



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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April 12, 2022

Board of Trustees
Adams County Memorial Hospital
1100 Mercer Avenue
Decatur, IN 46733

We have reviewed the audit report of Adams County Memorial Hospital which was opined upon by Somerset CPAs, PC, Independent Public Accountants, for the period January 1, 2020 to December 31, 2020. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Adams County Memorial Hospital as of December 31, 2020, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Somerset CPAs, PC, 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 black ink that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF
ADAMS COUNTY, INDIANA
Consolidated Financial Statements
December 31, 2020**

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

TABLE OF CONTENTS

Independent Auditor’s Report on the Consolidated Financial Statements	Page 1-2
Financial Statements	
Consolidated Balance Sheet.....	3-4
Consolidated Statement of Revenues, Expenses and Changes in Net Position	5
Consolidated Statement of Cash Flows	6-7
Notes to Consolidated Financial Statements	8-31
Independent Auditor’s Report on the Supplementary Information	32
Supplementary Information	
Schedule of Changes in the Hospital’s Net Pension (Asset) Liability and Related Ratios	33
Schedule of Hospital Contributions.....	34



Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of ADAMS COUNTY MEMORIAL HOSPITAL (Hospital), a component unit of Adams County, Indiana, which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

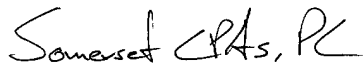
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, a component unit of Adams County, Indiana, as of December 31, 2020, and the results of its operations, changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

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

Indianapolis, Indiana
September 30, 2021

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Consolidated Balance Sheet
December 31, 2020

	Primary Government	Discrete Component Unit	Total Reporting Entity
Assets and Deferred Outflows			
Current Assets			
Cash and cash equivalents	\$ 75,696,236	\$ 310,721	\$ 76,006,957
Patient accounts receivable, net of estimated allowance for uncollectible accounts of \$21,346,894	45,193,314	-	45,193,314
Supplies and other current assets	6,201,940	5,919	6,207,859
Total Current Assets	127,091,490	316,640	127,408,130
Investments	31,599,071	-	31,599,071
Cash Held by Trustee for Debt Service	4,712,404	-	4,712,404
Capital Assets			
Land and construction in progress	6,510,149	-	6,510,149
Depreciable capital assets, net	47,826,523	-	47,826,523
Total Capital Assets, Net	54,336,672	-	54,336,672
Other Assets			
Pension asset	8,566,893	-	8,566,893
Other	1,253,199	-	1,253,199
Total Other Assets	9,820,092	-	9,820,092
Total Assets	227,559,729	316,640	227,876,369
Deferred Outflows			
Deferred loss on bond refunding	597,488	-	597,488
Pension deferred outflows	86,206	-	86,206
Total Deferred Outflows	683,694	-	683,694
Total Assets and Deferred Outflows	\$ 228,243,423	\$ 316,640	\$ 228,560,063

See accompanying notes.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Consolidated Balance Sheet (Continued)
December 31, 2020

	Primary Government	Discrete Component Unit	Total Reporting Entity
Liabilities, Deferred Inflows and Net Position			
Current Liabilities			
Current maturities of long-term debt	\$ 1,491,239	\$ -	\$ 1,491,239
Accounts payable and accrued expenses	63,599,415	6,311	63,605,726
Estimated third-party settlements	2,761,133	-	2,761,133
Other current liabilities	14,460,531	-	14,460,531
	82,312,318	6,311	82,318,629
Long-term Liabilities			
Long-term debt, less current maturities	23,996,365	-	23,996,365
Other long-term liabilities	863,767	-	863,767
	24,860,132	-	24,860,132
Total Long-term Liabilities	24,860,132	-	24,860,132
Total Liabilities	107,172,450	6,311	107,178,761
Pension Deferred Inflows			
	2,180,304	-	2,180,304
Total Liabilities and Deferred Inflows	109,352,754	6,311	109,359,065
Net Position			
Net investment in capital assets	28,869,068	-	28,869,068
Restricted for debt service	4,712,404	-	4,712,404
Unrestricted	85,309,197	310,329	85,619,526
	118,890,669	310,329	119,200,998
Total Net Position	118,890,669	310,329	119,200,998
Total Liabilities, Deferred Inflows and Net Position	\$ 228,243,423	\$ 316,640	\$ 228,560,063

