



FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2022 AND 2021

CPAs / ADVISORS



MAJOR HEALTH PARTNERS

TABLE OF CONTENTS DECEMBER 31, 2022 AND 2021

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management’s Discussion and Analysis (Unaudited).....	MDA - i
Financial Statements	
Statements of Net Position.....	4
Statements of Revenues, Expenses and Changes in Net Position.....	6
Statements of Cash Flows	7
Notes to Financial Statements	9
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36



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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Major Health Partners
Shelbyville, Indiana

Opinion

We have audited the accompanying financial statements of Major Health Partners (MHP), a component unit of Shelby County, which comprise the statements of net position as of December 31, 2022 and 2021, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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.

Board of Trustees
Major Health Partners
Shelbyville, Indiana

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated DATE, on our consideration of MHP'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 MHP'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 MHP's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
May 30, 2023

REQUIRED SUPPLEMENTARY INFORMATION

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

This section of Major Health Partners' (MHP) annual financial statements presents background information and management's discussion and analysis (MD&A) of MHP's financial performance. This MD&A does include a discussion and analysis of the activities and results of MHP which consists of Major Hospital (the Hospital) and its blended component units, MedWorks, Inc. (MedWorks), Major Medical Group, LLC, and Major Hospital Foundation. Please read it in conjunction with MHP's financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- MHP reported a decrease in net position for 2022 of approximately \$17.2 million compared to a positive change in net position of approximately \$62.3 million in 2021, representing a decrease of approximately \$79.5 million in comparison to the 2021 results. The decrease was primarily the result of investment declines.
- MHP spent approximately \$18.6 million on equipment and capital projects in 2022.
- Liabilities increased approximately \$31.6 million primarily due to an increase in the line of credit.

USING THIS ANNUAL REPORT

MHP's financial statements consist of three statements – a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the activities and the financial position of MHP.

The statement of net position includes all of MHP's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to MHP creditors (liabilities).

All of the current year's revenue earned and expenses incurred are accounted for in the statement of revenues, expenses and changes in net position.

Finally, the statement of cash flows' purpose is to provide information about MHP's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and the change in the cash balance during the year.

THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statement of net position and the statement of revenues, expenses and changes in net position report information about MHP's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the economic resources measurement focus and on the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

These statements report MHP's net position and changes in them. Think of MHP's net position—the difference between assets, deferred outflows and liabilities—as one way to measure MHP's financial health, or financial position. Over time, increases or decreases in MHP's net position are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in MHP's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of MHP.

Table 1: Statements of Net Position

The significant changes in MHP's assets in 2022 resulted from an increase in assets whose use is limited of approximately \$7.2 million. Assets whose use is limited increased primarily due to purchases during the current year. Total liabilities increased in 2022 by approximately \$31.6 million in comparison to 2021. The increase is primarily attributable to the line of credit.

	2022	2021	Change 2022 - 2021	2020	Change 2021 - 2020
Assets					
Current assets	\$ 159,226,577	\$ 155,007,966	\$ 4,218,611	\$ 169,767,644	\$ (14,759,678)
Assets whose use is limited, net	383,382,793	376,169,029	7,213,764	279,412,098	96,756,931
Capital assets, net	165,196,248	160,099,475	5,096,773	157,022,601	3,076,874
Other assets, net	7,145,222	7,588,102	(442,880)	7,389,547	198,555
Total assets	<u>714,950,840</u>	<u>698,864,572</u>	<u>16,086,268</u>	<u>613,591,890</u>	<u>85,272,682</u>
Deferred outflows - Loss on debt refunding	1,346,282	2,961,820.00	(1,615,538)	4,577,358.00	(1,615,538.00)
Total assets and deferred outflows	<u>\$ 716,297,122</u>	<u>\$ 701,826,392</u>	<u>\$ 14,470,730</u>	<u>\$ 618,169,248</u>	<u>\$ 83,657,144</u>
Liabilities					
Current liabilities	\$ 256,107,707	\$ 217,618,752	\$ 38,488,955	\$ 193,975,673	\$ 23,643,079
Other liabilities	3,042,418	3,446,604	(404,186)	2,792,482	654,122
Long term debt, net	88,263,531	94,703,621	(6,440,090)	97,639,051	(2,935,430)
Total liabilities	<u>347,413,656</u>	<u>315,768,977</u>	<u>31,644,679</u>	<u>294,407,206</u>	<u>21,361,771</u>
Net position					
Net investment in capital assets	72,687,717	62,460,424	10,227,293	56,768,948	5,691,476
Restricted	4,500,532	5,226,515	(725,983)	4,096,558	1,129,957
Unrestricted	291,695,217	318,370,476	(26,675,259)	262,896,536	55,473,940
Total net position	<u>368,883,466</u>	<u>386,057,415</u>	<u>(17,173,949)</u>	<u>323,762,042</u>	<u>62,295,373</u>
Total liabilities and net position	<u>\$ 716,297,122</u>	<u>\$ 701,826,392</u>	<u>\$ 14,470,730</u>	<u>\$ 618,169,248</u>	<u>\$ 83,657,144</u>

The significant changes in MHP's assets in 2021 resulted from an increase in assets whose use is limited of approximately \$96.8 million. Assets whose use is limited increased primarily as a result of market performance during 2021. Total liabilities increased in 2021 by approximately \$21.4 million in comparison to 2020. The increase is attributable to an increase in estimated third-party settlements and the line of credit.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

Table 2: Statements of Revenues, Expenses and Changes in Net Position

MHP's performance in 2022 showed a negative return on equity of 4.7% compared to positive return of 16.14% in 2021. Total operating revenue increased approximately \$33.8 million as net patient service revenue increased \$34.7 million in 2022 over 2021. Expenses increased by \$15.1 million between 2021 and 2022. Salaries, wages and benefits increased \$7.5 million in 2022. Non-operating revenues decreased by \$98.1 million due to an decrease in investment income of \$65.5 million in 2022 over 2021 and MHP did not recognize any COVID-19 grant funds during 2022.

	2022	2021	Change 2022 - 2021	2020	Change 2021 - 2020
Revenues					
Net patient service revenue	\$ 541,480,465	\$ 506,827,996	\$ 34,652,469	\$ 497,249,783	\$ 9,578,213
Other operating revenue	8,030,614	8,893,649	(863,035)	3,770,170	5,123,479
Total revenues	549,511,079	515,721,645	33,789,434	501,019,953	14,701,692
Expenses					
Salaries and benefits	107,701,263	100,174,232	7,527,031	91,174,902	8,999,330
Supplies	35,095,279	29,945,712	5,149,567	26,702,125	3,243,587
Depreciation and amortization	13,536,673	13,933,308	(396,635)	14,976,310	(1,043,002)
Other operating expenses	372,163,433	369,330,877	2,832,556	382,125,492	(12,794,615)
Total expenses	528,496,648	513,384,129	15,112,519	514,978,829	(1,594,700)
Operating income (loss)	21,014,431	2,337,516	18,676,915	(13,958,876)	16,296,392
Nonoperating revenues (expenses)					
Excess of revenues over expenses	(40,938,380)	57,207,857	(98,146,237)	39,508,995	17,698,862
Transfers					
Change in net position	2,750,000	2,750,000	-0-	2,750,000	-0-
Net position					
Beginning of year	386,057,415	323,762,042	62,295,373	295,461,923	28,300,119
End of year	\$ 368,883,466	\$ 386,057,415	\$ (17,173,949)	\$ 323,762,042	\$ 62,295,373

MHP's performance in 2021 and 2020 showed a positive return on equity of 16.1% compared to 8.7%, respectively. Total operating revenue increased approximately \$14.7 million as net patient service revenue increased \$9.6 million in 2021 over 2020. Expenses decreased by \$1.6 million between 2020 and 2021. Salaries, wages and benefits increased \$9.0 million in 2021. Other expenses decreased \$12.8 million primarily due to a decrease in purchased services related to long-term care operations. Non-operating revenues increased by \$17.7 million due to an increase in investment income of \$15.4 million in 2021.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

STATEMENTS OF CASH FLOWS

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing 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 balance during the reporting period?"

