040,890 |
| Total Capital Assets, Net | 58,648,041 | - | 58,648,041 |
| Other Assets | | | |
| Pension asset | 7,352,202 | - | 7,352,202 |
| Other | 1,208,201 | - | 1,208,201 |
| Total Other Assets | 8,560,403 | - | 8,560,403 |
| Total Assets | 194,297,340 | 376,851 | 194,674,191 |
| Deferred Outflows | | | |
| Deferred loss on bond refunding | 691,706 | - | 691,706 |
| Pension deferred outflows | 135,198 | - | 135,198 |
| Total Deferred Outflows | 826,904 | - | 826,904 |
| Total Assets and Deferred Outflows | \$ 195,124,244 | \$ 376,851 | \$ 195,501,095 |

See accompanying notes.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Consolidated Balance Sheet (Continued)
December 31, 2019

| | Primary Government | Discrete Component Unit | Total Reporting Entity |
|---|-------------------------------|--|---------------------------------------|
| Liabilities, Deferred Inflows and Net Position | | | |
| Current Liabilities | | | |
| Current maturities of long-term debt | \$ 1,536,895 | \$ - | \$ 1,536,895 |
| Accounts payable and accrued expenses | 66,558,021 | 7,098 | 66,565,119 |
| Estimated third-party settlements | 1,575,527 | - | 1,575,527 |
| Other current liabilities | 1,131,317 | - | 1,131,317 |
| Total Current Liabilities | <u>70,801,760</u> | <u>7,098</u> | <u>70,808,858</u> |
| Long-term Liabilities | | | |
| Long-term debt, less current maturities | 25,550,818 | - | 25,550,818 |
| Other long-term liabilities | 1,059,430 | - | 1,059,430 |
| Total Long-term Liabilities | <u>26,610,248</u> | <u>-</u> | <u>26,610,248</u> |
| Total Liabilities | 97,412,008 | 7,098 | 97,419,106 |
| Pension Deferred Inflows | | | |
| Total Liabilities and Deferred Inflows | <u>98,671,969</u> | <u>7,098</u> | <u>98,679,067</u> |
| Net Position | | | |
| Net investment in capital assets | 31,640,328 | - | 31,640,328 |
| Restricted for debt service | 4,692,669 | - | 4,692,669 |
| Unrestricted | 60,119,278 | 369,753 | 60,489,031 |
| Total Net Position | <u>96,452,275</u> | <u>369,753</u> | <u>96,822,028</u> |
| Total Liabilities, Deferred Inflows and Net Position | <u>\$ 195,124,244</u> | <u>\$ 376,851</u> | <u>\$ 195,501,095</u> |

See accompanying notes.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Consolidated Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2019

| | Primary Government | Discrete Component Unit | Total Reporting Entity |
|--|-------------------------------|--|---------------------------------------|
| Operating Revenues | | | |
| Net patient service revenue | \$ 302,294,933 | \$ - | \$ 302,294,933 |
| Other operating revenue | 3,704,540 | - | 3,704,540 |
| Total Operating Revenues | 305,999,473 | - | 305,999,473 |
| Operating Expenses | | | |
| Salaries, wages, benefits and contracted payroll | 182,364,065 | - | 182,364,065 |
| Supplies | 29,132,165 | - | 29,132,165 |
| Insurance | 6,572,195 | - | 6,572,195 |
| Facility and equipment leases | 14,582,756 | - | 14,582,756 |
| Utilities | 6,317,071 | - | 6,317,071 |
| Contracted services | 30,476,765 | - | 30,476,765 |
| Depreciation and amortization | 6,003,553 | - | 6,003,553 |
| Other expenses | 34,134,986 | 105,476 | 34,240,462 |
| Total Operating Expenses | 309,583,556 | 105,476 | 309,689,032 |
| Operating Loss | (3,584,083) | (105,476) | (3,689,559) |
| Nonoperating Revenues (Expenses) | | | |
| Investment return | 3,776,759 | 5,748 | 3,782,507 |
| Interest expense | (1,060,559) | - | (1,060,559) |
| Other nonoperating expenses | (173,675) | - | (173,675) |
| Total Nonoperating Revenues (Expenses) | 2,542,525 | 5,748 | 2,548,273 |
| Excess of Expense over Revenues Before Capital Grants and Contributions | | | |
| | (1,041,558) | (99,728) | (1,141,286) |
| Capital Grants and Contributions | 1,486,649 | 261,574 | 1,748,223 |
| Increase in Net Position | 445,091 | 161,846 | 606,937 |
| Net Position, Beginning of Year | 96,007,184 | 207,907 | 96,215,091 |
| Net Position, End of Year | \$ 96,452,275 | \$ 369,753 | \$ 96,822,028 |