See accompanying notes.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Consolidated Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2020

	Primary Government	Discrete Component Unit	Total Reporting Entity
Operating Revenues			
Net patient service revenue	\$ 297,725,900	\$ -	\$ 297,725,900
Other operating revenue	9,970,676	-	9,970,676
Total Operating Revenues	<u>307,696,576</u>	<u>-</u>	<u>307,696,576</u>
Operating Expenses			
Salaries, wages, benefits and contracted payroll	182,058,439	-	182,058,439
Supplies	28,962,090	-	28,962,090
Insurance	6,887,163	-	6,887,163
Facility and equipment leases	15,099,418	-	15,099,418
Utilities	5,905,526	-	5,905,526
Contracted services	27,101,784	-	27,101,784
Depreciation and amortization	6,074,562	-	6,074,562
Other expenses	40,245,411	204,737	40,450,148
Total Operating Expenses	<u>312,334,393</u>	<u>204,737</u>	<u>312,539,130</u>
Operating Loss	<u>(4,637,817)</u>	<u>(204,737)</u>	<u>(4,842,554)</u>
Nonoperating COVID-19 Grant Revenue	<u>19,911,586</u>	<u>-</u>	<u>19,911,586</u>
Income (Loss) Before Other Nonoperating Revenues (Expense)	<u>15,273,769</u>	<u>(204,737)</u>	<u>15,069,032</u>
Other Nonoperating Revenues (Expenses)			
Investment return	2,418,172	3,627	2,421,799
Interest expense	(1,066,972)	-	(1,066,972)
Other nonoperating income (expense)	4,158,749	-	4,158,749
Total Other Nonoperating Revenues (Expenses)	<u>5,509,949</u>	<u>3,627</u>	<u>5,513,576</u>
Excess of Revenues over Expenses (Expense over Revenues) Before Capital Grants and Contributions	<u>20,783,718</u>	<u>(201,110)</u>	<u>20,582,608</u>
Capital Grants and Contributions	<u>1,654,676</u>	<u>141,686</u>	<u>1,796,362</u>
Increase (Decrease) in Net Position	<u>22,438,394</u>	<u>(59,424)</u>	<u>22,378,970</u>
Net Position, Beginning of Year	<u>96,452,275</u>	<u>369,753</u>	<u>96,822,028</u>
Net Position, End of Year	<u>\$ 118,890,669</u>	<u>\$ 310,329</u>	<u>\$ 119,200,998</u>

See accompanying notes.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2020

	Primary Government	Discrete Component Unit	Total
Operating Activities			
Receipts from and on behalf of patients	\$ 288,491,037	\$ -	\$ 288,491,037
Payments to suppliers and contractors	(104,716,082)	(204,737)	(104,920,819)
Payments to employees	(183,285,424)	-	(183,285,424)
Other receipts, net	9,274,569	-	9,274,569
Net cash provided by (used in) operating activities	9,764,100	(204,737)	9,559,363
Capital and Related Financing Activities			
Capital grants and contributions	1,654,676	141,686	1,796,362
Cash received from COVID-19 grants	19,911,586	-	19,911,586
Principal paid on long-term debt	(1,516,895)	-	(1,516,895)
Interest paid on long-term debt	(1,150,186)	-	(1,150,186)
Acquisition and construction of capital assets	(6,283,903)	-	(6,283,903)
Net cash provided by capital and related financing activities	12,615,278	141,686	12,756,964
Cash Flows from Investing Activities			
Investment return	2,418,172	3,627	2,421,799
Sale of investments	94,598	-	94,598
Purchase of investments	(6,180,549)	-	(6,180,549)
Net cash provided by (used in) investing activities	(3,667,779)	3,627	(3,664,152)
Net Increase (Decrease) in Cash and Cash Equivalents	18,711,599	(59,424)	18,652,175
Cash and Cash Equivalents, Beginning of Year	61,697,041	370,145	62,067,186
Cash and Cash Equivalents, End of Year	\$ 80,408,640	\$ 310,721	\$ 80,719,361
Reconciliation of Cash and Cash Equivalents to the Balance Sheet			
Cash and cash equivalents in current assets	\$ 75,696,236	\$ 310,721	\$ 76,006,957
Restricted cash and cash equivalents	4,712,404	-	4,712,404
Total Cash and Cash Equivalents	\$ 80,408,640	\$ 310,721	\$ 80,719,361