Cash and cash equivalents decreased by approximately \$7.2 million in 2022 compared to a decrease of approximately \$23.4 million in 2021. The majority of the 2022 decrease relates to cash used in investing activities.

	2022	2021	Change 2022 - 2021	2020	Change 2021 - 2020
Cash flows from					
Operating activities	\$ 44,212,932	\$ 27,946,017	\$ 16,266,915	\$43,722,185	\$ (15,776,168)
Noncapital financing activities	2,750,000	13,480,870	(10,730,870)	53,496,310	(40,015,440)
Capital and related financing	(8,468,486)	4,040,367	(12,508,853)	(16,343,618)	20,383,985
Investing	(45,678,571)	(68,893,461)	23,214,890	(32,846,520)	(36,046,941)
Change in cash and cash equivalents	<u>\$ (7,184,125)</u>	<u>\$ (23,426,207)</u>	<u>\$ 16,242,082</u>	<u>\$ 48,028,357</u>	<u>\$ (71,454,564)</u>

Cash and cash equivalents decreased by approximately \$23.4 million in 2021 compared to an increase of approximately \$48.0 million in 2020. The majority of the 2021 decrease relates to cash used in investing activities.

SOURCES OF REVENUE

During 2022, MHP derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 67% of MHP's acute care gross revenues in 2022.

Following is a table of major sources of acute care gross patient revenues for the past three years:

	2022	2021	2020
Medicare	46%	44%	44%
Medicaid	21%	21%	19%
Anthem	15%	15%	15%
Commercial	15%	17%	19%
Self Pay	3%	3%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

MHP's service mix remained relatively consistent between 2022 and 2021. Acute inpatient revenue accounted for 11% and 13% of gross revenue in 2022 and 2021, respectively. Acute outpatient revenue was 55% and 52% of total gross revenue in 2022 and 2021, respectively. Long-term care revenue was 34% and 35% of total gross revenue in 2022 and 2021, respectively.

CAPITAL ASSETS

During 2022, MHP invested approximately \$18.6 million in capital assets along with retirements of approximately \$76,000. The change in capital assets is outlined in the following table:

	2022	2021	Change 2022 - 2021	2020	Change 2021 - 2020
Land and land improvements	\$ 16,477,359	\$ 15,983,169	\$ 494,190	\$ 15,983,169	\$ -0-
Leasehold improvements	15,280,058	13,562,575	1,717,483	11,755,057	1,807,518
Buildings and improvements	146,480,664	140,830,909	5,649,755	115,550,604	25,280,305
Equipment	88,704,009	76,773,994	11,930,015	81,450,601	(4,676,607)
Construction in progress	636,321	1,869,781	(1,233,460)	13,357,712	(11,487,931)
Total property and equipment	267,578,411	249,020,428	18,557,983	238,097,143	10,923,285
Less accumulated depreciation	102,382,163	88,920,953	13,461,210	81,074,542	7,846,411
Capital assets, net	<u>\$ 165,196,248</u>	<u>\$ 160,099,475</u>	<u>\$ 5,096,773</u>	<u>\$ 157,022,601</u>	<u>\$ 3,076,874</u>

MHP strives to meet the needs of the community and provide high quality care by adding new equipment and facilities or by replacing or upgrading equipment as it becomes obsolete. More detailed information about MHP's capital assets is presented in the notes to the financial statements.

DEBT

Total long-term debt (including current portion) decreased from approximately \$97,639,000 to \$92,509,000 in 2022. The decrease in long term debt was due to principal payments during the year. In 2021, total long-term debt (including current portion) decreased \$2,835,000 compared to 2020. The primary reason for the decrease in long term debt was due to principal payments. More detailed information about MHP's long-term debt is presented in the notes to the financial statements.

ECONOMIC OUTLOOK

Management believes that the health care industry's and MHP's operating margins will continue to be under pressure due to a variety of factors including, but not limited to, changes in payor and services mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. This competitive market challenge will potentially be offset by the expected growth in the service area.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

MHP will still be faced with the challenge of providing quality services in an increasingly competitive environment, while at the same time managing costs. MHP will continue to be affected by the increases in labor costs due to the competition for health care workers. MHP is also affected by the uncertainty of federal health care reform.

CONTACTING MHP'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of MHP's finances and to show MHP's accountability for the money it receives. If you have questions about this report or need additional financial information, contact MHP's Administration Department, at 2451 Intelliplex Dr., Shelbyville, IN 46176.

MAJOR HEALTH PARTNERS

STATEMENTS OF NET POSITION DECEMBER 31, 2022 AND 2021

ASSETS AND DEFERRED OUTFLOWS

	2022	2021
Current assets		
Cash and cash equivalents	\$ 32,051,771	\$ 38,218,705
Patient accounts receivable, net of allowance for uncollectible accounts of \$8,862,174 in 2022 and \$6,324,419 in 2021	55,101,490	64,590,213
Inventory and other current assets	67,828,316	49,263,618
Current portion of assets whose use is limited	4,245,000	2,935,430
Total current assets	<u>159,226,577</u>	<u>155,007,966</u>
Assets whose use is limited		
Internally designated	383,991,830	374,552,825
Donor restricted funds	3,635,963	4,551,634
Total assets whose use is limited	<u>387,627,793</u>	<u>379,104,459</u>
Less current portion	4,245,000	2,935,430
Noncurrent assets whose use is limited	<u>383,382,793</u>	<u>376,169,029</u>
Capital assets, net	165,196,248	160,099,475
Property held for investment	1,926,460	1,926,460
Other assets, net	5,218,762	5,661,642
Total assets	<u>714,950,840</u>	<u>698,864,572</u>
Deferred outflows - loss on debt refunding	1,346,282	2,961,820
Total assets and deferred outflows	<u><u>\$ 716,297,122</u></u>	<u><u>\$ 701,826,392</u></u>

See accompanying notes to financial statements.

MAJOR HEALTH PARTNERS

STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

LIABILITIES AND NET POSITION

	2022	2021
Current liabilities		
Accounts payable and accrued expenses	\$ 140,701,786	\$ 124,181,766
Accrued wages and related liabilities	16,558,290	16,254,034
Medicare accelerated and advanced payments	-0-	2,101,000
Estimated third-party settlements	46,452,631	44,496,522
Line of credit	48,150,000	27,650,000
Current portion of long-term debt		
Revenue bonds payable	4,245,000	2,935,430
Total current liabilities	<u>256,107,707</u>	<u>217,618,752</u>
Other liabilities	3,042,418	3,446,604
Long term debt, net of current portion		
Revenue bonds payable	88,263,531	94,703,621
Total long term debt	<u>88,263,531</u>	<u>94,703,621</u>
Total liabilities	347,413,656	315,768,977
Net position		
Net investment in capital assets	72,687,717	62,460,424
Restricted		
Expendable - other specific purpose	925,788	1,841,459
Non-expendable	3,574,744	3,385,056
Total restricted net position	<u>4,500,532</u>	<u>5,226,515</u>
Unrestricted	291,695,217	318,370,476
Total net position	<u>368,883,466</u>	<u>386,057,415</u>
Total liabilities and net position	<u>\$ 716,297,122</u>	<u>\$ 701,826,392</u>

See accompanying notes to financial statements.

MAJOR HEALTH PARTNERS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Revenues		
Net patient service revenue	\$ 541,480,465	\$ 506,827,996
Other revenue	8,030,614	8,893,649
Total revenues	549,511,079	515,721,645
Expenses		
Salaries and wages	87,698,186	80,452,585
Employee benefits	20,003,077	19,721,647
Medical professional fees	3,752,822	3,380,413
Supplies	35,095,279	29,945,712
Purchased services	311,720,458	310,885,306
Rent and maintenance	41,825,287	42,493,285
Utilities	1,719,056	1,455,131
Insurance	1,391,031	1,222,316
Depreciation and amortization	13,536,673	13,933,308
HAF and HIP program fee	5,927,722	4,928,475
Other expenses	5,827,057	4,965,951
Total expenses	528,496,648	513,384,129
Operating income	21,014,431	2,337,516
Nonoperating revenues (expenses)		
Investment income (loss)	(36,474,281)	28,998,579
COVID-19 grant funds	-0-	31,276,518
Interest expense	(5,221,639)	(3,879,507)
Other nonoperating revenue	757,540	812,267
Nonoperating revenues (expenses), net	(40,938,380)	57,207,857
Excess of revenues over expenses	(19,923,949)	59,545,373
Transfers - contributions from noncontrolling interest	2,750,000	2,750,000
Change in net position	(17,173,949)	62,295,373
Net position		
Beginning of year	386,057,415	323,762,042
End of year	\$ 368,883,466	\$ 386,057,415

See accompanying notes to financial statements.