See accompanying notes.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2019

| | Primary Government | Discrete Component Unit | Total |
|---|-------------------------------|--|----------------------|
| Operating Activities | | | |
| Receipts from and on behalf of patients | \$ 304,784,770 | \$ - | \$ 304,784,770 |
| Payments to suppliers and contractors | (112,025,161) | (105,476) | (112,130,637) |
| Payments to employees | (182,498,018) | - | (182,498,018) |
| Other receipts, net | 3,648,493 | - | 3,648,493 |
| Net cash provided by (used in) operating activities | 13,910,084 | (105,476) | 13,804,608 |
| Capital and Related Financing Activities | | | |
| Capital grants and contributions | 1,486,649 | 261,574 | 1,748,223 |
| Net payments on line of credit | (170,000) | - | (170,000) |
| Principal paid on long-term debt | (1,484,452) | - | (1,484,452) |
| Interest paid on long-term debt | (1,148,704) | - | (1,148,704) |
| Acquisition and construction of capital assets | (9,607,946) | - | (9,607,946) |
| Net cash provided by (used in) capital and related financing activities | (10,924,453) | 261,574 | (10,662,879) |
| Cash Flows from Investing Activities | | | |
| Investment return | 3,776,759 | 5,748 | 3,782,507 |
| Sale of investments | 2,050,000 | - | 2,050,000 |
| Purchase of investments | (12,835,535) | - | (12,835,535) |
| Net cash provided by (used in) investing activities | (7,008,776) | 5,748 | (7,003,028) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (4,023,145) | 161,846 | (3,861,299) |
| Cash and Cash Equivalents, Beginning of Year | 65,720,186 | 207,907 | 65,928,093 |
| Cash and Cash Equivalents, End of Year | \$ 61,697,041 | \$ 369,753 | \$ 62,066,794 |
| Reconciliation of Cash and Cash Equivalents to the Balance Sheet | | | |
| Cash and cash equivalents in current assets | \$ 57,004,372 | \$ 369,753 | \$ 57,374,125 |
| Restricted cash and cash equivalents | 4,692,669 | - | 4,692,669 |
| Total Cash and Cash Equivalents | \$ 61,697,041 | \$ 369,753 | \$ 62,066,794 |

See accompanying notes.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Consolidated Statement of Cash Flows (Continued)
For the Year Ended December 31, 2019

| | Primary Government | Discrete Component Unit | Total |
|---|-------------------------------|--|----------------------|
| Reconciliation of Operating Loss to Net Cash Provided by (Used In) Operating Activities | | | |
| Operating loss | \$ (3,584,083) | \$ (105,476) | \$ (3,689,559) |
| Adjustments to reconcile operating loss to net cash flows provided by (used in) operating activities: | | | |
| Depreciation and amortization | 6,003,553 | - | 6,003,553 |
| Loss on disposal of capital assets | 287,331 | - | 287,331 |
| Provision for uncollectible accounts | (3,542,679) | - | (3,542,679) |
| Changes in operating assets and liabilities: | | | |
| Patient accounts receivable | 6,032,516 | - | 6,032,516 |
| Supplies and other current assets | 1,946,348 | - | 1,946,348 |
| Other assets related to operating activities | (579,102) | - | (579,102) |
| Accounts payable and accrued expenses | 6,793,181 | - | 6,793,181 |
| Other current liabilities | (770,634) | - | (770,634) |
| Estimated third-party settlements | 502,405 | - | 502,405 |
| Other liabilities related to operating activities | 821,248 | - | 821,248 |
| Net cash provided by (used in) operating activities | <u>\$ 13,910,084</u> | <u>\$ (105,476)</u> | <u>\$ 13,804,608</u> |