See accompanying notes.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2020

	Primary Government	Discrete Component Unit	Total
Reconciliation of Operating Loss to Net Cash Provided by (Used In) Operating Activities			
Operating loss	\$ (4,637,817)	\$ (204,737)	\$ (4,842,554)
Adjustments to reconcile operating loss to net cash flows provided by (used in) operating activities:			
Depreciation and amortization	6,074,562	-	6,074,562
Loss on disposal of capital assets	3,520,453	-	3,520,453
Net unrealized gains on investments	(630,105)	-	(630,105)
Provision for uncollectible accounts	(3,914,858)	-	(3,914,858)
Changes in operating assets and liabilities:			
Patient accounts receivable	(5,320,005)	-	(5,320,005)
Supplies and other current assets	(5,503,651)	-	(5,503,651)
Other assets related to operating activities	(1,137,483)	-	(1,137,483)
Accounts payable and accrued expenses	893,494	-	893,494
Other current liabilities	18,509,224	-	18,509,224
Estimated third-party settlements	1,185,606	-	1,185,606
Other liabilities related to operating activities	724,680	-	724,680
Net cash provided by (used in) operating activities	<u>\$ 9,764,100</u>	<u>\$ (204,737)</u>	<u>\$ 9,559,363</u>

See accompanying notes.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

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

Nature of Operations and Reporting Entity

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

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

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

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

Long-term Care Operations

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

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

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

Long-term Care Operations (Continued)

As part of the agreements entered into, the Hospital pays the Managers a management fee which consists of base management fees, subordinated management fees and incentive payments. The agreements expire at various times through 2023.

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

Discretely Presented Component Unit

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

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

Measurement Focus and Basis of Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

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

Investments

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

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

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

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

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

Assets Whose Use is Limited

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

Supplies

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

Capital Assets and Depreciation

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

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020**

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

Capital Assets and Depreciation (Continued)

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

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

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

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

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

Deferred Outflows and Inflows of Resources

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

Pension

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

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

Compensated Absences

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

Net Position

Net assets of the Hospital are classified in three components:

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

Restricted expendable and nonexpendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, contributors or enabling legislation external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 9.

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

Patient Accounts Receivable and Net Patient Service Revenues

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

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

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

Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay for services provided by the Hospital. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the Hospital does not expect payment, estimated charges for charity are not included in revenue. Charges excluded from revenue under the Hospital's charity care policy were approximately \$308,000 for the year ended December 31, 2020.

Grants and Contributions

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

Endowments

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

Restricted Resources

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

Operating Revenues and Expenses

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

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

Income Taxes

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

The Foundation is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax. The Foundation has filed its federal and state income tax returns for periods through December 31, 2020. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Advertising and Community Relations

The Hospital records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was approximately \$392,000 for the year ended December 31, 2020.

Medical Malpractice Claims

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

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

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

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

Future Change in Accounting Principle

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

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

Note 2 - Net Patient Service Revenue:

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

Medicare

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

Medicaid

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

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 2 - Net Patient Service Revenue (Continued):

Medicaid (Continued)

Revenue from the Medicare and Medicaid programs accounted for approximately 50% and 13%, respectively, of the Hospital's net patient revenue for the year ended December 31, 2020. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Other Payors

The Hospital also has entered into payment agreements with certain commercial insurance carriers, HMOs and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates. Revenue from a certain commercial insurance carrier accounted for 14% of the Hospital's net patient revenue for the year ended December 31, 2020.

