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302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513

Fax: (317) 232-4711

Web Site: www.in.gov/sboa

June 26, 2024

Board of Trustees
Decatur County Memorial Hospital
Decatur County, Indiana

We have reviewed the audit report of Decatur County Memorial Hospital, which was opined upon by FORVIS, LLP, Independent Public Accountants, for the period January 1, 2023 to December 31, 2023. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of Decatur County Memorial Hospital as of December 31, 2023, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner



Decatur County Memorial Hospital
A Component Unit of
Decatur County, Indiana

**Independent Auditor's Report and
Financial Statements**

December 31, 2023



Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Contents
December 31, 2023

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201 N. Illinois Street, Suite 700 / Indianapolis, IN 46244

P 317.383.4000 / F 317.383.4200

forvis.com

Independent Auditor's Report

Board of Trustees
Decatur County Memorial Hospital
Greensburg, Indiana

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Decatur County Memorial Hospital (Hospital), a component unit of Decatur County, Indiana, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2023, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our 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 the Hospital's ability to continue as a going concern for 12 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 GAAS 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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis (MD&A) 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The detailed balance sheet information and detailed statement of revenues, expenses and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the detailed balance sheet information and detailed statement of revenues, expenses and changes in net position information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2024, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

FORVIS,LLP

**Indianapolis, Indiana
May 31, 2024**

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Management's Discussion and Analysis
December 31, 2023

Introduction

This management's discussion and analysis of the financial performance of Decatur County Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2023 and 2022. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments decreased in 2023 by \$5.6 million or 11.5%, compared to a decrease of \$10.2 million or 17.2% in 2022.
- The Hospital's net position increased in 2023 by \$5.5 million or 6.4% compared to a decrease of \$10.5 million or 10.9% in 2022.
- The Hospital reported an operating loss of \$0.2 million in 2023 compared to an operating loss of \$5.5 million in 2022. The operating results in 2023 improved by \$5.3 million as compared to 2022.
- The Hospital's net nonoperating activity for 2023 resulted in a gain of \$5.9 million compared to a net nonoperating loss of \$4.8 million for 2022. This was an improvement of \$10.7 million.

Adoption of New Accounting Standard

Effective January 1, 2023, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). However, the standard did not have a material impact on the Hospital's 2023 financial statements.

Using This Annual Report

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

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

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

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

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Management's Discussion and Analysis
December 31, 2023

The Statement of Cash Flows

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

The Hospital's Net Position

The Hospital's net position is equal to its assets, less liabilities reported in the balance sheets. The Hospital's net position increased by \$5.5 million or 6.4% in 2023 over 2022 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	<u>2023</u>	<u>2022</u>
Assets		
Patient accounts receivable, net	\$ 17,663,459	\$ 14,483,467
Other current assets	48,440,683	55,703,573
Capital assets, net	54,649,677	46,568,268
Other noncurrent assets	<u>2,501,611</u>	<u>2,610,573</u>
Total assets	<u>\$ 123,255,430</u>	<u>\$ 119,365,881</u>
Liabilities		
Current liabilities excluding current maturities of long-term debt	\$ 19,156,320	\$ 19,342,537
Long-term debt	12,395,897	13,770,481
Other noncurrent liabilities	372,091	430,835
Total liabilities	<u>31,924,308</u>	<u>33,543,853</u>
Net Position		
Net investment in capital assets	40,191,057	30,731,794
Restricted	552,828	639,102
Unrestricted	<u>50,587,237</u>	<u>54,451,132</u>
Total net position	<u>91,331,122</u>	<u>85,822,028</u>
Total liabilities and net position	<u>\$ 123,255,430</u>	<u>\$ 119,365,881</u>

The increase in the Hospital's assets during 2023 was primarily due to a substantial construction project for a rehabilitation clinic resulting in an increase in capital assets, strong performance of the Hospital's investment portfolio stemming from improved financial markets resulting in an increase in investments, as well as an increase in patient accounts receivable.

The Hospital's liabilities remained stable between 2022 and 2023.

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Management's Discussion and Analysis
December 31, 2023

Operating Results and Changes in the Hospital's Net Position

In 2023, the Hospital's total net position increased by \$5.5 million or 6.4%. This increase is made up of several different components, which are shown in Table 2 below and further discussed in the next section.

Table 2: Operating Results and Changes in Net Position

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Net patient service revenue	\$ 127,037,471	\$ 120,348,360
Other	15,404,385	13,015,636
Total operating revenues	<u>142,441,856</u>	<u>133,363,996</u>
Operating Expenses		
Salaries, wages, contract labor and employee benefits	69,855,840	66,112,659
Purchased services and professional fees	25,073,369	27,435,749
Depreciation and amortization	4,226,924	3,802,926
Other operating expenses	43,456,398	41,500,267
Total operating expenses	<u>142,612,531</u>	<u>138,851,601</u>
Operating Loss	<u>(170,675)</u>	<u>(5,487,605)</u>
Nonoperating Revenues (Expenses)		
Investment return	5,497,157	(6,428,111)
Interest expense	(331,512)	(366,751)
Noncapital grants and contributions	459,548	364,128
Noncapital appropriations - Decatur County	132,000	132,000
Other	186,853	1,449,465
Total nonoperating revenues (expenses)	<u>5,944,046</u>	<u>(4,849,269)</u>
Excess (Deficiency) of Revenues Over Expenses	5,773,371	(10,336,874)
Other Changes in Net Position	<u>(264,277)</u>	<u>(187,091)</u>
Increase (Decrease) in Net Position	<u>\$ 5,509,094</u>	<u>\$ (10,523,965)</u>

Operating Loss

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

**Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Management's Discussion and Analysis
December 31, 2023**

The Hospital's operating loss was \$0.2 million for 2023 compared to an operating loss of \$5.5 million for 2022. The primary components of the change in the Hospital's operating loss in 2023 are:

- Net patient service revenue was \$127.0 million for 2023 compared to \$120.3 million in 2022, which is an increase of \$6.7 million, or 5.6%.
- Salaries, wages, contract labor and employee benefits for the Hospital were \$69.9 million for 2023 compared to \$66.1 million for 2022, which represents an increase of \$3.8 million, or 5.4%.
- Other operating revenues were \$15.4 million for 2023 compared to \$13.0 million in 2022, which is an increase of \$2.4 million, or 18.4%.
- Additionally, the Hospital also experienced cost increases associated with medical supplies and drugs, which increased \$3.4 million, or 17.1%, from 2022 to 2023.