See accompanying notes.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2019

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

Nature of Operations and Reporting Entity

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

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

The Hospital also operates Adams Woodcrest, a Continuing Care Retirement Community (CCRC), consisting of Woodcrest Nursing Center, a 143-bed nursing facility; Adams Evergreen Assisted Living, a 34-apartment assisted living community; Woodcrest Independent Living with 42 villas and 32 apartments. Subsequent to year-end, Woodcrest Assisted Living finalized a construction project that increased the number of available units to 58. The Hospital also operates Adams Heritage, a 61-bed nursing facility. Health Network is a financial entity created to accumulate and then assign shared costs to each of the six aforementioned entities. Adams Health Network also performs certain administrative functions for all entities. The Hospital leases certain office buildings to multiple independent physicians. In addition, the Hospital employs and operates family medical practices, general surgical practices, pain management practices, neurological practices and an orthopedic surgery practice as departments of the Hospital. Multiple physician offices are designated as Rural Health Clinics.

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

Long-term Care Operations

The Hospital owns the operations of multiple long-term care facilities by way of arrangements with the Managers of the facilities. These facilities provide nursing and therapy services. Gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the Managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2019

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued):

Long-term Care Operations (Continued)

As part of the agreements entered into, the Hospital pays the Managers a management fee which consists of base management fees, subordinated management fees and incentive payments. The agreements expire at various times through 2022.

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

Discretely Presented Component Unit

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

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

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Use of Estimates

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

Cash and Cash Equivalents

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2019

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued):

Investments

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

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

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

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

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

Assets Whose Use is Limited

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

Supplies

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

Capital Assets and Depreciation

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at historical cost. Contributed or donated assets are reported at estimated fair value at the time received.

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2019**

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued):

Capital Assets and Depreciation (Continued)

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

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

| <u>Description</u> | <u>Range of Useful Lives</u> |
|--------------------------|----------------------------------|
| Land improvements | 3 - 40 years |
| Buildings | 5 - 40 years |
| Fixed equipment | 3 - 29 years |
| Major moveable equipment | 3 - 23 years |

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

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

Deferred Outflows and Inflows of Resources

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

Pension

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2019

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued):

Compensated Absences

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

Net Position

Net assets of the Hospital are classified in three components:

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

Restricted expendable and nonexpendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, contributors or enabling legislation external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 8.

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

Patient Accounts Receivable and Net Patient Service Revenues

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

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2019

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued):

Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay for services provided by the Hospital. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the Hospital does not expect payment, estimated charges for charity are not included in revenue. Charges excluded from revenue under the Hospital's charity care policy were approximately \$303,000 for the year ended December 31, 2019.

Grants and Contributions

From time to time, the Hospital receives grants from Adams County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Endowments

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

Restricted Resources

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

Operating Revenues and Expenses

The Hospital's Consolidated Statement of Revenues, Expenses and Changes in Net Position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonoperating revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2019

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued):

Income Taxes

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

The Foundation is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax. The Foundation has filed its federal and state income tax returns for periods through December 31, 2019. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Advertising and Community Relations

The Hospital records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was approximately \$436,000 for the year ended December 31, 2019.

Medical Malpractice Claims

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

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

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

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Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued):

Future Change in Accounting Principle

In January 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governmental entities. The focus of the criteria generally is on (1) whether a governmental entity is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. As a result, pension and other postemployment benefit plans (both defined contribution plans and defined benefit plans) should now be reported within the statement of fiduciary net position and statement of changes in fiduciary net position of the governmental entity. GASB Statement No. 84 will be effective for periods beginning after December 15, 2019.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB Statement No. 87 will be effective for periods beginning after June 15, 2021.

In March 2018, GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. GASB Statement No. 88 will be effective for periods beginning after June 15, 2019.

In June 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB Statement No. 89 will be effective for periods beginning after December 15, 2020.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61*, which clarifies the financial reporting for majority owned equity interests in the financial statements of entities that hold such interests. GASB Statement No. 90 will be effective for periods beginning after December 15, 2019.