The following is a summary of net patient service revenue for 2020:

Patient service revenue	
Inpatient	\$ 21,860,173
Outpatient	93,476,942
Long-term care operations	<u>261,909,094</u>
Gross patient service revenue	<u>377,246,209</u>
Deductions from revenue	
Contractual allowances	78,204,367
Provision for bad debts	1,007,888
Charity care	<u>308,054</u>
Total deductions from revenue	<u>79,520,309</u>
Net patient service revenue	<u><u>\$ 297,725,900</u></u>

Note 3 - Deposits and Investments:

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 3 - Deposits and Investments (Continued):

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

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

- Any interest bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.
- Repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective.
- Mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.
- Securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.
- Pooled fund investments for participating hospitals offered, managed and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

As of December 31, 2020, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Money market funds	\$ 241,702	\$ 241,702	\$ -	\$ -	\$ -
Mutual funds	30,650,359	30,650,359	-	-	-
Common stock	707,010	707,010	-	-	-
	<u>\$ 31,599,071</u>	<u>\$ 31,599,071</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 3 - Deposits and Investments (Continued):

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

Investment return for the year ended December 31, 2020, is summarized as follows:

Net increase in fair value of investments	\$ 630,105
Interest and dividends	<u>1,788,067</u>
 Total investment return	 <u><u>\$ 2,418,172</u></u>

Note 4 - Fair Value Measurements:

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

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2020.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 4 - Fair Value Measurements (Continued):

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2020.

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

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2020, are as follows:

	Total Fair Value at December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Equities	\$ 29,627,934	\$ 29,627,934	\$ -	\$ -
Fixed income	1,022,425	1,022,425	-	-
Common stock:				
Finance	707,010	707,010	-	-
Money market funds	241,702	-	241,702	-
Total investments	\$ 31,599,071	\$ 31,357,369	\$ 241,702	\$ -

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

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 4 - Fair Value Measurements (Continued):

Long-term debt: The fair value of the Hospital's fixed rate debt (including capital lease obligations) is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2020, the carrying value of the fixed rate long-term debt approximated its fair value.

Realized gains and losses are reported in the statement of revenues, expenses and changes in net position as a component of investment return. Differences between market value and cost of investments are classified as unrealized gains or losses. Unrealized gains or losses are included in earnings for the period attributable to the change in unrealized gains relating to assets held as of December 31, 2020, and are reported in the statement revenues, expenses and changes in net position in investment return. The unrealized gains approximated \$630,000 for 2020.

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

Note 5 - COVID-19 Pandemic Funding:

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 as a global pandemic. Patient volumes and the related revenues were affected by COVID-19 as various policies were implemented by federal, state and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities. While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments are reimposing certain restrictions due to increasing rates of COVID-19 cases. The Hospital will continue to monitor the direct and indirect impacts of the pandemic and develop responses accordingly to maintain its operational and financial flexibility. There is considerable uncertainty around the duration and financial impact of the market disruption by the COVID-19 pandemic in future periods and cannot be reasonably estimated at this time due to many factors, most of which are beyond the Hospital's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure. Because of these and other uncertainties, decreases in cash flows and operations could result, impacting debt covenant compliance and the inputs and assumptions used in significant accounting estimates, including the allowance for uncollectible accounts related to patient accounts receivable, and potential impairments of long-lived and other assets.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 5 - COVID-19 Pandemic Funding (Continued):

Provider Relief Funds

During the year ended December 31, 2020, the Hospital received approximately \$24,500,000 of distributions from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Provider Relief Fund (the Provider Relief Fund). These distributions from the Provider Relief Fund 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 lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS). Payments are recognized as grant revenue once the applicable terms and conditions required to retain the funds have been substantially met. Revenue recognized is classified as nonoperating and the associated cash flows are included within noncapital financing activities. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses through December 31, 2020, the Hospital recognized approximately \$19,900,000 related to the distributions from the Provider Relief Fund as other income within the accompanying Consolidated statements of income. The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Fund 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 potential audits.