MAJOR HEALTH PARTNERS

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

	2022	2021
Operating activities		
Cash received from patient services	\$ 550,824,297	\$ 512,384,091
Cash paid for salaries, wages and benefits	(107,397,007)	(97,609,036)
Cash paid to vendors and suppliers	(407,670,677)	(395,470,900)
Other receipts, net	8,456,319	8,641,862
Net cash flows from operating activities	44,212,932	27,946,017
Noncapital financing activities		
COVID-19 grant funds	-0-	10,730,870
Transfers - contributions from noncontrolling interest	2,750,000	2,750,000
Net cash flows from noncapital financing activities	2,750,000	13,480,870
Capital and related financing activities		
Principal payments on long-term debt	(5,130,520)	(2,834,750)
Proceeds from line of credit	20,500,000	27,650,000
Interest on long-term debt	(5,221,639)	(3,879,507)
Purchases of capital assets	(18,633,502)	(17,117,435)
Proceeds from the sale of capital assets	-0-	168,827
Other	17,175	53,232
Net cash flows from capital and related financing activities	(8,468,486)	4,040,367
Investing activities		
Investment income (loss)	(36,474,281)	28,998,579
Other nonoperating revenues	757,540	812,267
Purchase of investments	(61,695,036)	(99,567,758)
Proceeds from sale of investments	51,733,206	863,451
Net cash flows from investing activities	(45,678,571)	(68,893,461)
Net change in cash and cash equivalents	(7,184,125)	(23,426,207)
Cash and cash equivalents:		
Beginning of year	108,122,182	131,548,389
End of year	\$ 100,938,057	\$ 108,122,182
Reconciliation of cash and cash equivalents to the statements of net position		
Cash and cash equivalents		
In current assets	\$ 32,051,771	\$ 38,218,705
In assets whose use is limited		
Internally designated	68,699,262	69,650,802
Donor restricted	187,024	252,675
Total cash and cash equivalents	\$ 100,938,057	\$ 108,122,182

See accompanying notes to financial statements.

MAJOR HEALTH PARTNERS

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

	<u>2022</u>	<u>2021</u>
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 21,014,431	\$ 2,337,516
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	13,536,673	13,933,308
Bad debts	6,592,924	7,623,679
Changes in operating assets, deferred outflows and liabilities		
Patient accounts receivable	2,895,799	(22,276,429)
Inventory and other current assets	(18,564,698)	8,472,913
Other assets	442,880	(198,555)
Deferred outflows	1,615,538	1,615,538
Accounts payable and accrued expenses	16,520,020	(6,335,994)
Accrued wages and related liabilities	304,256	2,565,196
Medicare accelerated and advanced payments	(2,101,000)	(9,143,370)
Estimated third-party settlements	1,956,109	29,352,215
Net cash flows from operating activities	<u>\$ 44,212,932</u>	<u>\$ 27,946,017</u>

See accompanying notes to financial statements.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

The financial statements of Major Health Partners (MHP) refer to Major Hospital (the Hospital) and its subsidiaries.

The Hospital is an acute-care hospital located in Shelbyville, Indiana, organized for the purpose of providing healthcare services to the residents of Shelby County and the surrounding communities. The Hospital is a city/county hospital and operates under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient, outpatient and long-term health care.

A hospital appointing board, consisting of one county commissioner, one county council person and the mayor of the city of Shelbyville, appoints the governing board of the Hospital. The Hospital is considered a component unit of Shelby County.

Pursuant to the provision of long-term care, MHP owns the operations of certain long-term care facilities by way of an arrangement with managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the long-term care facilities are the property of MHP, and MHP 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 MHP, and MHP retains the authority and legal responsibility for the operation of the facilities.

Specifically, MHP entered into lease agreements with the long-term care facilities to lease the facilities managed by the respective managers. Concurrently, MHP entered into an agreement with the managers to manage the leased facilities. As part of the agreements, MHP will pay the managers a management fee to continue managing the facilities on behalf of MHP in accordance with the terms of the agreements. The agreements expire at various times. Generally, all parties involved can terminate the agreement without cause with 90 days written notice.

Accounting principles generally accepted in the United States require that these financial statements present the Hospital and its significant component units, collectively referred to as the "primary government." The blended component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Blended component units, although legally separate entities, are in substance part of the primary government's operations and exist solely to provide services for the primary government; data from these units is with data of the primary government.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Blended Component Units

Major Hospital Foundation (the Foundation) is a blended component unit of the Hospital. The Foundation is a separate not-for-profit entity organized to support the operations of the Hospital.

MedWorks, Inc. (MedWorks) is a blended component unit of the Hospital which operates a pharmacy located in Shelbyville, Indiana. MedWorks is the majority owner of Major Multispecialty Associates, LLC (MMSA) and Onsite Solutions, LLC (Onsite). These practices generally provide health care services to the community. The Hospital is the 100% owner of MedWorks. Although MedWorks is legally separate from the Hospital, MedWorks is reported as if it were a part of the Hospital as the two governing boards are substantially the same.

Major Medical Group, LLC (MMG) is a blended component unit of the Hospital. MMG was organized to provide various physician practice services. The Hospital is the majority owner (60%) of MMG.

All significant intercompany transactions have been eliminated in the financial statements.

The separate financial statements for each of the entities discussed above may be obtained through contacting management of MHP.

Use of Estimates

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

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.

Cash and Cash Equivalents

Cash and cash equivalents include deposits and investments in highly liquid debt instruments with an original maturity date of 90 days or less from the date of purchase. MHP maintains its cash in accounts, which at times, may exceed federally insured limits. MHP has not experienced any losses in such accounts. MHP believes it is not exposed to any significant credit risk on cash and cash equivalents.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Assets Whose Use is Limited

Assets whose use is limited are stated at fair market value in the financial statements. These assets include investments designated by the Hospital board for internal purposes, investments restricted by donors for a specific purpose and investments held by trustees for debt service.

These investments consist primarily of cash and cash equivalents, certificates of deposit, US government securities, mutual funds, corporate debt and equity securities. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenues (expenses) in the statements of revenues, expenses and changes in net position.

Nonparticipating certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at contract value.

Patient Accounts Receivable and Patient Service Revenues

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. MHP is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). MHP is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG).

MHP is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At MHP's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

These programs have audited the year-end cost report filed with the Medicare program through December 31, 2018 with differences reflected as deductions from revenue in 2022. Amounts for unresolved cost reports for 2018 through 2022 are reflected in estimated third-party settlements on the statements of net position.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges less an allowance for contractual adjustments and interim payment advances. An 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.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting MHP's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

Grants and Contributions

MHP received grant funds from Shelby County, the City of Shelbyville, Indiana and Provider Relief Funds (PRF) from the federal government. Revenues from grants and contributions are recognized when all requirements are met. Grants may be restricted for either specific operation purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

Endowments

Endowments are provided to MHP through the Foundation 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, the Foundation's governing board is permitted to expend the net appreciation of the investments of endowment funds.

Charity Care

MHP provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because MHP does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue.

Of MHP's total expenses reported within the statements of revenues, expenses and changes in net position; an estimated \$357,000 and \$433,000 arose from providing services to charity patients for 2022 and 2021, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on MHP's total expenses to gross patient service revenue. There were no significant changes to MHP's charity care policy during 2022 and 2021.

Inventory and Other Current Assets

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory at year-end consists mainly of pharmaceuticals and medical supplies.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Other current assets consist of prepaid expenses, other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized during 2023.