The Hospital is presently evaluating the impact of these standards on its future consolidated financial statements, including related disclosures.

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Note 2 - Net Patient Service Revenue:

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the payment arrangements with major third-party payors follows.

Medicare

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

Medicaid

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

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

Revenue from the Medicare and Medicaid programs accounted for approximately 50% and 11%, respectively, of the Hospital's net patient revenue for the year ended December 31, 2019. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Other Payors

The Hospital also has entered into payment agreements with certain commercial insurance carriers, HMOs and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates. Revenue from a certain commercial insurance carrier accounted for 13% of the Hospital's net patient revenue for the year ended December 31, 2019.

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Note 2 - Net Patient Service Revenue (Continued):

Other Payors (Continued)

The following is a summary of net patient service revenue for 2019:

| | |
|---------------------------|-----------------------|
| Patient service revenue | |
| Inpatient | \$ 23,429,950 |
| Outpatient | 90,941,731 |
| Long-term care operations | <u>286,432,183</u> |
| | <u>400,803,864</u> |
| Deductions from revenue | |
| Contractual allowances | 88,180,226 |
| Provision for bad debts | 10,026,257 |
| Charity care | <u>302,448</u> |
| | <u>98,508,931</u> |
| | <u>\$ 302,294,933</u> |

Note 3 - Deposits and Investments:

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

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

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

- Any interest bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.
- Repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective.

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Note 3 - Deposits and Investments (Continued):

- Mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.
- Securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.
- Pooled fund investments for participating hospitals offered, managed and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

As of December 31, 2019, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

| | Investment Maturities (in years) | | | | |
|--------------------|---|------------------------|-------------|-------------|-------------------------|
| | Carrying Amount | Less than 1 | 1-5 | 6-10 | More than 10 |
| Money market funds | 294,032 | 294,032 | - | - | - |
| Mutual funds | 23,802,959 | 23,802,959 | - | - | - |
| Common stock | 786,024 | 786,024 | - | - | - |
| | \$ 24,883,015 | \$ 24,883,015 | \$ - | \$ - | \$ - |

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

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

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

Investment return for the year ended December 31, 2019, is summarized as follows:

| | |
|---|---------------------|
| Net increase in fair value of investments | \$ 1,863,268 |
| Interest and dividends | 1,913,491 |
| Total investment return | \$ 3,776,759 |

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Note 4 - Fair Value Measurements:

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset of liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2019.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2019.

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

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Note 4 - Fair Value Measurements (Continued):

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2019, are as follows:

| | Total Fair Value at December 31, 2019 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--------------------|--|---|--|--|
| Mutual funds: | | | | |
| Equities | \$ 20,462,378 | \$ 20,462,378 | \$ - | \$ - |
| Fixed income | 3,340,581 | 3,340,581 | - | - |
| Common stock: | | | | |
| Finance | 786,024 | 786,024 | - | - |
| Money market funds | 294,032 | - | 294,032 | - |
| Total investments | <u>\$ 24,883,015</u> | <u>\$ 24,588,983</u> | <u>\$ 294,032</u> | <u>\$ -</u> |

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

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

Long-term debt: The fair value of the Hospital's fixed rate debt (including capital lease obligations) is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2019, the carrying value of the fixed rate long-term debt approximated its fair value.

Realized gains and losses are reported in the statement of revenues, expenses and changes in net position as a component of investment return. Differences between market value and cost of investments are classified as unrealized gains or losses. Unrealized gains or losses are included in earnings for the period attributable to the change in unrealized gains relating to assets held as of December 31, 2019, and are reported in the statement revenues, expenses and changes in net position in investment return. The unrealized gains approximated \$1,863,000 for 2019.

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Note 4 - Fair Value Measurements (Continued):

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

Note 5 - Patient Accounts Receivable:

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2019, consisted of these amounts:

| | |
|---|-----------------------------|
| Medicare | \$ 14,355,651 |
| Medicaid | 18,378,244 |
| Other third-party payors | 9,892,413 |
| Private pay | <u>18,593,895</u> |
| | 61,220,203 |
| Less allowance for uncollectible accounts | <u>25,261,752</u> |
| Patient accounts receivable, net | <u><u>\$ 35,958,451</u></u> |

Note 6 - Internally Designated Assets:

Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes. There were internally designated assets set aside by the Hospital Board of Trustees to be used solely for capital purchases of approximately \$1,905,000 at December 31, 2019.