Medicare Advance Payments

As part of the CARES Act legislation, the Centers for Medicare & Medicaid Services (CMS) expanded the existing Accelerated and Advance Payments Program to a broad group of Medicare Part A providers as a means to provide additional cash flow at the onset of the COVID-19 pandemic in March 2020. The Hospital met the eligibility criteria and was approved for advance payments, receiving approximately \$6,000,000 in 2020. Under the terms of the program, the Hospital may repay the funding at any time. Otherwise, repayment will begin one year from the date the advance payment was issued; beginning then and for the next 11 months, the advance payments will be recouped at a rate of 25% of any Medicare payments owed to the Hospital; beginning with month 12, the recoupment rate increases to 50% for advance payments outstanding, with a lump-sum due for any remaining balance at the conclusion of month 17. Subsequent to year end, the funds were recouped in full and are, therefore, included as a component of other current liabilities on the Consolidated Balance Sheet.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 6 - Patient Accounts Receivable:

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2020, consisted of these amounts:

Medicare	\$ 15,720,184
Medicaid	23,288,549
Other third-party payors	9,130,932
Private pay	<u>18,400,543</u>
	66,540,208
Less allowance for uncollectible accounts	<u>21,346,894</u>
	\$ 45,193,314
	<u><u>45,193,314</u></u>

Note 7 - Internally Designated Assets:

Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes. There were internally designated assets set aside by the Hospital Board of Trustees to be used solely for capital purchases of approximately \$5,743,000 at December 31, 2020.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 8 - Capital Assets:

Primary government capital asset activity for the year ended December 31, 2020, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital Assets, not being depreciated					
Land	\$ 814,625	\$ -	\$ 132,300	\$ -	\$ 682,325
Construction in progress	3,787,948	2,039,876	-	-	5,827,824
Leasehold improvements	8,360,293	434,569	3,620,311	-	5,174,551
Buildings	68,282,837	1,388,894	5,153,403	-	64,518,328
Fixed equipment	12,353,558	994,862	143,507	-	13,204,913
Major movable equipment	25,945,758	1,425,702	2,588,086	-	24,783,374
Clinic	4,803,649	-	-	-	4,803,649
Total Capital Assets	124,348,668	6,283,903	11,637,607	-	118,994,964
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Less accumulated depreciation for:					
Leasehold improvements	3,407,308	379,639	916,634	-	2,870,313
Buildings	34,730,967	2,654,720	4,438,527	-	32,947,160
Fixed equipment	4,461,516	937,561	86,608	-	5,312,469
Major movable equipment	19,736,947	1,925,673	1,675,129	-	19,987,491
Clinic	3,363,890	176,969	-	-	3,540,859
Total Accumulated Depreciation	65,700,628	6,074,562	7,116,898	-	64,658,292
Total Capital Assets, Net	\$ 58,648,040	\$ 209,341	\$ 4,520,709	\$ -	\$ 54,336,672

Note 9 - Long-term Obligations:

Primary government long-term obligation activity for the year ended December 31, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue Bonds					
Series 2012	\$ 26,358,604	\$ -	\$ 1,416,287	\$ 24,942,317	\$ 1,471,239
Loans payable	80,000	-	60,000	20,000	20,000
Capital lease obligations	40,608	-	40,608	-	-
	26,479,212	\$ -	\$ 1,516,895	24,962,317	\$ 1,491,239
Unamortized bond premium	608,502			525,287	
	\$ 27,087,714			\$ 25,487,604	

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 9 - Long-term Obligations (Continued):

Revenue Bonds Payable

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

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

The Trust Indenture requires certain funds be established with the trustee. Accordingly, these funds are included as assets under the caption Held by Trustee for Debt Service in the Hospital's Consolidated Balance Sheet at December 31, 2020.

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

Loans Payable

In 2013, the Hospital entered into a \$150,300 note payable which was utilized for leasehold improvements for one of the Hospital's leased nursing home facilities as discussed in Note 1. The note is payable monthly through with annual interest at 2.00% and amounted to \$20,000 at December 31, 2020. The note was due in July 2018. The due date was extended indefinitely. The note is due on demand.