The composition of inventory and other current assets includes the following as of December 31:

	2022	2021
Inventory	\$ 6,165,337	\$ 6,363,692
Prepaid expenses	6,273,417	5,078,109
Other receivables	55,389,562	37,821,817
Total	<u>\$ 67,828,316</u>	<u>\$ 49,263,618</u>

Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed \$2,500 for the Hospital, \$500 for other entities, and meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred.

MHP 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:

Description	Range of Useful Lives
Land improvements	15 years
Leasehold improvements	15 years
Buildings and improvements	4-50 years
Equipment	5-15 years

Deferred Outflows of Resources

A deferred outflow of resources is a consumption of net position by MHP that is applicable to a future reporting period. Deferred outflows of resources are reported in the statements of net position but are not recognized in the financial statements as expenses until the periods to which they relate. Deferred outflows of resources consist of losses on debt refunding. MHP expects to recognize approximately \$1,400,000 in amortization annually through 2023.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Classification of Net Position

Net position of MHP is classified in four components: (1) net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balance of any outstanding borrowings used to finance the purchase or construction of those assets and increased by funds held by trustee for construction of the property and equipment related to the borrowings, (2) restricted expendable net position includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue note indentures, (3) restricted non-expendable net position includes the principal portion of permanent endowments and noncontrolling interests owned by external investors, (4) unrestricted net position is the remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

Restricted Resources

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

Statements of Revenues, Expenses and Changes in Net Position

MHP's statements of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions such as investment activities are reported as nonoperating revenues or expenses.

Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 22, of the Indiana statutes. The Hospital is exempt from federal income tax under the Internal Revenue Code of 1986 as a charitable, educational, and scientific organization as described under Section 501(c)(3). As such, the Hospital is generally exempt from income taxes as a unit of local government. No income tax filings are required of the Hospital as it is a governmental instrumentality.

The blended component unit of the Foundation is tax-exempt organizations under Internal Revenue Code 501(c)(3). 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, which is an informational return only.

The blended component unit of MedWorks is organized as a corporation subject to federal and state income taxes. Income taxes for these entities are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. However, the effects of recording a deferred tax provision have been deemed immaterial and have not been recorded in the accompanying financial statements.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

The remaining subsidiaries of MedWorks and MMG are organized as limited liability companies, whereby net taxable income is taxed directly to the members of the limited liability companies. Thus, the financial statements do not include any provision for federal or state income taxes related to these entities.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by MHP (and their affiliates) and recognize a tax liability if MHP has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities.

Management has analyzed the tax positions taken by MHP and has concluded that as of December 31, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. MHP is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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

Compensated Absences

MHP's policy on compensated absences (which include vacation, sick leave and holidays) allows full time employees and regular part time employees to accrue days off, to a maximum hour as stated in the personnel policies. Compensated absences are accrued when incurred and reported as a liability on the statements of net position.

Advertising

MHP's policy is to expense advertising costs when the advertising first takes place. Advertising expense was approximately \$117,000 and \$97,000 for 2022 and 2021, respectively.

Litigation

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

Risk Management

MHP 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 and natural disasters.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Subsequent Events

MHP evaluated events or transactions occurring subsequent to the statement of net position date for recognition and disclosure in the accompanying financial statements through the date the financial statements were available to be issued which is May 30, 2023.

Recently Issued Accounting Pronouncements

In May 2020, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 96, *Subscription-Based Technology Arrangements*, which will be effective for periods beginning after June 15, 2022. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users governments.

In June 2022, GASB issued GASB Statement No. 101, *Compensated Absences*, which will be effective for periods beginning after December 15, 2023. This statement will require that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means.

MHP is presently evaluating the effects these accounting pronouncements will have on its future financial statements, including related disclosures.

2. NET PATIENT SERVICE REVENUE

MHP has agreements with third-party payors that provide for reimbursement to MHP at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the MHP'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 reimbursement arrangements with major third-party payors is as follows:

Medicare

Medicare inpatient services are reimbursed based on a predetermined amount for each case based on the diagnosis associated with the patient (Prospective Payment Hospital). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment with the exception of a few select items, such as bad debts.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

MHP's classification of patients under the Prospective Payment Hospital and the appropriateness of patient admissions are subject to validation reviews by the Medicare peer review organization which is under contract with MHP to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

Medicaid

MHP is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

MHP is eligible for the Indiana Medicaid Supplemental programs including Medicaid Disproportionate Share Hospital and Municipal Upper Payment Limit programs. These programs are federal programs administered by the State of Indiana.

The Hospital participates in the Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF and HIP program fee reported in the statements of revenues, expenses and changes in net position. Previously, the State's share was funded by governmental entities through intergovernmental transfers.

The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Beginning July 1, 2017, hospitals also started funding the Healthy Indiana Plan (HIP) Program, the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program but the funding includes physician, state administration, and certain non-hospital expenditures. During 2022 and 2021, MHP recognized HAF and HIP program fee of approximately \$5,928,000 and \$4,928,000, respectively. The Medicaid rate increases under the HAF and HIP Programs are included in net patient service revenue in the statements of revenues, expenses and changes in net position.

Other Payors

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

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

The following is a summary of net patient service revenue for 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Patient service revenue		
Inpatient	\$ 92,179,532	\$ 104,851,996
Outpatient	469,644,859	423,121,295
Long-term care	<u>299,410,407</u>	<u>283,828,915</u>
Gross patient service revenue	861,234,798	811,802,206
Deductions from revenue		
Contractual allowances	312,141,957	296,094,918
Charity care	1,019,452	1,255,613
Bad debts	<u>6,592,924</u>	<u>7,623,679</u>
Total deductions from revenue	<u>319,754,333</u>	<u>304,974,210</u>
Net patient service revenue	<u>\$ 541,480,465</u>	<u>\$ 506,827,996</u>

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

3. ASSETS WHOSE USE IS LIMITED

The classification "Assets whose use is limited" includes:

Internally designated – Amounts transferred by MHP's board of trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to MHP buildings as authorized by Indiana Code 16-22-3-13.

Restricted – Amounts designated by outside parties for other specific purposes. Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets.

The composition of assets whose use is limited includes the following as of December 31:

	2022	2021
Internally designated		
Cash and cash equivalents	\$ 68,699,262	\$ 69,650,802
US Government securities	60,877,907	30,305,220
Mutual funds	251,968,529	271,896,826
Corporate equity securities	2,094,236	2,309,216
Corporate debt securities	351,896	390,761
Total internally designated	<u>383,991,830</u>	<u>374,552,825</u>
Donor restricted		
Cash and cash equivalents	187,024	252,675
US Government securities	200,720	207,059
Mutual funds	393,216	529,867
Corporate equity securities	2,476,552	3,046,509
Corporate debt securities	378,451	515,524
Total donor restricted	<u>3,635,963</u>	<u>4,551,634</u>
Total assets whose use is limited	<u>\$ 387,627,793</u>	<u>\$ 379,104,459</u>

The corporate debt and equity securities are owned by the Foundation.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

4. 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 Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments are carried at fair market value except for certificates of deposit and money market deposit funds which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

MHP's investments generally are reported at fair value, as discussed in Note 1.

As of December 31, 2022 and 2021, MHP had the following investments and maturities, all of which were held in MHP's name by custodial banks that are agents of MHP:

	December 31, 2022				
	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
US Government securities	\$ 61,078,627	\$ 5,961,726	\$ 40,039,369	\$ 14,688,832	\$ 388,700
Mutual funds	252,361,745	252,361,745	-0-	-0-	-0-
Corporate equity securities	4,570,788	4,570,788	-0-	-0-	-0-
Corporate debt securities	730,347	730,347	-0-	-0-	-0-
	<u>\$318,741,507</u>	<u>\$263,624,606</u>	<u>\$ 40,039,369</u>	<u>\$ 14,688,832</u>	<u>\$ 388,700</u>
	December 31, 2021				
	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
US Government securities	\$ 30,512,279	\$ 2,457,216	\$ 19,973,594	\$ 6,518,931	\$ 1,562,538
Mutual funds	272,426,693	272,426,693	-0-	-0-	-0-
Corporate equity securities	5,355,725	5,355,725	-0-	-0-	-0-
Corporate debt securities	906,285	87,308	460,130	310,790	48,057
	<u>\$309,200,982</u>	<u>\$280,326,942</u>	<u>\$ 20,433,724</u>	<u>\$ 6,829,721</u>	<u>\$ 1,610,595</u>

Interest rate risk – MHP does 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 MHP 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 US Government or US Government Agency obligations.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Concentration of credit risk – MHP places no limit on the amount it may invest in any one issuer. MHP maintains its investments, which at times may exceed federally insured limits. MHP has not experienced any losses in such accounts. MHP believes that it is not exposed to any significant credit risk on investments. MHP does not have a formal policy for credit and concentration risk.