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Note 7 - Capital Assets:

Primary government capital asset activity for the year ended December 31, 2019, was as follows:

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|---------------------------------------|------------------------------|---------------------|-------------------|------------------|---------------------------|
| Capital Assets, not being depreciated | | | | | |
| Land | \$ 818,750 | \$ - | \$ - | \$ - | \$ 818,750 |
| Construction in progress | 12,361,270 | 8,486,927 | - | (17,059,796) | 3,788,401 |
| Leasehold improvements | 5,617,666 | 708,412 | 154,585 | 1,283,288 | 7,454,781 |
| Buildings | 59,785,906 | - | - | 8,350,957 | 68,136,863 |
| Fixed equipment | 6,613,038 | - | - | 5,719,189 | 12,332,227 |
| Major movable equipment | 24,860,153 | 380,124 | 413,286 | 1,706,362 | 26,533,353 |
| Clinic | 4,786,098 | 32,483 | 6,887 | - | 4,811,694 |
| Total Capital Assets | 114,842,881 | 9,607,946 | 574,758 | - | 123,876,069 |
| | | | | | |
| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Less accumulated depreciation for: | | | | | |
| Leasehold improvements | 2,835,591 | 371,448 | 18,763 | - | 3,188,276 |
| Buildings | 32,666,984 | 2,543,285 | - | - | 35,210,269 |
| Fixed equipment | 3,825,974 | 767,937 | - | - | 4,593,911 |
| Major movable equipment | 17,054,984 | 2,221,126 | 261,777 | - | 19,014,333 |
| Clinic | 3,128,369 | 99,757 | 6,887 | - | 3,221,239 |
| Total Accumulated Depreciation | 59,511,902 | 6,003,553 | 287,427 | - | 65,228,028 |
| Total Capital Assets, Net | \$ 55,330,979 | \$ 3,604,393 | \$ 287,331 | \$ - | \$ 58,648,041 |

Note 8 - Long-term Obligations:

Primary government long-term obligation activity for the year ended December 31, 2019, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---------------------------|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| Revenue Bonds | | | | | |
| Series 2012 | \$ 27,719,019 | \$ - | \$ 1,360,416 | \$ 26,358,603 | \$ 1,416,287 |
| Loans payable | 145,000 | - | 65,000 | 80,000 | 80,000 |
| Capital lease obligations | 99,644 | - | 59,036 | 40,608 | 40,608 |
| | 27,963,663 | \$ - | \$ 1,484,452 | 26,479,211 | \$ 1,536,895 |
| Unamortized bond premium | 696,647 | | | 608,502 | |
| | \$ 28,660,310 | | | \$ 27,087,713 | |

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Note 8 - Long-term Obligations (Continued):

Revenue Bonds Payable

In October 2012, the Hospital participated in the issuance of \$34,710,000 Lease Rental Revenue Refunding Bonds, Series 2012 (Series 2012). On March 31, 2013, the First Supplemental Trust Indenture was entered into and the agreement amended the principal balance, interest rates and maturity dates of the original indenture of the Series 2012 Bonds. As amended, the Series 2012 bonds bear interest at rates ranging from 2.0% to 5.0% annually. Interest on the Series 2012 Bonds shall be payable on February 1 and August 1 of each year, commencing on February 1, 2013. The Series 2012 Bonds require annual principal payments on January 15 of each year beginning in 2014 in amounts ranging from \$1,165,000 to \$2,600,000 through January 2033. The Series 2012 Bonds payable on or after January 15, 2023, may be optionally redeemed prior to maturity at the option of the Hospital in whole or in part in any order of maturity selected by the Hospital and by lots within maturities, on any date not earlier than January 15, 2022, at face value plus interest accrued to the date fixed for redemption and without any redemption premium, provided notice has been given to the registered owners of all the Series 2012 Bonds to be redeemed.