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 9 - Long-term Obligations (Continued):

Loans Payable (Continued)

Aggregate maturities of long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,491,239	\$ 834,560	\$ 2,325,799
2022	1,548,293	790,423	2,338,716
2023	1,625,145	743,974	2,369,119
2022 - 2026	5,335,133	695,220	6,030,353
2027 - 2031	10,125,182	535,166	10,660,348
Thereafter	4,837,325	231,410	5,068,735
	<u>\$ 24,962,317</u>	<u>\$ 3,830,752</u>	<u>\$ 28,793,069</u>

Note 10 - Restricted Net Assets:

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

Hospital debt service	\$ 4,712,404
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Unless the contributor provides specific instructions, state statute permits the Hospital Board to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

Restricted nonexpendable net assets represent principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Hospital's permanent endowments are expendable to support programs as established by the contributor. There are no restricted nonexpendable net assets as of December 31, 2020.

Note 11 - Risk Management:

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

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 11 - Risk Management (Continued):

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

Note 12 - Medical Benefits to Employees:

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

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

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

Balance, beginning of year	\$	-
Current year claims incurred and changes in estimates for claims incurred in prior years		2,108,852
Claims and expenses paid		<u>2,108,852</u>
Balance, end of year	\$	<u><u>-</u></u>

The Hospital also maintains a partially self-funded workers' compensation insurance program. Under the insurance policy, the Hospital's self-funded liability is limited to \$100,000 per incident. In 2020, no individual incident exceeded the liability limit.

Note 13 - Contingent Liabilities:

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 14 - Defined Contribution Retirement Plan:

The Hospital has a defined contribution plan which is administered by the Hospital and the Hospital's Retirement Committee. The defined contribution plan covers all employees who meet the eligibility requirements set forth in the plan. Contributions are made at management's discretion and are allocated based upon each participant's eligible compensation. Eligible employees are not required to contribute to the plan. Amendments to the plan provisions may be changed at the discretion of the Hospital's Retirement Committee and approval of the Hospital's governing body. The Hospital's contribution amounted to approximately \$1,143,000 or 3% of the plan's participants' eligible compensation for the year ended December 31, 2020.

Note 15 - Pension Plan:

Plan Description

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

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

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

Benefits Provided

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

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

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

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020**

Note 15 - Pension Plan (Continued):

Funding Policy

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

Employees Covered by Benefit Terms

As of December 31, 2020, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	99
Inactive plan members entitled to but not yet receiving benefits	91
Active plan members	180
	370

Contributions

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

Net Pension Asset

The Hospital's net pension asset was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the December 31, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 15 - Pension Plan (Continued):

Net Pension Liability

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

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed income	29.3%
Domestic equity	63.9%
International equity	6.9%
Total	<u>100%</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.0% for 2020. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will continue to follow the current funding policy. Based on those assumptions, the pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension (Asset) Liability

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

	<u>1% Decrease (6%)</u>	<u>Current Discount Rate (7%)</u>	<u>1% Increase (8%)</u>
Hospital's net pension liability	\$ (7,182,428)	\$ (8,566,893)	\$ (9,740,869)

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 15 - Pension Plan (Continued):

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability
Balances, beginning of year	\$ 12,916,543	\$ 20,268,745	\$ (7,352,202)
Changes during the year			
Service cost	67,552	-	67,552
Interest	834,206	-	834,206
Benefit change	841,971	-	841,971
Difference between expected and actual experience	(25,481)	-	(25,481)
Changes of assumptions	(42,307)	-	(42,307)
Benefit payments, including refunds of member contributions	(2,170,432)	(2,170,432)	-
Contributions - employer	-	-	-
Net investment income	-	2,890,632	(2,890,632)
Net Change	(494,491)	720,200	(1,214,691)
Balances, end of year	<u>\$ 12,422,052</u>	<u>\$ 20,988,945</u>	<u>\$ (8,566,893)</u>

As of December 31, 2020, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, beginning of year	\$ -	\$ -
Differences between expected and actual experience	86,206	-
Changes in assumptions	-	69,785
Net difference between projected and actual earnings on pension plan assets	-	2,110,519
Balance, end of year	<u>\$ 86,206</u>	<u>\$ 2,180,304</u>

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Notes to Consolidated Financial Statements
December 31, 2020

Note 15 - Pension Plan (Continued):

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

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

<u>Year Ending December 31,</u>	
2021	\$ (653,228)
2022	(424,152)
2023	(720,330)
2024	(294,530)
Thereafter	<u>(1,858)</u>
	<u>\$ (2,094,098)</u>

Note 16 - Operating Leases:

The Hospital has leases for facilities and equipment expiring at various times through 2032. Total lease expense for 2020 was approximately \$14,400.