Deposits and investments consist of the following as of December 31, 2022 and 2021:

	2022	2021
Carrying amount		
Deposits	\$ 100,938,057	\$ 108,122,182
Investments	318,741,507	309,200,982
	<u>\$ 419,679,564</u>	<u>\$ 417,323,164</u>
Included in the statements of net position captions		
Cash	\$ 32,051,771	\$ 38,218,705
Internally designated	383,991,830	374,552,825
Restricted funds	3,635,963	4,551,634
	<u>\$ 419,679,564</u>	<u>\$ 417,323,164</u>

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021.

- *U.S. government securities:* Valued using pricing models maximizing the use of observable inputs for similar securities.
- *Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by MHP 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 MHP are deemed to be actively traded.
- *Corporate equity securities:* Valued at the closing price reported on the active market on which the individual securities are traded.
- *Corporate debt securities:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

MHP's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels during 2022 and 2021.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

The following table sets forth by level, within the hierarchy, MHP's assets and liabilities measured at fair value on a recurring basis as of December 31, 2022.

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Assets				
US government securities				
US treasury notes	\$ 41,123,237	\$ -0-	\$ 41,123,237	\$ -0-
Federal home loan bank	517,698	-0-	517,698	-0-
Mortgage backed securities	19,437,692	-0-	19,437,692	-0-
Total US government securities	61,078,627	-0-	61,078,627	-0-
Mutual funds				
Nontraditional bonds	37,823,338	37,823,338	-0-	-0-
Large blend	26,514,775	26,514,775	-0-	-0-
Large growth	29,790,674	29,790,674	-0-	-0-
Mid-cap value	24,492,179	24,492,179	-0-	-0-
Options trading	24,141,507	24,141,507	-0-	-0-
Short government	36,639,103	36,639,103	-0-	-0-
Short-term bonds	48,346,955	48,346,955	-0-	-0-
World bonds	22,378,075	22,378,075	-0-	-0-
Other	2,235,139	2,235,139	-0-	-0-
Total mutual funds	252,361,745	252,361,745	-0-	-0-
Corporate equity securities				
Basic industries	461,672	461,672	-0-	-0-
Capital goods	208,938	208,938	-0-	-0-
Consumer	683,479	683,479	-0-	-0-
Energy	200,849	200,849	-0-	-0-
Finance	822,316	822,316	-0-	-0-
Healthcare	268,099	268,099	-0-	-0-
Services	533,190	533,190	-0-	-0-
Technology	738,239	738,239	-0-	-0-
Utilities	182,966	182,966	-0-	-0-
Other	471,040	471,040	-0-	-0-
Total corporate equity securities	4,570,788	4,570,788	-0-	-0-
Corporate debt securities				
Financial services	730,347	-0-	730,347	-0-
Total corporate debt securities	730,347	-0-	730,347	-0-
	318,741,507	<u>\$ 256,932,533</u>	<u>\$ 61,808,974</u>	<u>\$ -0-</u>
Cash and cash equivalents	68,886,286			
Total assets whose use is limited	<u>\$ 387,627,793</u>			

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

The following table sets forth by level, within the hierarchy, MHP's assets and liabilities measured at fair value on a recurring basis as of December 31, 2021.

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
US government securities				
US treasury notes	\$ 17,931,548	\$ -0-	\$ 17,931,548	\$ -0-
Federal home loan bank	1,753,601	-0-	1,753,601	-0-
Mortgage backed securities	10,827,130	-0-	10,827,130	-0-
Total US government securities	30,512,279	-0-	30,512,279	-0-
Mutual funds				
Diversified emerging markets	31,714,465	31,714,465	-0-	-0-
Foreign large growth	31,706,431	31,706,431	-0-	-0-
High yield bonds	8,609,811	8,609,811	-0-	-0-
Intermediate-term bonds	46,656,105	46,656,105	-0-	-0-
Large blend	53,884,893	53,884,893	-0-	-0-
Large growth	31,452,139	31,452,139	-0-	-0-
Mid-cap value	25,138,844	25,138,844	-0-	-0-
Options trading	21,565,106	21,565,106	-0-	-0-
Short government	5,071,781	5,071,781	-0-	-0-
Short-term bonds	6,027,220	6,027,220	-0-	-0-
Small blend	9,581,544	9,581,544	-0-	-0-
Other	1,018,354	1,018,354	-0-	-0-
Total mutual funds	272,426,693	272,426,693	-0-	-0-
Corporate equity securities				
Basic industries	304,549	304,549	-0-	-0-
Capital goods	428,901	428,901	-0-	-0-
Consumer	537,056	537,056	-0-	-0-
Energy	212,108	212,108	-0-	-0-
Finance	889,060	889,060	-0-	-0-
Healthcare	497,138	497,138	-0-	-0-
Services	814,357	814,357	-0-	-0-
Technology	1,032,310	1,032,310	-0-	-0-
Transportation	60,309	60,309	-0-	-0-
Utilities	210,580	210,580	-0-	-0-
Other	369,357	369,357	-0-	-0-
Total corporate equity securities	5,355,725	5,355,725	-0-	-0-
Corporate debt securities				
Financial services	439,947	-0-	439,947	-0-
Other	466,338	-0-	466,338	-0-
Total corporate debt securities	906,285	-0-	906,285	-0-
	309,200,982	\$ 277,782,418	\$ 31,418,564	\$ -0-
Cash and cash equivalents	69,903,477			
Total assets whose use is limited	<u>\$ 379,104,459</u>			

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

6. RESTRICTED NON-EXPENDABLE NET POSITION

MHP, through the Foundation and noncontrolling interest, has restricted non-expendable net position. Unless a contributor provides specific instructions, the Foundation's governing board is permitted to expend the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the governing board is required to consider the Foundation's and supported organization's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes designated by the contributor. The Foundation's governing board chooses to spend the investment income (including changes in the value of investments) under the established investment policy.

Restricted non-expendable net position as of December 31, 2022 and 2021, represent the principal amounts of permanent endowments, restricted to investment in perpetuity, as well as the noncontrolling interest in majority owned subsidiaries. Investment earnings from the Foundation's permanent endowments are expendable to support the programs as established by the contributors. The following is a summary of the restricted non-expendable net position as of December 31, 2022 and 2021:

	2022	2021
Compton endowment	\$ 521,714	\$ 521,714
McFadden endowment	333,133	333,133
Benessee endowment	877,664	877,664
Una Vie endowment	877,664	877,664
Lee endowment	50,000	50,000
Beck nursing scholarship endowment	50,000	50,000
Noncontrolling interest	864,569	674,881
	\$ 3,574,744	\$ 3,385,056

The following table depicts the changes in net position attributable to the controlling financial interest of MHP and the noncontrolling interest.