The increase in net patient service revenue in 2023 is a result of various factors, most notably of which are increased volumes for outpatient services and increased scripts associated with the Hospital's pharmacy. The current labor markets, which are highly competitive, as well as other macroeconomic market factors, continue to increase operating costs for the Hospital in terms of salaries, wages, benefits, contract labor, medical supplies, drugs, and other operating items.

Nonoperating Revenues and Expenses

Historically, nonoperating revenues and expenses consist primarily of investment return, noncapital grants, and interest expense.

In 2023, nonoperating revenues and expenses include income on investments of approximately \$5.5 million, stemming from improvements in the broader financial markets. Interest expense was approximately \$0.3 million for 2023.

In 2022, nonoperating revenues and expenses included approximately \$6.4 million of losses on investments, driven by fluctuations and volatility in financial markets. Interest expense was approximately \$0.4 million for 2022.

The Hospital's Cash Flows

The Hospital's cash flows fluctuated from the previous year, with a significant increase in net cash flows from operations, and a significant decrease in net cash flows from capital and related financing activities. The improvement in net cash flows from operations is largely due to the improved operating and economic performance of the Hospital. The decrease in net cash flows from capital and related activities is due to substantial construction projects incurred by the Hospital, repayment of the outstanding line of credit, and no new borrowing by the Hospital in 2023. Net cash flows from noncapital financing activities were stable year-over-year. Net cash flows from investing activities decreased by approximately \$1.0 million in 2023.

Capital and Lease Assets

Capital Assets

At the end of 2023, the Hospital had \$54.6 million invested in capital assets, net of accumulated depreciation, compared to \$46.6 million at the end of 2022, as detailed in Note 5 to the financial statements. Capital asset additions have been \$12.3 million and \$10.0 million, respectively, each of the past two years.

**Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Management's Discussion and Analysis
December 31, 2023**

Lease Assets

Upon adoption of GASB 87, *Leases*, on January 1, 2022, the Hospital recognized lease assets of \$0.5 million, associated with the leasing of medical and administrative office space. During 2022 and 2023, the Hospital did not enter into any new lease arrangements.

Debt and Lease Liabilities

Debt

At December 31, 2023, the Hospital had approximately \$12.4 million of outstanding debt. This is compared to \$15.7 million of outstanding debt at December 31, 2022, split between the Hospital's bonds (\$13.7 million) and its line of credit (\$2.0 million). Borrowing and payment activity during the year are outlined in Note 9 to the financial statements.

Lease Liabilities

Upon adoption of GASB 87, *Leases*, on January 1, 2022, the Hospital recognized lease liabilities of \$0.5 million, associated with the leasing of medical and administrative office space. During 2022 and 2023, the Hospital did not enter into any new lease arrangements.

Other Economic Factors

Management believes operating margins for the Hospital, and for the healthcare industry at-large, will continue to be under pressure due to continuing changes in acuity, payor mix, and other reimbursement-related matters, as well as growth in operating expenses, which may be in excess of the increases in contractually arranged and legally established payments received for services rendered. The ongoing challenge facing the Hospital is to continue to provide quality patient care in a highly competitive environment, and to attain reasonable rates for services provided while managing costs.

Contacting the Hospital's Financial Management

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

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Balance Sheet
December 31, 2023

	<u>2023</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 6,070,107
Short-term investments	35,007,655
Patient accounts receivable, net of allowance of approximately \$6,955,000	17,663,459
Supplies	1,570,699
Estimated third-party settlements	2,017,823
Prepaid expenses and other current assets	3,774,399
Total current assets	<u>66,104,142</u>
Noncurrent Cash and Investments	
Internally designated for capital improvements	1,704,265
Restricted by contributors and grantors	427,742
Total noncurrent cash and investments	<u>2,132,007</u>
Capital Assets, Net	<u>54,649,677</u>
Lease Assets, Net	<u>369,604</u>
Total assets	<u>\$ 123,255,430</u>
Liabilities and Net Position	
Current Liabilities	
Current maturities of long-term debt	\$ 1,405,233
Accounts payable and accrued expenses	16,418,454
Estimated third-party settlements	2,679,122
Current portion of lease liabilities	58,744
Total current liabilities	<u>20,561,553</u>
Noncurrent Liabilities	
Long-term debt, net of current portion	10,990,664
Lease liabilities, net of current portion	372,091
Total noncurrent liabilities	<u>11,362,755</u>
Total liabilities	<u>31,924,308</u>
Net Position	
Net investment in capital assets	40,191,057
Restricted:	
Expendable for capital acquisitions	92,573
Expendable for specific operating activities	335,169
Other	125,086
Unrestricted	50,587,237
Total net position	<u>91,331,122</u>
Total liabilities and net position	<u>\$ 123,255,430</u>