The original proceeds of the Series 2012 Bonds were used for the advanced refunding of the Series 2003 Bonds in 2012.

The Trust Indenture requires certain funds be established with the trustee. Accordingly, these funds are included as assets under the caption Held by Trustee for Debt Service in the Hospital's Consolidated Balance Sheet at December 31, 2019.

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

Loans Payable

In 2013, the Hospital entered into a \$150,300 note payable which was utilized for leasehold improvements for one of the Hospital's leased nursing home facilities as discussed in Note 1. The note is payable monthly through with annual interest at 2.00% and amounted to \$80,000 at December 31, 2019. The note was due in July 2018. The due date was extended indefinitely. The note is due on demand.

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Note 8 - Long-term Obligations (Continued):

Loans Payable (Continued)

Aggregate maturities of long-term debt are as follows:

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|----------------------|---------------------|----------------------|
| 2020 | \$ 1,536,895 | \$ 834,560 | \$ 2,371,455 |
| 2021 | 1,471,239 | 790,853 | 2,262,092 |
| 2022 | 1,548,293 | 746,716 | 2,295,009 |
| 2022 - 2026 | 8,857,746 | 700,267 | 9,558,013 |
| 2027 - 2031 | 10,465,038 | 434,535 | 10,899,573 |
| Thereafter | 2,600,000 | 120,584 | 2,720,584 |
| | <u>\$ 26,479,211</u> | <u>\$ 3,627,514</u> | <u>\$ 30,106,725</u> |

Note 9 - Restricted Net Assets:

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

| | |
|-----------------------|--------------|
| Hospital debt service | \$ 4,692,669 |
|-----------------------|--------------|

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

Restricted nonexpendable net assets represent principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Hospital's permanent endowments are expendable to support programs as established by the contributor. There are no restricted nonexpendable net assets as of December 31, 2019.

Note 10 - Risk Management:

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

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

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Note 10 - Risk Management (Continued):

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

Note 11 - Medical Benefits to Employees:

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

Claim expenditures and liabilities associated with the medical procedures that are provided by the Hospital are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

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

| | | |
|--|----|------------------|
| Balance, beginning of year | \$ | - |
| Current year claims incurred and changes in estimates for claims incurred in prior years | | 2,754,405 |
| Claims and expenses paid | | <u>2,754,405</u> |
| Balance, end of year | \$ | <u><u>-</u></u> |

The Hospital also maintains a partially self-funded workers' compensation insurance program. Under the insurance policy, the Hospital's self-funded liability is limited to \$100,000 per incident. In 2019, no individual incident exceeded the liability limit.

Note 12 - Contingent Liabilities:

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

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Note 13 - Defined Contribution Retirement Plan:

The Hospital has a defined contribution plan which is administered by the Hospital and the Hospital's Retirement Committee. The defined contribution plan covers all employees who meet the eligibility requirements set forth in the plan. Contributions are made at management's discretion and are allocated based upon each participant's eligible compensation. Eligible employees are not required to contribute to the plan. Amendments to the plan provisions may be changed at the discretion of the Hospital's Retirement Committee and approval of the Hospital's governing body. The Hospital's contribution amounted to approximately \$1,019,000 or 3% of the plan's participants' eligible compensation for the year ended December 31, 2019.

Note 14 - Pension Plan:

Plan Description

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

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

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

Benefits Provided

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

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

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

**ADAMS COUNTY MEMORIAL HOSPITAL
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Note 14 - Pension Plan (Continued):

Funding Policy

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

Employees Covered by Benefit Terms

As of December 31, 2019, the following employees were covered by the benefit terms:

| | |
|---|-----|
| Inactive plan members or beneficiaries currently receiving benefits | 91 |
| Inactive plan members entitled to but not yet receiving benefits | 94 |
| Active plan members | 197 |
| | 382 |

Contributions

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

Net Pension Asset

The Hospital's net pension asset was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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Note 14 - Pension Plan (Continued):

Net Pension Liability

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

| <u>Asset Class</u> | <u>Target Allocation</u> |
|----------------------|------------------------------|
| Fixed income | 30.4% |
| Domestic equity | 63.6% |
| International equity | <u>6.0%</u> |
| Total | <u><u>100%</u></u> |