	Controlling interest	Noncontrolling interest	Total
Balance, December 31, 2020	\$ 323,549,500	\$ 212,542	\$ 323,762,042
Excess (deficit) of revenues over expenses	61,833,034	(2,287,661)	59,545,373
Transfers - Contributions from noncontrolling interest	-0-	2,750,000	2,750,000
Change in net position	61,833,034	462,339	62,295,373
Balance, December 31, 2021	385,382,534	674,881	386,057,415
Deficit of revenues over expenses	(17,363,637)	(2,560,312)	(19,923,949)
Transfers - Contributions from noncontrolling interest	-0-	2,750,000	2,750,000
Change in net position	(17,363,637)	189,688	(17,173,949)
Balance, December 31, 2022	\$ 368,018,897	\$ 864,569	\$ 368,883,466

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

7. CAPITAL ASSETS

Capital Assets, Net

A summary of property and equipment, including assets under capital leases for 2022 and 2021 follows:

	December 31,				December 31,
	2021	Additions	Disposals	Transfers	2022
Land and land improvements	\$ 15,983,169	\$ 98,300	\$ -0-	\$ 395,890	\$ 16,477,359
Leasehold improvements	13,562,575	1,717,483	-0-	-0-	15,280,058
Buildings and improvements	140,830,909	31,305	-0-	5,618,450	146,480,664
Equipment	76,773,994	12,014,133	(75,519)	(8,599)	88,704,009
Construction in progress	1,869,781	4,772,281	-0-	(6,005,741)	636,321
Total property and equipment	<u>249,020,428</u>	<u>18,633,502</u>	<u>(75,519)</u>	<u>-0-</u>	<u>267,578,411</u>
Less accumulated depreciation					
Land improvements	5,254,759	661,123	-0-	-0-	5,915,882
Leasehold improvements	1,023,669	139,614	-0-	-0-	1,163,283
Buildings and improvements	30,515,034	6,146,493	-0-	-0-	36,661,527
Equipment	52,127,491	6,589,443	(75,463)	-0-	58,641,471
Total accumulated depreciation	<u>88,920,953</u>	<u>13,536,673</u>	<u>(75,463)</u>	<u>-0-</u>	<u>102,382,163</u>
Capital assets, net	<u>\$ 160,099,475</u>	<u>\$ 5,096,829</u>	<u>\$ (56)</u>	<u>\$ -0-</u>	<u>\$ 165,196,248</u>

	December 31,				December 31,
	2020	Additions	Disposals	Transfers	2021
Land and land improvements	\$ 15,983,169	\$ -0-	\$ -0-	\$ -0-	\$ 15,983,169
Leasehold improvements	11,755,057	1,821,014	(13,496)	-0-	13,562,575
Buildings and improvements	115,550,604	-0-	-0-	25,280,305	140,830,909
Equipment	81,450,601	1,504,047	(6,180,654)	-0-	76,773,994
Construction in progress	13,357,712	13,792,374	-0-	(25,280,305)	1,869,781
Total property and equipment	<u>238,097,143</u>	<u>17,117,435</u>	<u>(6,194,150)</u>	<u>-0-</u>	<u>249,020,428</u>
Less accumulated depreciation					
Land improvements	4,655,609	599,150	-0-	-0-	5,254,759
Leasehold improvements	877,285	157,332	(10,948)	-0-	1,023,669
Buildings and improvements	25,405,262	5,109,772	-0-	-0-	30,515,034
Equipment	50,136,386	7,952,248	(5,961,143)	-0-	52,127,491
Total accumulated depreciation	<u>81,074,542</u>	<u>13,818,502</u>	<u>(5,972,091)</u>	<u>-0-</u>	<u>88,920,953</u>
Capital assets, net	<u>\$ 157,022,601</u>	<u>\$ 3,298,933</u>	<u>\$ (222,059)</u>	<u>\$ -0-</u>	<u>\$ 160,099,475</u>

As of December 31, 2022, MHP did not have any significant construction commitments for future projects.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Property Held for Investment

MHP currently holds approximately 40 acres of land available for sale. The land is located in the Intelliplex Park where the Hospital's Cancer Center is located. The land is valued at cost plus improvements and will be sold in lots in varying size. Land held for investment is included within the property held for investment section of the statements of net position.

8. LINE OF CREDIT

MHP maintains a line of credit agreement with Regions Bank with a maximum amount of \$65,000,000. The balance outstanding was approximately \$48,150,000 and \$27,650,000 as of December 31, 2022 and 2021, respectively. The line of credit bears interest at the one-month Bloomberg Short-Term Bank Yield Index rate plus 0.88% (4.839% at December 31, 2022), and is secured by certain revenues of the Hospital which approximated \$193,000,000. The line of credit expires in May 2024.

9. LONG TERM DEBT

A summary of long term debt as of December 31, 2022 is as follows:

- Indiana Finance Authority Hospital Revenue Bonds, Series 2009 in the original aggregate principal amount of \$30,000,000, were issued during 2009, to finance or refinance various health care facilities. On June 23, 2009, a financial institution purchased from the Indiana Finance Authority all of the Series 2009 Bonds in a private placement. On December 5, 2014, the Series 2009 Bonds were assigned to another financial institution. The Series 2009 Bonds bear interest at a variable rate, adjusted monthly, equal to the lesser of (a) 12% per annum or (b) a rate equal to the sum of (i) 67% of one month LIBOR plus (ii) 0.98% (rate as of December 31, 2022 – 1.05%). The Series 2009 Bonds may be, at the option of the Hospital, converted to another interest rate mode and remarketed to another bondholder or holders. The Series 2009 Bonds are subject to mandatory tender and purchase on December 1, 2024 (Tender Date). If the Series 2009 Bonds cannot be remarketed on the Tender Date, the Hospital would be required to purchase the Series 2009 Bonds at a price equal to the remaining principal amount of the Series 2009 Bonds. The Series 2009 Bonds are secured by certain revenues of the Hospital which approximated \$160,000,000. The Series 2009 Bonds mature in monthly installments through December 1, 2024, interest only payments beginning January 1, 2025 through December 1, 2033, and a principal balloon payment on December 1, 2034 (final maturity).

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

- Indiana Finance Authority Hospital Revenue Bonds, Series 2018, in the original principal amount of \$25,000,000, were issued during 2018 for construction of a wellness center, the installation of a new electronic health records system, and for use on other various projects. On November 1, 2018, a financial institution purchased from the Indiana Finance Authority all of the Series 2018 Bonds in a private placement. The Series 2018 Bonds bear fixed interest at a rate of 3.865% through December 1, 2043, payable semiannually on June 1 and December 1 of each year. The Series 2018 Bonds are subject to mandatory tender and purchase on December 1, 2028 (Tender Date). If the Series 2018 Bonds cannot be remarketed on the Tender Date, the Hospital would be required to purchase the Series 2018 Bonds at a price equal to the remaining principal amount of the Series 2018 Bonds. Principal payments due in annual installments on December 1 of each year, from December 1, 2019, through December 1, 2028. The Series 2018, interest only payments beginning January 1, 2029 through December 1, 2043 (final maturity). Bonds are secured by certain revenues of the Hospital similar to the Series 2009 Bonds, as well as a mortgage on certain real estate, building and improvements. The net book value of this collateral as of December 31, 2022 approximated \$100,000,000.
- Indiana Finance Authority Hospital Revenue Bonds, Series 2020A and Series 2020B (Series 2020 Bonds), in the original principal amount of \$55,825,000, were issued during 2020 to refund the Series 2014A Bonds. On December 3, 2020, a financial institution purchased from the Indiana Finance Authority all of the Series 2020 Bonds in a private placement. The Series 2020 Bonds bear fixed interest at a rate of 3.15% through October 1, 2044, payable semiannually on April 1 and October 1 of each year. The Series 2020 Bonds are subject to mandatory tender and purchase on December 1, 2035 (Tender Date). If the Series 2020 Bonds cannot be remarketed on the Tender Date, the Hospital would be required to purchase the Series 2020 Bonds at a price equal to the remaining principal amount of the Series 2020 Bonds. Principal payments due in annual installments on October 1 of each year, from October 1, 2021, through October 1, 2044. Bonds are secured by certain revenues of the Hospital similar to the Series 2009 Bonds, as well as a mortgage on certain real estate, building and improvements. The net book value of this collateral as of December 31, 2022 approximated \$100,000,000.

The revenue bonds require the Hospital to maintain certain financial ratios. As of December 31, 2022, the Hospital was in compliance with the financial ratios.