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2023

	<u>2023</u>
Operating Revenues	
Net patient service revenue, net of provision for uncollectible accounts of approximately \$8,340,000	\$ 127,037,471
Other	15,404,385
Total operating revenues	<u>142,441,856</u>
Operating Expenses	
Salaries, wages and contract labor	58,468,570
Employee benefits	11,387,270
Purchased services and professional fees	25,073,369
Medical supplies, drugs and other supplies	23,478,137
Utilities	2,010,640
Repairs and maintenance	2,891,009
Insurance	2,009,861
Depreciation and amortization	4,226,924
Other	8,472,976
Provider hospital assessment fee	4,593,775
Total operating expenses	<u>142,612,531</u>
Operating Loss	<u>(170,675)</u>
Nonoperating Revenues (Expenses)	
Investment return	5,497,157
Interest expense	(331,512)
Noncapital grants and contributions	459,548
Noncapital appropriations - Decatur County	132,000
Other	186,853
Total nonoperating revenues (expenses)	<u>5,944,046</u>
Excess of Revenues Over Expenses	5,773,371
Other Changes in Net Position	<u>(264,277)</u>
Increase in Net Position	5,509,094
Net Position, Beginning of Year	<u>85,822,028</u>
Net Position, End of Year	<u>\$ 91,331,122</u>

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Statement of Cash Flows
Year Ended December 31, 2023

	<u>2023</u>
Cash Flows From Operating Activities	
Receipts from and on behalf of patients	\$ 125,863,310
Payments to suppliers and contractors	(63,398,353)
Payments to employees and contract labor	(69,708,475)
Other operating activities	10,741,541
Net cash provided by operating activities	<u>3,498,023</u>
Cash Flows From Noncapital Financing Activities	
Noncapital grants and contributions	459,548
Noncapital appropriations - Decatur County	132,000
Other noncapital financing activities	(264,277)
Net cash provided by noncapital financing activities	<u>327,271</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(11,342,464)
Principal paid on long-term debt	(1,374,584)
Interest paid on long-term debt	(331,512)
Payments on line of credit	(2,000,000)
Principal paid on lease liabilities	(57,358)
Net cash used in capital and related financing activities	<u>(15,105,918)</u>
Cash Flows From Investing Activities	
Interest and dividends on investments	907,216
Purchase of investments	(797,686)
Proceeds from disposition of investments	256,933
Other investing activities	186,853
Net cash provided by investing activities	<u>553,316</u>
Decrease in Cash and Cash Equivalents	(10,727,308)
Cash and Cash Equivalents, Beginning of Year	<u>16,797,415</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,070,107</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating loss	\$ (170,675)
Depreciation and amortization	4,226,924
Provision for uncollectible accounts	8,335,313
Changes in operating assets and liabilities:	
Patient accounts receivable	(11,515,305)
Supplies and other current assets	490,908
Estimated third-party settlements	1,725,042
Accounts payable and accrued expenses	405,816
Net cash used in operating activities	<u>\$ 3,498,023</u>
Noncash Investing, Capital and Financing Activities	
Capital asset additions included in accounts payable and accrued expenses	\$ 2,001,492

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

Nature of Operations and Reporting Entity

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

As further described in Note 16, the Hospital operates long-term care facilities (LTC) through various lease arrangements with third parties. These facilities provide inpatient and therapy services in their geographic areas and support the Hospital's mission to provide quality care and services to the facilities' residents. The facilities are managed by third parties under separate management agreements. The revenues from operations are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

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

The Hospital holds a 51% ownership interest in Decatur County Memorial Pain Management, LLC (Pain Management), which is organized to offer pain management services in the Hospital's primary service area. Effective January 1, 2019, upon adoption of Governmental Accounting Standards Board (GASB) Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, the operations of Pain Management are reported as a blended component unit, as the Hospital holds a majority equity interest. Although it is legally separate from the Hospital, Pain Management is reported as if it were a part of the Hospital. All significant intercompany transactions have been eliminated for financial reporting purposes. Separate audited financial statements are not issued for Pain Management.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally county appropriations and federal and state grants) are recognized when all applicable eligibility requirements are met. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Operating Activities

The Hospital defines operating activities, as reported in the statement of revenues, expenses and changes in net position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received, as well as program-specific, government-mandated nonexchange transactions. Nearly all of the Hospital's expenses are from exchange transactions. Certain revenues relied upon for operations, such as county appropriations, noncapital grants and contributions, including government-mandated nonexchange transactions that are not program specific, and investment return are recorded as nonoperating revenues in accordance with GASB Statement No. 35.

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Notes to Financial Statements
December 31, 2023

Use of Estimates

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

Risk Management

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

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2023, cash equivalents consisted primarily of money market accounts with brokers.

Investments and Investment Return

Investments in U.S. agency obligations with a remaining maturity of one year or less at time of acquisition are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

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

Patient Accounts Receivable

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

Supplies

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

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Notes to Financial Statements
December 31, 2023

Capital Assets

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

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

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Capital and Lease Asset Impairment

The Hospital evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of an applicable asset has occurred. If an asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation or amortization is increased by the amount of the impairment loss. No asset impairment was recognized during the year ended December 31, 2023.

Compensated Absences

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

Lease Liabilities

As lessee, the Hospital initially measures a lease liability at the present value of payments expected to be made during the lease term.

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Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital and lease assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of borrowings, lease liabilities and accounts payable used to finance the purchase or construction of those assets. Restricted net position consists of the minority equity ownership of Pain Management, as well as noncapital assets that must be used for a particular purpose, as defined and/or specified by grantors or donors external to the Hospital. Unrestricted net position is the remaining assets, less remaining liabilities, that do not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charity care provided in 2023 measured at estimated cost, approximated \$700,000. Estimated cost is derived from a ratio of total operating expenses as a percentage of gross charges.