Discount Rate

The discount rate used to measure the total pension liability was 7.0% for 2019. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will continue to follow the current funding policy. Based on those assumptions, the pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension (Asset) Liability

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

| | <u>1% Decrease (6%)</u> | <u>Current Discount Rate (7%)</u> | <u>1% Increase (8%)</u> |
|----------------------------------|-----------------------------|---------------------------------------|-----------------------------|
| Hospital's net pension liability | \$ (5,896,245) | \$ (7,352,202) | \$ (8,584,091) |

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Note 14 - Pension Plan (Continued):

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

Changes in the Net Pension Liability

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension (Asset) Liability |
|--|--|--|--|
| Balances, beginning of year | \$ 11,466,013 | \$ 17,493,119 | \$ (6,027,106) |
| Changes during the year | | | |
| Service cost | 87,322 | - | 87,322 |
| Interest | 787,750 | - | 787,750 |
| Benefit change | 920,168 | - | 920,168 |
| Difference between expected and actual experience | 189,158 | - | 189,158 |
| Changes of assumptions | 75,968 | - | 75,968 |
| Benefit payments, including refunds of member contributions | (609,836) | (609,836) | - |
| Contributions - employer | - | - | - |
| Net investment income | - | 3,385,462 | (3,385,462) |
| Net Change | <u>1,450,530</u> | <u>2,775,626</u> | <u>(1,325,096)</u> |
| Balances, end of year | <u>\$ 12,916,543</u> | <u>\$ 20,268,745</u> | <u>\$ (7,352,202)</u> |

As of December 31, 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Balance, beginning of year | \$ 837,435 | \$ (193,123) |
| Differences between expected and actual experience | (702,237) | - |
| Changes in assumptions | - | 256,807 |
| Net difference between projected and actual earnings on pension plan assets | - | <u>1,196,277</u> |
| Balance, end of year | <u>\$ 135,198</u> | <u>\$ 1,259,961</u> |

ADAMS COUNTY MEMORIAL HOSPITAL
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Note 14 - Pension Plan (Continued):

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

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

| <u>Year Ending December 31,</u> | |
|---------------------------------|----------------|
| 2020 | \$ (322,468) |
| 2021 | (330,741) |
| 2022 | (101,665) |
| 2023 | (397,843) |
| Thereafter | 27,954 |
| | <hr/> |
| | \$ (1,124,763) |
| | <hr/> <hr/> |

Note 15 - Operating Leases:

The Hospital has leases for facilities and equipment expiring at various times through 2032. Total lease expense for 2019 was approximately \$14,400.

Future minimum commitments under these agreements are as follows at December 31, 2019:

| <u>Year Ending December 31,</u> | <u>Facilities</u> |
|---------------------------------|-------------------|
| 2020 | \$ 14,400 |
| 2021 | 14,400 |
| 2022 | 14,400 |
| 2023 | 14,400 |
| 2024 | 14,400 |
| Later Years | 116,400 |
| | <hr/> |
| | \$ 188,400 |
| | <hr/> <hr/> |

Lease expense for facilities and equipment under the long-term care agreements discussed in Note 1 was approximately \$14,583,000 for 2019.

Note 16 - Management Evaluation of Subsequent Events:

The Hospital evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued which is September 28, 2020.

ADAMS COUNTY MEMORIAL HOSPITAL
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Note 16 - Management Evaluation of Subsequent Events (Continued):

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

On September 1, 2020, the Hospital entered into a management, lease and intangible agreement to lease the operations of a skilled nursing facility. While the management of the facility is managed with an independent third party, the operations will be included in the Hospital's 2020 financial statements.