The following is a progression for long term debt for 2022 and 2021:

	December 31, 2021	Additional Borrowings	Payments	December 31, 2022	Current Portion
Revenue bonds - direct placements					
2009 Bonds	\$ 18,093,251	\$ -0-	\$ (3,420,520)	\$ 14,672,731	\$ 2,400,000
2018 Bonds	25,120,800	-0-	(250,000)	24,870,800	255,000
2020 Bonds	54,425,000	-0-	(1,460,000)	52,965,000	1,590,000
Total long term debt	<u>\$ 97,639,051</u>	<u>\$ -0-</u>	<u>\$ (5,130,520)</u>	<u>\$ 92,508,531</u>	<u>\$ 4,245,000</u>

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

	December 31, 2020	Additional Borrowings	Payments	December 31, 2021	Current Portion
Revenue bonds - direct placements					
2009 Bonds	\$ 19,283,001	\$ -0-	\$ (1,189,750)	\$ 18,093,251	\$ 1,225,430
2018 Bonds	25,365,800	-0-	(245,000)	25,120,800	250,000
2020 Bonds	55,825,000	-0-	(1,400,000)	54,425,000	1,460,000
Total long term debt	<u>\$ 100,473,801</u>	<u>\$ -0-</u>	<u>\$ (2,834,750)</u>	<u>\$ 97,639,051</u>	<u>\$ 2,935,430</u>

Scheduled principal and interest repayments on long term debt for the years succeeding December 31, 2022 are as follows:

Years Ending December 31,	Principal	Interest	Total Payments
2023	\$ 4,245,000	\$ 3,454,700	\$ 6,209,985
2024	14,417,731	3,069,227	6,218,183
2025	2,290,000	1,824,965	6,227,944
2026	2,340,000	1,768,023	6,234,086
2027	2,400,000	1,709,832	4,109,832
2028-2032	34,255,800	10,876,157	45,131,957
2033-2037	32,560,000	8,867,734	41,427,734
	<u>\$ 92,508,531</u>	<u>\$ 31,570,638</u>	<u>\$ 115,559,721</u>

On December 3, 2020, MHP entered into an agreement to issue Indiana Finance Authority Hospital Revenue Bonds, Series 2023, in the original principal amount of \$52,965,000. The issuance will occur during 2023 and will be used to refund the Series 2020 Bonds. On July 1, 2023, a financial institution will purchase from the Indiana Finance Authority all of the Series 2023 Bonds in a private placement. The Series 2023 Bonds bear fixed interest at a rate of 2.50% through October 1, 2044, payable semiannually on April 1 and October 1 of each year. The Series 2023 Bonds are subject to mandatory tender and purchase on December 1, 2035 (Tender Date). If the Series 2023 Bonds cannot be remarketed on the Tender Date, the Hospital would be required to purchase the Series 2023 Bonds at a price equal to the remaining principal amount of the Series 2023 Bonds.

Principal payments due in annual installments on October 1 of each year, from October 1, 2023, through October 1, 2044. Bonds are secured by certain revenues of the Hospital similar to the Series 2009 Bonds, as well as a mortgage on certain real estate, building and improvements. The net book value of this collateral as of December 31, 2022 approximated \$100,000,000.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

10. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities as of December 31, 2022 and 2021 is as follows:

	2022	2021
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 22,975,159	\$ 25,941,792
Receivable from Medicare	23,522,186	21,526,167
Receivable from Medicaid	8,205,414	7,727,342
Receivables related to long-term care operations	43,497,273	48,388,974
Total patient accounts receivable	98,200,032	103,584,275
Less contractual allowances	(34,236,368)	(32,669,643)
Less allowance for uncollectible amounts	(8,862,174)	(6,324,419)
Patient accounts receivable, net	<u>\$ 55,101,490</u>	<u>\$ 64,590,213</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	\$ 16,558,290	\$ 16,254,034
Payable to suppliers and other accrued expenses	140,701,786	124,181,766
Total accounts payable and accrued expenses	<u>\$ 157,260,076</u>	<u>\$ 140,435,800</u>

11. PENSION PLAN

Plan Description

MHP has a defined contribution pension plan as authorized by IC 16-22-3-11. The plan is administered by MHP and provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the board of trustees and the plan administrator. Milliman, Inc. is the third party administrator for the plan. Charles Schwab Company is the trustee of the plan. The plan administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. The report is available by contacting MHP's accounting department.

Funding Policy

The contribution requirements of plan members are established by the written agreement between MHP's board of trustees and the plan administrator. The current employer contribution rate is 7% of annual covered payroll. Employer contributions to the plan for 2022 and 2021 were approximately \$3,565,000 and \$4,235,000, respectively. Employees are not permitted to contribute to the plan.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

12. CONCENTRATIONS OF CREDIT RISK

MHP is primarily located in Shelbyville, Indiana. MHP grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. Concentrations of acute care accounts receivable and gross revenue from patients and third party payors are as follows as of December 31:

	Receivables		Revenues	
	2022	2021	2022	2021
Medicare	43%	39%	46%	44%
Medicaid	15%	14%	21%	21%
Anthem	17%	19%	15%	15%
Other third party payors	21%	22%	15%	17%
Self-pay	4%	6%	3%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Substantially all of the patient accounts receivables and related revenues from long-term care operations are concentrated in Medicare and Medicaid.

13. ESTIMATED MALPRACTICE COSTS

MHP has a self-insurance plan for professional liability insurance. A third-party claims administrator has been retained to process all benefit claims. Claims are processed and presented for payment upon occurrence. MHP makes periodic deposits into a trust fund for the proper administration and protection of the fund.

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

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

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

14. RISK MANAGEMENT

Medical Benefits to Employees and Dependents

MHP is self-funded for medical and related health benefits provided to employees and their families. A stop/loss policy through commercial insurance covers individual claims in excess of \$250,000 per year. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund 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. Self-funded health insurance and related expenses were approximately \$9,220,000 and \$8,884,000 in 2022 and 2021, respectively.

A progression of unpaid claims for 2022 and 2021 follows:

	<u>2022</u>	<u>2021</u>
Unpaid claims, beginning of year	\$ 2,205,000	\$ 2,005,000
Incurred claims and changes in estimates	7,989,541	7,615,568
Claim payments	<u>(8,489,541)</u>	<u>(7,415,568)</u>
Unpaid claims, end of year	<u>\$ 1,705,000</u>	<u>\$ 2,205,000</u>

15. RENTAL EXPENSE

MHP has leases expiring at various times through 2023. Leases that do not meet the requirements for recognition in the statements of net position are recognized as outflows of resources. The majority of the leases have short-term cancellation clauses for both parties. Total rent expense for 2022 and 2021 was approximately \$38,400,000 and \$39,300,000, respectively.

16. COUNTY AND CITY ECONOMIC DEVELOPMENT

The Shelby County Council and City of Shelbyville Common Council each passed an ordinance pledging a portion of their share of economic development income tax (EDIT) for the purpose of land acquisition, construction and installation of public infrastructure improvements at the Shelbyville/Shelby County Advanced Technological Industrial Park. Shelby County, the City of Shelbyville, and the Hospital (a component unit of Shelby County) share administrative and financial responsibility for this project. The County and City have each pledged \$125,000 each calendar year through 2028 (or such earlier date as all outstanding bonds issued to finance or refinance the projects are defeased).

The Shelby County Council and City of Shelbyville Common Council each passed a resolution pledging a portion of their share of economic development income tax (EDIT) for the purpose of funding a warm water swimming pool at the wellness facility in Shelbyville, Indiana. The County and the City have each pledged \$1,575,000, due annually in payments ranging from \$100,000 to \$225,000 through 2028.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

The Hospital recognizes the amounts as revenue when received. A schedule of expected payments is as follows:

Years Ending December 31,	
2023	\$ 450,000
2024	450,000
2025	450,000
2026	450,000
2027	450,000
Thereafter	<u>2,250,000</u>
	<u>\$ 4,500,000</u>

17. COMMITMENTS AND CONTINGENCIES

During 2021 and 2020, Provider Relief Funds (PRF) authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. Revenues from PRF grants can be recognized to the extent of expenses incurred specific to responding to the COVID-19 pandemic. Eligible expenses must not be reimbursed from another source and not obligated to be reimbursed from another source. PRF grants that are not fully expended on eligible expenses can then be applied to lost revenues as defined by the guidance issued by the grantor. MHP received PRF grants of approximately \$-0- and \$10,807,000 in 2022 and 2021, respectively. PRF funds are subject to recoupment by the grantor in the event that the conditions for recognition are not satisfied.