Income Taxes

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

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

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

Foundation

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

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Future Adoption of Accounting Standards

In fiscal year 2024, the Hospital will be required to adopt GASB Statement No. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62, which prescribes that accounting and reporting for each type of accounting change and error corrections. Also in fiscal year 2024, the Hospital will be required to adopt GASB Statement No. 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences. The Hospital has not determined the impact of these new standards to its financial statements; however, they could have a material future impact.

Note 2. Net Patient Service Revenue

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

Medicare

The Hospital is designated by Medicare as a critical access hospital (CAH). Inpatient acute care and swing bed services, and most outpatient services, are reimbursed based on a cost reimbursement methodology. Interim per diem rates for inpatient services and percent of charges for outpatient services are reimbursed throughout the year, with final settlement determined after submission of the annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. At December 31, 2023, the Hospital recorded a payable for estimated cost report settlements of \$770,000, which is included in estimated third-party settlements payable.

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

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to the service provided and the patient diagnosis. At December 31, 2023, the Hospital recorded a receivable for estimated settlements related to its rural health clinics of approximately \$1,340,000, which is in estimated third-party settlements receivable.

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

Approximately 69% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the year ended December 31, 2023. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately \$1.35 million within net patient service revenue related to this supplemental payment program for the year ended December 31, 2023. The amount outstanding at December 31, 2023 approximated \$674,000 and is accrued as a receivable in estimated third-party settlements. The accrued amount represents management's best estimate of DSH funds due to the Hospital, which are typically paid in arrears.

The Hospital participates in a state-specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred fees approximating \$4.6 million related to this Medicaid program for 2023, which is recorded as an operating expense in the statement of revenues, expenses and changes in net position. The amount outstanding under the assessment fee program approximated \$1.9 million as of December 31, 2023, and the liability is included in estimated third-party settlements.

In conjunction with the provider assessment program, the Hospital's Medicaid Inpatient Utilization Rate (MIUR) is measured against a statewide threshold, as defined by state regulation, during periodic measurement periods. The state measures MIUR percentages no less than every four years and no more than every two years. A benefit of having a MIUR exceeding the statewide threshold is a 25% reduction in provider assessment fees. At each measurement period, the state-defined MIUR threshold changes, which potentially affects the Hospital's eligibility status.

In April 2023, the Hospital was notified its MIUR fell below the state-defined threshold applicable to the period of July 1, 2021 through June 30, 2023. This change in MIUR eligibility retroactively eliminated the Hospital's previously recognized benefit, which had been estimated based on the expectation that the Hospital would continue to receive a 25% reduction in provider assessment fees for the aforementioned two-year period. As a result, the Hospital recognized additional fees of approximately \$1.5 million in its 2022 financial statements.

The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital is responsible for funding the IGT for the long-term care operations. Revenue associated with the UPL program is recorded net of IGT payments made to the program and is included in other operating revenue. The Hospital recognized approximately \$4.7 million related to this supplemental payment program for the year ended December 31, 2023. At December 31, 2023, a \$1.2 million receivable associated with this program is accrued and included in prepaid expenses and other current assets.

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

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Note 3. Deposits, Investments and Investment Return

Deposits

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

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

Investments

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

At December 31, 2023, the Hospital had the following investments and maturities:

Type	Fair Value	2023 Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 701,102	\$ 701,102	\$ -	\$ -	\$ -
Equity mutual funds	28,266,851	28,266,851	-	-	-
Fixed income mutual funds	8,163,824	8,163,824	-	-	-
U.S. agency obligations	7,885	-	-	-	7,885
	<u>\$ 37,139,662</u>	<u>\$ 37,131,777</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,885</u>

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

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital does not have a formal investment policy for credit risk. At December 31, 2023, the Hospital's investments were not rated by Standard & Poor's or Moody's Investors Service.

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

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer. The Hospital's policy is to limit holdings in equities to 75% and to limit fixed income holdings to 60%. For 2024, the Hospital revised this policy to limit holdings in equities to 85% of total investment holdings.

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Summary of Carrying Values

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

	2023
Carrying value:	
Deposits	\$ 6,070,107
Investments	<u>37,139,662</u>
	<u>\$ 43,209,769</u>
Included in the following balance sheets captions:	
Cash and cash equivalents	\$ 6,070,107
Short-term investments	35,007,655
Noncurrent cash and investments	
Internally designated for capital improvements	1,704,265
Restricted by contributors and grantors	<u>427,742</u>
	<u>\$ 43,209,769</u>

Investment Return

Investment return for the year ended December 31 consisted of:

	2023
Interest and dividend income	\$ 907,216
Net increase in fair value of investments	<u>4,589,941</u>
	<u>\$ 5,497,157</u>

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Note 4. Patient Accounts Receivable

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

	2023
Medicare	\$ 5,842,595
Medicaid	5,064,629
Other third-party payors	5,795,017
Patients	<u>7,913,102</u>
	24,615,343
Less allowance for uncollectible accounts	<u>6,951,884</u>
	<u><u>\$ 17,663,459</u></u>

Note 5. Capital and Lease Assets

Capital assets activity for the year ended December 31 was:

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 6,852,923	\$ -	\$ -	\$ (650,000)	\$ 6,202,923
Land improvements	1,535,667	15,000	-	164,738	1,715,405
Buildings and leasehold improvements	45,818,398	140,628	-	1,761,123	47,720,149
Equipment	8,897,675	26,398	-	679,257	9,603,330
Major moveable equipment	22,224,358	440,962	(993,564)	857,084	22,528,840
Vehicles	561,822	128,632	(20,065)	-	670,389
Construction in progress	5,087,807	11,502,625	-	(2,812,202)	13,778,230
	<u>90,978,650</u>	<u>12,254,245</u>	<u>(1,013,629)</u>	<u>-</u>	<u>102,219,266</u>
Less accumulated depreciation:					
Land improvements	334,372	179,128	-	-	513,500
Buildings and leasehold improvements	21,306,472	1,836,162	-	-	23,142,634
Equipment	3,792,558	1,076,367	-	-	4,868,925
Major moveable equipment	18,658,651	970,276	(993,564)	-	18,635,363
Vehicles	318,329	110,903	(20,065)	-	409,167
	<u>44,410,382</u>	<u>4,172,836</u>	<u>(1,013,629)</u>	<u>-</u>	<u>47,569,589</u>
Capital assets, net	<u>\$ 46,568,268</u>	<u>\$ 8,081,409</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,649,677</u>

In February 2024, the Hospital opened a new rehabilitation clinic, which comprises the majority of the \$13.8 million construction in progress balance at year-end.

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Lease asset activity for the year ended December 31 was:

	2023			Ending Balance
	Beginning Balance	Additions	Disposals	
Buildings and leasehold improvements	\$ 477,780	\$ -	\$ -	\$ 477,780
Less accumulated amortization:				
Buildings and leasehold improvements	54,088	54,088	-	108,176
Lease assets, net	<u>\$ 423,692</u>	<u>\$ (54,088)</u>	<u>\$ -</u>	<u>\$ 369,604</u>

Note 6. Accounts Payable and Accrued Expenses

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

	2023
Payable to suppliers, contractors and other	\$ 12,837,846
Payable to employees (including payroll taxes and benefits)	<u>3,580,608</u>
Balance, end of year	<u>\$ 16,418,454</u>

Note 7. Medical Malpractice Claims

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

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

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Note 8. Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents. Commercial stop-loss insurance coverage is purchased for claims in excess of a \$50,000 aggregate specific deductible on top of a \$160,000 aggregate group specific deductible for a maximum annual reimbursement of \$1,000,000. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability, which is included in accounts payable and accrued expenses in the balance sheet, during 2023, is summarized as follows:

	2023
Balance, beginning of year	\$ 500,000
Current year claims incurred and changes in estimates for claims incurred in prior years	4,501,039
Claims and expenses paid	<u>(4,651,039)</u>
Balance, end of year	<u>\$ 350,000</u>

Note 9. Long-Term Obligations and Line of Credit

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

	2023				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Capital improvement bond, series 2022	\$ 13,770,481	\$ -	\$ (1,374,584)	\$ 12,395,897	\$ 1,405,233
Other liabilities:					
Lease liabilities	<u>488,193</u>	<u>-</u>	<u>(57,358)</u>	<u>430,835</u>	<u>58,744</u>
Total long-term obligations	<u>\$ 14,258,674</u>	<u>\$ -</u>	<u>\$ (1,431,942)</u>	<u>\$ 12,826,732</u>	<u>\$ 1,463,977</u>

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Capital Improvements Bonds, Series 2022

In January 2022, the Hospital refinanced its Capital Improvements Bonds, Series 2012 (Series 2012 Bonds), which had an outstanding balance approximating \$3,800,000. As part of the refinance, the Hospital issued \$15,000,000 under the Capital Improvements Bonds, Series 2022 (Series 2022 Bonds). The refinance resulted in a payoff of the Series 2012 Bonds, and approximately \$11,200,000 in proceeds received by the Hospital. The bonds were issued to fund certain construction and expansions of the Hospital. The bonds are payable in monthly installments of \$141,244 through February 1, 2032, and bear interest at a fixed rate of 2.44%. The Series 2022 Bonds are subject to financial and other covenants and are secured by a mortgage on certain improvements and real property of the Hospital.

The debt service requirements on the bonds payable, as of December 31, 2023, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2024	\$ 1,694,930	\$ 1,405,233	\$ 289,697
2025	1,694,930	1,439,907	255,023
2026	1,694,930	1,475,436	219,494
2027	1,694,930	1,511,842	183,088
2028	1,694,930	1,552,296	142,634
2029 - 2032	5,337,466	5,011,183	326,283
	<u>\$ 13,812,116</u>	<u>\$ 12,395,897</u>	<u>\$ 1,416,219</u>

Line of Credit

The Hospital has a \$3,000,000 line of credit which matures in July 2024. Interest on outstanding amounts accrues at a variable rate equal to the Secured Overnight Financing Rate (SOFR), as administered by the lender's administrator and as published by Bloomberg, plus 2.00%, subject to certain caps and floors. At year-end, the interest rate was 7.38%. The line of credit is secured by certain assets of the Hospital. At December 31, 2023, the Hospital had no outstanding draws on the line of credit.

Note 10. Lease Liabilities

The Hospital leases medical and office space for outpatient surgery and other operating functions, the current term of which expires in 2024. Management has determined that available renewal options under the lease agreement, which extend into 2030, are probable.

The following is a summary of lease liability transactions for the Hospital:

	Beginning Balance	2023		Ending Balance	Current Portion
		Additions	Deductions		
Building lease	\$ 488,193	\$ -	\$ (57,358)	\$ 430,835	\$ 58,744

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The following is a schedule, by year, of lease liability payments as of December 31, 2023:

Year Ending December 31,	Total to be Paid	Principal	Interest
2024	\$ 68,400	\$ 58,744	\$ 9,656
2025	68,400	60,163	8,237
2026	68,400	61,617	6,783
2027	68,400	63,106	5,294
2028	68,400	64,631	3,769
2029 - 2030	125,400	122,574	2,826
	<u>\$ 467,400</u>	<u>\$ 430,835</u>	<u>\$ 36,565</u>

Within the Hospital's leasing arrangements, any variable payments based on the use of the underlying assets are not included in the lease liability because they are not a fixed substance. Furthermore, any payments associated with short-term rentals are not included in the lease liability because they are not long-term in nature, as defined by GASB No. 87. As discussed in Note 16, the Hospital's long-term care facility leases include termination language in which either party can terminate the agreements without cause, which qualifies them as short-term rentals.