Future minimum commitments under these agreements are as follows at December 31, 2020:

<u>Year Ending December 31,</u>	<u>Facilities</u>
2021	\$ 14,400
2022	14,400
2023	14,400
2024	14,400
2025	14,400
Later Years	<u>116,400</u>
	<u>\$ 188,400</u>

Lease expense for facilities and equipment under the long-term care agreements discussed in Note 1 was approximately \$15,099,000 for 2020.

Note 17 - Management Evaluation of Subsequent Events:

The Hospital evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued which is September 30, 2021.



Independent Auditor's Report on the Supplementary Information

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

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

Somerset CPAs, PC

Indianapolis, Indiana
September 30, 2021

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Required Supplementary Information
December 31, 2020

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total pension liability					
Service cost	\$ 67,552	\$ 87,322	\$ 94,325	\$ 94,828	\$ 113,601
Interest	834,206	787,750	772,231	760,964	761,248
Benefit changes	841,971	920,168	-	-	-
Difference between expected and actual experience	(25,481)	189,158	1,937	(29,907)	(45,337)
Changes of assumptions	(42,307)	75,968	(18,581)	(47,965)	(150,907)
Benefit payments	(2,170,432)	(609,836)	(632,193)	(601,244)	(724,467)
Net change in total pension liability	(494,491)	1,450,530	217,719	176,676	(45,862)
Total pension liability - beginning	12,916,543	11,466,013	11,248,294	11,071,618	11,117,480
Total pension liability - ending (a)	<u>\$ 12,422,052</u>	<u>\$ 12,916,543</u>	<u>\$ 11,466,013</u>	<u>\$ 11,248,294</u>	<u>\$ 11,071,618</u>
Plan fiduciary net position					
Employer contributions	\$ -	\$ -	\$ -	\$ -	\$ -
Net investment income	2,890,632	3,385,462	(379,815)	2,284,495	1,085,941
Benefit payments	(2,170,432)	(609,836)	(632,193)	(601,244)	(724,467)
Administrative expenses	-	-	-	-	-
Other	-	-	-	-	-
Net change in plan fiduciary net position	720,200	2,775,626	(1,012,008)	1,683,251	361,474
Plan fiduciary net position - beginning	20,268,745	17,493,119	18,505,127	16,821,876	16,460,402
Plan fiduciary net position - ending (b)	<u>\$ 20,988,945</u>	<u>\$ 20,268,745</u>	<u>\$ 17,493,119</u>	<u>\$ 18,505,127</u>	<u>\$ 16,821,876</u>
Hospital net pension (asset) liability - ending (a) - (b)	<u>\$ (8,566,893)</u>	<u>\$ (7,352,202)</u>	<u>\$ (6,027,106)</u>	<u>\$ (7,256,833)</u>	<u>\$ (5,750,258)</u>
Plan fiduciary net position as a percentage of the total net pension liability	168.97%	156.92%	152.56%	164.51%	151.94%
Covered-employee payroll	\$ 10,450,072	\$ 10,997,416	\$ 12,295,598	\$ 12,026,827	\$ 11,760,300
Hospital net pension (asset) liability as a percentage of covered-employee payroll	-81.98%	-66.85%	-49.02%	-60.34%	-48.90%

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

**ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF ADAMS COUNTY, INDIANA
Required Supplementary Information
December 31, 2020**

SCHEDULE OF HOSPITAL CONTRIBUTIONS

	Actuarial Determined Contribution	Employer Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
12/31/2020	\$ -	\$ -	\$ -	\$ 10,450,072	0.00%
12/31/2019	-	-	-	10,997,416	0.00%
12/31/2018	-	-	-	12,295,598	0.00%
12/31/2017	-	-	-	12,026,827	0.00%
12/31/2016	-	-	-	11,760,300	0.00%

Notes to Schedule

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

Methods and assumptions used to determine contribution rates:

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