Independent Auditor's Report on the Supplementary Information

**To the Governing Board of the Hospital
ADAMS COUNTY MEMORIAL HOSPITAL
Decatur, Indiana**

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

Somerset CPAs, PC

Indianapolis, Indiana
September 28, 2020



ADAMS COUNTY MEMORIAL HOSPITAL
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Required Supplementary Information
December 31, 2019

**SCHEDULE OF CHANGES IN THE HOSPITAL'S NET PENSION
(ASSET) LIABILITY AND RELATED RATIOS**

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Total pension liability | | | | | |
| Service cost | \$ 87,322 | \$ 94,325 | \$ 94,828 | \$ 113,601 | \$ 129,468 |
| Interest | 787,750 | 772,231 | 760,964 | 761,248 | 756,271 |
| Benefit changes | 920,168 | - | - | - | - |
| Difference between expected and actual experience | 189,158 | 1,937 | (29,907) | (45,337) | 41,316 |
| Changes of assumptions | 75,968 | (18,581) | (47,965) | (150,907) | (70,760) |
| Benefit payments | (609,836) | (632,193) | (601,244) | (724,467) | (812,698) |
| Net change in total pension liability | <u>1,450,530</u> | <u>217,719</u> | <u>176,676</u> | <u>(45,862)</u> | <u>43,597</u> |
| Total pension liability - beginning | <u>11,466,013</u> | <u>11,248,294</u> | <u>11,071,618</u> | <u>11,117,480</u> | <u>11,073,883</u> |
| Total pension liability - ending (a) | <u>\$ 12,916,543</u> | <u>\$ 11,466,013</u> | <u>\$ 11,248,294</u> | <u>\$ 11,071,618</u> | <u>\$ 11,117,480</u> |
| Plan fiduciary net position | | | | | |
| Employer contributions | \$ - | \$ - | \$ - | \$ - | \$ - |
| Net investment income | 3,385,462 | (379,815) | 2,284,495 | 1,085,941 | 287,314 |
| Benefit payments | (609,836) | (632,193) | (601,244) | (724,467) | (812,698) |
| Administrative expenses | - | - | - | - | - |
| Other | - | - | - | - | - |
| Net change in plan fiduciary net position | <u>2,775,626</u> | <u>(1,012,008)</u> | <u>1,683,251</u> | <u>361,474</u> | <u>(525,384)</u> |
| Plan fiduciary net position - beginning | <u>17,493,119</u> | <u>18,505,127</u> | <u>16,821,876</u> | <u>16,460,402</u> | <u>16,985,786</u> |
| Plan fiduciary net position - ending (b) | <u>\$ 20,268,745</u> | <u>\$ 17,493,119</u> | <u>\$ 18,505,127</u> | <u>\$ 16,821,876</u> | <u>\$ 16,460,402</u> |
| Hospital net pension (asset) liability - ending (a) - (b) | <u>\$ (7,352,202)</u> | <u>\$ (6,027,106)</u> | <u>\$ (7,256,833)</u> | <u>\$ (5,750,258)</u> | <u>\$ (5,342,922)</u> |
| Plan fiduciary net position as a percentage of the total net pension liability | 156.92% | 152.56% | 164.51% | 151.94% | 148.06% |
| Covered-employee payroll | \$ 10,997,416 | \$ 12,295,598 | \$ 12,026,827 | \$ 11,760,300 | \$ 13,040,205 |
| Hospital net pension (asset) liability as a percentage of covered-employee payroll | -66.85% | -49.02% | -60.34% | -48.90% | -40.97% |

* The schedule is presented to illustrate the requirement the show information for 10 years. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available.

**ADAMS COUNTY MEMORIAL HOSPITAL
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Required Supplementary Information
December 31, 2019**

SCHEDULE OF HOSPITAL CONTRIBUTIONS

| | Actuarial Determined Contribution | Employer Contributions | Contribution Deficiency (Excess) | Covered Employee Payroll | Contributions as a % of Covered Employee Payroll |
|------------|--|-----------------------------------|---|---|---|
| 12/31/2019 | \$ - | \$ - | \$ - | \$ 10,997,416 | 0.00% |
| 12/31/2018 | - | - | - | 12,295,598 | 0.00% |
| 12/31/2017 | - | - | - | 12,026,827 | 0.00% |
| 12/31/2016 | - | - | - | 11,760,300 | 0.00% |
| 12/31/2015 | - | - | - | 13,040,205 | 0.00% |

Notes to Schedule

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

Methods and assumptions used to determine contribution rates:

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