During the year ended December 31, 2023, Hospital recognized approximately \$3.6 million of expense under agreements as variable or short-term rentals, which is included within other operating expenses on the statement of revenues, expenses and changes in net position. Substantially all of this \$3.6 million relates to the aforementioned long-term care facility leases as discussed above and in further detail in Note 16.

Note 11. Pension Plan

The Hospital contributes to a defined-contribution pension plan, as authorized by Indiana Code 16-22-3-11, covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan administrator is the Director of Human Resources for the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. The Hospital is required to match 100% of the employee contribution up to 1% of employee's compensation. In addition, the Hospital may make a discretionary contribution as determined by the Hospital Board, which was 3% for 2023. Hospital expense related to the employer contributions to the plan approximated \$1.2 million for 2023.

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Note 12. Disclosures About Fair Value of Assets

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

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

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2023:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Investments by fair value level				
Equity mutual funds	\$ 28,266,851	\$ 28,266,851	\$ -	\$ -
Fixed income mutual funds	8,163,824	8,163,824	-	-
U.S. agency obligations	7,885	-	7,885	-
		<u>-</u>	<u>7,885</u>	<u>-</u>
Total investments measured by fair value level	36,438,560	<u>\$ 36,430,675</u>	<u>\$ 7,885</u>	<u>\$ -</u>
Investments measured at the net asset value (NAV)				
Money market mutual funds	<u>701,102</u>			
Total investments measured at fair value	<u>\$ 37,139,662</u>			

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Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Hospital does not have any Level 3 assets at December 31, 2023.

Note 13. Commitments and Contingencies

Litigation

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

CARES Act Funding

In response to the World Health Organization's designation of the SARS-CoV-2 virus and the incidence of COVID-19 as a global pandemic in March 2020, various legislation was enacted, including the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) and the *American Rescue Plan Act* (ARPA Act). During the years ended December 31, 2021 and 2020, the Hospital received approximately \$21 million of distributions from the CARES Act Provider Relief Fund and the ARPA Act Relief Fund (collectively, the Provider Relief Fund). These Provider Relief Fund distributions are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses and/or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services. The Hospital will continue to monitor compliance with the terms and conditions governing the Provider Relief Fund, which are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be affected. Provider Relief Fund payments are subject to government oversight, including audits.

Note 14. Noncapital Appropriations - Decatur County

Decatur County, of which the Hospital is a component unit, subsidized the Hospital for providing the County with ambulance services. The Hospital recognizes these payments as nonoperating revenue. The Hospital recognized subsidy revenue of approximately \$132,000 for the year ended December 31, 2023.

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Note 15. Condensed Combining Information

The following table includes condensed combining balance sheet information for the Hospital and its blended component units as of December 31, 2023:

	December 31, 2023				Total
	Hospital	Foundation	Pain Management	Eliminations	
Assets					
Current assets	\$ 64,833,772	\$ 1,188,401	\$ 81,969	\$ -	\$ 66,104,142
Intercompany receivables	72,791	-	205,201	(277,992)	-
Capital assets, net	54,649,677	-	-	-	54,649,677
Other noncurrent assets	2,208,037	423,765	-	(130,191)	2,501,611
	<u>\$ 121,764,277</u>	<u>\$ 1,612,166</u>	<u>\$ 287,170</u>	<u>\$ (408,183)</u>	<u>\$ 123,255,430</u>
Liabilities					
Current liabilities	\$ 20,558,375	\$ -	\$ 3,178	\$ -	\$ 20,561,553
Intercompany payables	176,486	72,791	28,715	(277,992)	-
Noncurrent liabilities	11,362,755	-	-	-	11,362,755
Total liabilities	<u>32,097,616</u>	<u>72,791</u>	<u>31,893</u>	<u>(277,992)</u>	<u>31,924,308</u>
Net Position					
Net investment in capital assets	40,191,057	-	-	-	40,191,057
Restricted	3,977	423,765	125,086	-	552,828
Unrestricted	49,471,627	1,115,610	130,191	(130,191)	50,587,237
Total net position	<u>89,666,661</u>	<u>1,539,375</u>	<u>255,277</u>	<u>(130,191)</u>	<u>91,331,122</u>
Total liabilities and net position	<u>\$ 121,764,277</u>	<u>\$ 1,612,166</u>	<u>\$ 287,170</u>	<u>\$ (408,183)</u>	<u>\$ 123,255,430</u>

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Notes to Financial Statements
December 31, 2023

The following table includes condensed combining statement of revenues, expenses and changes in net position information for the Hospital and its blended component units for the year ended December 31, 2023:

	December 31, 2023				Total
	Hospital	Foundation	Pain Management	Eliminations	
Operating Revenues					
Net patient service revenue	\$ 126,053,454	\$ -	\$ 984,017	\$ -	\$ 127,037,471
Other operating revenue	15,903,697	-	-	(499,312)	15,404,385
Total operating revenues	<u>141,957,151</u>	<u>-</u>	<u>984,017</u>	<u>(499,312)</u>	<u>142,441,856</u>
Operating Expenses					
Salaries, wages, contract labor and employee benefits	69,570,128	-	285,712	-	69,855,840
Purchased services and professional fees	24,916,519	-	156,850	-	25,073,369
Depreciation and amortization	4,226,924	-	-	-	4,226,924
Other operating expenses	43,390,199	-	66,199	-	43,456,398
Total operating expenses	<u>142,103,770</u>	<u>-</u>	<u>508,761</u>	<u>-</u>	<u>142,612,531</u>
Operating Income (Loss)	<u>(146,619)</u>	<u>-</u>	<u>475,256</u>	<u>(499,312)</u>	<u>(170,675)</u>
Nonoperating Revenues (Expenses)					
Investment return	5,329,247	167,910	-	-	5,497,157
Interest expense	(331,512)	-	-	-	(331,512)
Noncapital grants and contributions	-	459,548	-	-	459,548
Noncapital appropriations - Decatur County	132,000	-	-	-	132,000
Other	512,493	(582,573)	-	256,933	186,853
Total nonoperating revenues (expenses)	<u>5,642,228</u>	<u>44,885</u>	<u>-</u>	<u>256,933</u>	<u>5,944,046</u>
Excess (Deficiency) of Revenues Over Expenses	5,495,609	44,885	475,256	(242,379)	5,773,371
Other Changes in Net Position	-	-	(539,339)	275,062	(264,277)
Increase (Decrease) in Net Position	<u>\$ 5,495,609</u>	<u>\$ 44,885</u>	<u>\$ (64,083)</u>	<u>\$ 32,683</u>	<u>\$ 5,509,094</u>

Note 16. Long-Term Care Operations and Agreements

The Hospital has entered into various agreements to lease the facilities for the operation of nursing homes. Along with the lease agreements, the Hospital has also entered into management agreements with the facilities' third-party managers (Managers) to continue to operate the facilities. These agreements include original terms of two years with optional two-year extension or renewal periods. The lease and management agreements also include termination clauses available to either party, and for that reason, these long-term care leases are excepted from the adoption of GASB No. 87.

The lease agreements call for monthly base rent payments as outlined in the agreements. Rental expense approximated \$3.2 million in 2023 and is included in other operating expenses on the statement of revenues, expenses and changes in net position.

The management agreements include management fees consisting of base management fees, subordinated management fees, and incentive management fees. Base and subordinate management fees are determined on percentages of net patient service revenue of the individual facilities and range from 2% to 5%. Incentive management fees are to be paid only if sufficient working capital exists. The agreements also call for quality, royalty and capital improvement fees to be paid to the Managers. Management and other fees approximated \$4.0 million in 2023 and include waivers of certain fees as insufficient cash flows existed to fund the amounts due. These management fees are included within purchased services and professional fees on the statement of revenues, expenses and changes in net position.

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Notes to Financial Statements
December 31, 2023

Under the management agreements, the employees necessary to operate the facilities are contracted by the Hospital. The majority of all costs in the ordinary course of business are paid by the Managers who are then reimbursed by the Hospital from operations of the facilities. Similarly, Managers of certain facilities have provided working capital to cover insufficient cash flows from operations. Consequently, the majority of accounts payable and accrued expenses of the long-term care operations approximating \$8.0 million at December 31, 2023, reflects amounts due to the Managers and their vendors.

For the entirety of 2023, the Hospital operated five nursing homes. Effective January 1, 2024, the lease and management agreements associated with two of the Hospital's long-term care facilities were terminated.

Note 17. Subsequent Events – Change Healthcare

In February 2024, Change Healthcare, a leading healthcare technology revenue cycle vendor who serves as a clearinghouse between healthcare providers and insurers, was victim to a cyber breach. This breach has led to disruption in the claims submission and billing process throughout the healthcare industry, leading to delays in reimbursement for services and cash collections. While the Hospital was not directly targeted with the cyber breach, its utilization of services with Change Healthcare has impacted its billings and collections subsequent to year-end, and in March 2024, the Hospital made a \$1.7 million draw on its line of credit to assist with cash flow management.

The financial statements do not include any adjustments to reflect possible future effects of changes in collection patterns as a result of this cyber breach, if any. Events could occur that would change estimates materially in the near term.

Supplementary Information

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Detailed Balance Sheet Information
December 31, 2023

	2023					Total
	Hospital	LTC	Hospital Foundation	Pain Management	Eliminations	
Assets						
Current Assets						
Cash and cash equivalents	\$ 4,536,472	\$ 1,153,242	\$ 298,424	\$ 81,969	\$ -	\$ 6,070,107
Short-term investments	34,305,676	-	701,979	-	-	35,007,655
Patient accounts receivable, net of allowance of approximately \$4,370,000 for Hospital and \$2,585,000 for LTC	11,544,743	6,118,716	-	-	-	17,663,459
Supplies	1,570,699	-	-	-	-	1,570,699
Estimated third-party settlements	2,017,823	-	-	-	-	2,017,823
Prepaid expenses and other current assets	1,657,214	1,929,187	187,998	-	-	3,774,399
Intercompany receivable	72,791	-	-	205,201	(277,992)	-
Total current assets	55,705,418	9,201,145	1,188,401	287,170	(277,992)	66,104,142
Noncurrent Cash and Investments						
Internally designated for capital improvements	1,704,265	-	-	-	-	1,704,265
Restricted by contributors and grantors	3,977	-	423,765	-	-	427,742
Total noncurrent cash and investments	1,708,242	-	423,765	-	-	2,132,007
Capital Assets, Net						
	54,649,677	-	-	-	-	54,649,677
Other Assets						
Investment in equity investee	130,191	-	-	-	(130,191)	-
Lease assets, net	369,604	-	-	-	-	369,604
Total other assets	499,795	-	-	-	(130,191)	369,604
Total assets	\$ 112,563,132	\$ 9,201,145	\$ 1,612,166	\$ 287,170	\$ (408,183)	\$ 123,255,430
Liabilities and Net Position						
Current Liabilities						
Current maturities of long-term debt	\$ 1,405,233	\$ -	\$ -	\$ -	\$ -	\$ 1,405,233
Accounts payable and accrued expenses	8,437,392	7,977,884	-	3,178	-	16,418,454
Estimated third-party settlements	2,679,122	-	-	-	-	2,679,122
Current portion of lease liabilities	58,744	-	-	-	-	58,744
Intercompany payable	176,486	-	72,791	28,715	(277,992)	-
Total current liabilities	12,756,977	7,977,884	72,791	31,893	(277,992)	20,561,553
Noncurrent Liabilities						
Long-term debt, net of current portion	10,990,664	-	-	-	-	10,990,664
Lease liabilities, net of current portion	372,091	-	-	-	-	372,091
Total noncurrent liabilities	11,362,755	-	-	-	-	11,362,755
Total liabilities	24,119,732	7,977,884	72,791	31,893	(277,992)	31,924,308
Net Position						
Net investment in capital assets	40,191,057	-	-	-	-	40,191,057
Restricted:						
Expendable for capital acquisitions	-	-	92,573	-	-	92,573
Expendable for specific operating activities	3,977	-	331,192	-	-	335,169
Other	-	-	-	125,086	-	125,086
Unrestricted	48,248,366	1,223,261	1,115,610	130,191	(130,191)	50,587,237
Total net position	88,443,400	1,223,261	1,539,375	255,277	(130,191)	91,331,122
Total liabilities and net position	\$ 112,563,132	\$ 9,201,145	\$ 1,612,166	\$ 287,170	\$ (408,183)	\$ 123,255,430