PRF amounts are recognized to the extent MHP meets the terms and conditions. MHP recognized PRF of approximately \$-0- and \$31,277,000 in 2022 and 2021, respectively, as COVID-19 grant funds and other in nonoperating revenue (expenses) in the statements of revenues, expenses and changes in net position.

The CARES Act also allowed health care providers to request accelerated and advanced payments for Medicare services. MHP received approximately \$11,244,000 of accelerated and advanced Medicare payments under this CARES Act provision in 2021 and 2020. Settlement of these funds began in the second quarter of 2021. Approximately \$-0- and \$2,101,000 of these funds are included on the statements of net position as of December 31, 2022 and 2021, respectively.

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

18. BLENDED COMPONENT UNITS

MHP's financial statements include the accounts of its blended component units. Below is condensed financial information of the blended component units.

	2022			
	MedWorks	MMG	Foundation	Total
Assets				
Current assets	\$ 6,222,633	\$ 1,758,964	\$ 680,270	\$ 8,661,867
Capital assets	622,571	-0-	17,761	640,332
Due from Hospital	354,475	910,038	23,806	1,288,319
Other assets	4,367,383	-0-	7,016,802	11,384,185
Total assets	<u>\$ 11,567,062</u>	<u>\$ 2,669,002</u>	<u>\$ 7,738,639</u>	<u>\$ 21,974,703</u>
Liabilities				
Due to Hospital	\$ 1,561,010	\$ 55,048	\$ 100,147	\$ 1,716,205
Other liabilities	6,341,681	1,575,729	8,849	7,926,259
Total liabilities	<u>7,902,691</u>	<u>1,630,777</u>	<u>108,996</u>	<u>9,642,464</u>
Net position				
Net investment in capital assets	622,571	-0-	17,761	640,332
Restricted	449,279	415,290	3,635,963	4,500,532
Unrestricted	2,592,521	622,935	3,975,919	7,191,375
Total net position	<u>3,664,371</u>	<u>1,038,225</u>	<u>7,629,643</u>	<u>12,332,239</u>
Total liabilities and net position	<u>\$ 11,567,062</u>	<u>\$ 2,669,002</u>	<u>\$ 7,738,639</u>	<u>\$ 21,974,703</u>
Revenues				
Net patient service revenue	\$ 19,127,123	\$ -0-	\$ -0-	\$ 19,127,123
Other	36,238	4,489,870	1,232,131	5,758,239
Total revenues	<u>19,163,361</u>	<u>4,489,870</u>	<u>1,232,131</u>	<u>24,885,362</u>
Expenses				
Depreciation	155,070	-0-	7,602	162,672
Other expenses	27,596,595	8,641,159	1,245,168	37,482,922
Total expenses	<u>27,751,665</u>	<u>8,641,159</u>	<u>1,252,770</u>	<u>37,645,594</u>
Operating loss	(8,588,304)	(4,151,289)	(20,639)	(12,760,232)
Nonoperating revenues (expenses)	<u>235,852</u>	<u>-0-</u>	<u>(1,024,960)</u>	<u>(789,108)</u>
Excess (deficit) revenues over expenses	(8,352,452)	(4,151,289)	(1,045,599)	(13,549,340)
Transfers	<u>9,609,272</u>	<u>3,483,253</u>	<u>-0-</u>	<u>13,092,525</u>
Change in net position	1,256,820	(668,036)	(1,045,599)	(456,815)
Net position				
Beginning of year	2,407,551	1,706,261	8,675,242	12,789,054
End of year	<u>\$ 3,664,371</u>	<u>\$ 1,038,225</u>	<u>\$ 7,629,643</u>	<u>\$ 12,332,239</u>
Net cash flows from				
Operating activities	\$ (8,433,234)	\$ (4,151,289)	\$ (13,037)	\$ (12,597,560)
Capital and related financing activities	9,609,272	4,201,469	(102,065)	13,708,676
Investing activities	158,040	-0-	267,711	425,751
Total	<u>1,334,078</u>	<u>50,180</u>	<u>152,609</u>	<u>1,536,867</u>
Cash and cash equivalents				
Beginning of year	2,677,445	1,706,261	135,986	4,519,692
End of year	<u>\$ 4,011,523</u>	<u>\$ 1,756,441</u>	<u>\$ 288,595</u>	<u>\$ 6,056,559</u>

MAJOR HEALTH PARTNERS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

	2021			
	MedWorks	MMG	Foundation	Total
Assets				
Current assets	\$ 4,729,806	\$ 2,256,614	\$ 670,357	\$ 7,656,777
Capital assets	726,170	-0-	25,362	751,532
Due from Hospital	94,943	927,768	22,618	1,045,329
Other assets	4,836,346	-0-	7,979,098	12,815,444
Total assets	<u>\$ 10,387,265</u>	<u>\$ 3,184,382</u>	<u>\$ 8,697,435</u>	<u>\$ 22,269,082</u>
Liabilities				
Due to Hospital	\$ 1,504,345	\$ 33,883	\$ 14,435	\$ 1,552,663
Other liabilities	6,475,369	1,444,238	7,758	7,927,365
Total liabilities	<u>7,979,714</u>	<u>1,478,121</u>	<u>22,193</u>	<u>9,480,028</u>
Net position				
Net investment in capital assets	726,170	-0-	25,362	751,532
Restricted	(7,623)	682,504	4,551,634	5,226,515
Unrestricted	1,689,004	1,023,757	4,098,246	6,811,007
Total net position	<u>2,407,551</u>	<u>1,706,261</u>	<u>8,675,242</u>	<u>12,789,054</u>
Total liabilities and net position	<u>\$ 10,387,265</u>	<u>\$ 3,184,382</u>	<u>\$ 8,697,435</u>	<u>\$ 22,269,082</u>
Revenues				
Net patient service revenue	\$ 17,039,244	\$ -0-	\$ -0-	\$ 17,039,244
Other	52,453	5,019,473	1,208,804	6,280,730
Total revenues	<u>17,091,697</u>	<u>5,019,473</u>	<u>1,208,804</u>	<u>23,319,974</u>
Expenses				
Depreciation	147,532	-0-	8,330	155,862
Other expenses	24,963,791	7,933,293	1,233,195	34,130,279
Total expenses	<u>25,111,323</u>	<u>7,933,293</u>	<u>1,241,525</u>	<u>34,286,141</u>
Operating income (loss)	(8,019,626)	(2,913,820)	(32,721)	(10,966,167)
Nonoperating revenues (expenses)	312,188	-0-	1,135,564	1,447,752
Excess (deficit) revenues over expenses	(7,707,438)	(2,913,820)	1,102,843	(9,518,415)
Transfers	7,491,873	4,083,973	-0-	11,575,846
Change in net position	(215,565)	1,170,153	1,102,843	2,057,431
Net position				
Beginning of year	2,623,116	536,108	7,572,399	10,731,623
End of year	<u>\$ 2,407,551</u>	<u>\$ 1,706,261</u>	<u>\$ 8,675,242</u>	<u>\$ 12,789,054</u>
Net cash flows from				
Operating activities	\$ (7,872,094)	\$ (2,913,820)	\$ (24,391)	\$ (10,810,305)
Capital and related financing activities	7,491,873	4,624,659	107,043	12,223,575
Investing activities	764,732	-0-	(76,239)	688,493
Total	<u>384,511</u>	<u>1,710,839</u>	<u>6,413</u>	<u>2,101,763</u>
Cash and cash equivalents				
Beginning of year	2,292,934	536,108	129,573	2,958,615
End of year	<u>\$ 2,677,445</u>	<u>\$ 2,246,947</u>	<u>\$ 135,986</u>	<u>\$ 5,060,378</u>

The separate financial statements for each of the entities discussed above may be obtained through contacting management of MHP.



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

Board of Trustees
Major Health Partners
Shelbyville, Indiana

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Major Health Partners (MHP), which comprise the statement of net position as of December 31, 2022, 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 30, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MHP's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MHP's internal control. Accordingly, we do not express an opinion on the effectiveness of MHP'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 MHP's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Trustees
Major Health Partners
Shelbyville, Indiana

Compliance and Other Matters

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

Purpose of this Report

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

Blue & Co., LLC

Indianapolis, Indiana

May 30, 2023