Decatur County Memorial Hospital
A Component Unit of Decatur County, Indiana
Detailed Statement of Revenues, Expenses and
Changes in Net Position Information
Year Ended December 31, 2023

	2023					Total
	Hospital	LTC	Hospital Foundation	Pain Management	Eliminations	
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts of approximately \$6,390,000 for Hospital and \$1,950,000 for LTC	\$ 81,731,974	\$ 44,321,480	\$ -	\$ 984,017	\$ -	\$ 127,037,471
Other	11,092,799	4,810,898	-	-	(499,312)	15,404,385
Total operating revenues	<u>92,824,773</u>	<u>49,132,378</u>	<u>-</u>	<u>984,017</u>	<u>(499,312)</u>	<u>142,441,856</u>
Operating Expenses						
Salaries, wages and contract labor	36,014,058	22,227,576	-	226,936	-	58,468,570
Employee benefits	8,589,208	2,739,286	-	58,776	-	11,387,270
Purchased services and professional fees	14,511,496	10,405,023	-	156,850	-	25,073,369
Medical supplies, drugs and other supplies	20,469,237	2,975,985	-	32,915	-	23,478,137
Utilities	930,879	1,079,761	-	-	-	2,010,640
Repairs and maintenance	2,395,910	495,099	-	-	-	2,891,009
Insurance	1,111,414	892,348	-	6,099	-	2,009,861
Depreciation and amortization	4,226,924	-	-	-	-	4,226,924
Other	1,434,387	7,011,404	-	27,185	-	8,472,976
Provider hospital assessment fee	4,593,775	-	-	-	-	4,593,775
Total operating expenses	<u>94,277,288</u>	<u>47,826,482</u>	<u>-</u>	<u>508,761</u>	<u>-</u>	<u>142,612,531</u>
Operating Income (Loss)	<u>(1,452,515)</u>	<u>1,305,896</u>	<u>-</u>	<u>475,256</u>	<u>(499,312)</u>	<u>(170,675)</u>
Nonoperating Revenues (Expenses)						
Investment return	5,329,247	-	167,910	-	-	5,497,157
Interest expense	(331,512)	-	-	-	-	(331,512)
Noncapital grants and contributions	-	-	459,548	-	-	459,548
Noncapital appropriations - Decatur County	132,000	-	-	-	-	132,000
Other	512,493	-	(582,573)	-	256,933	186,853
Total nonoperating revenues (expenses)	<u>5,642,228</u>	<u>-</u>	<u>44,885</u>	<u>-</u>	<u>256,933</u>	<u>5,944,046</u>
Excess (Deficiency) of Revenues Over Expenses Before Transfers	<u>4,189,713</u>	<u>1,305,896</u>	<u>44,885</u>	<u>475,256</u>	<u>(242,379)</u>	<u>5,773,371</u>
Transfers	<u>959,523</u>	<u>(959,523)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Changes in Net Position	<u>-</u>	<u>-</u>	<u>-</u>	<u>(539,339)</u>	<u>275,062</u>	<u>(264,277)</u>
Increase (Decrease) in Net Position	<u>5,149,236</u>	<u>346,373</u>	<u>44,885</u>	<u>(64,083)</u>	<u>32,683</u>	<u>5,509,094</u>
Net Position, Beginning of Year	<u>83,294,164</u>	<u>876,888</u>	<u>1,494,490</u>	<u>319,360</u>	<u>(162,874)</u>	<u>85,822,028</u>
Net Position, End of Year	<u>\$ 88,443,400</u>	<u>\$ 1,223,261</u>	<u>\$ 1,539,375</u>	<u>\$ 255,277</u>	<u>\$ (130,191)</u>	<u>\$ 91,331,122</u>



201 N. Illinois Street, Suite 700 / Indianapolis, IN 46244

P 317.383.4000 / F 317.383.4200

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

Independent Auditor's Report

Board of Trustees
Decatur County Memorial Hospital
Greensburg, Indiana

We have audited, in accordance with 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 (*Government Auditing Standards*), the financial statements of Decatur County Memorial Hospital (Hospital), which comprise the balance sheet as of December 31, 2023, 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 31, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

FORVIS,LLP

**Indianapolis, Indiana
May 31, 2024**