MARION GENERAL HOSPITAL

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

MARION GENERAL HOSPITAL, INC.

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JUNE 30, 2019 AND 2018

CPAs / ADVISORS

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Marion General Hospital, Inc.
Marion, Indiana

We have audited the accompanying financial statements of Marion General Hospital, Inc. (the Hospital), which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Board of Directors
Marion General Hospital, Inc.
Marion, Indiana

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2019 and 2018, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note 2 to the financial statements, effective July 1, 2018, the Hospital adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*, FASB ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), and early adopted FASB ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Our opinion is not modified with respect to these matters.

Blue & Co., LLC

Indianapolis, Indiana
October 16, 2019

MARION GENERAL HOSPITAL, INC.

BALANCE SHEETS
JUNE 30, 2019 AND 2018

ASSETS

	2019	2018
Current assets		
Cash	$ 8,144,406	$ 11,374,378
Current portion of assets limited as to use	-0-	761,199
Account receivable		
Patient services, less allowances for uncollectible accounts of $7,272,000 in 2018	23,581,628	22,401,149
Physician services, less allowances for uncollectible accounts of $71,000 in 2018	3,166,527	1,713,425
Other	458,828	543,825
Accrued interest	-0-	4,245
Inventories	2,052,978	1,266,339
Current portion of notes receivable	926,265	870,764
Prepaid expenses	3,064,771	2,807,777
Total current assets	41,395,403	41,743,101
Assets limited as to use		
Board designated funds	253,893,430	242,586,178
Trustee held	1,393,016	3,862,892
Donor restricted	-0-	10,155
Total assets limited as to use, net	255,286,446	246,459,225
Less current portion	-0-	761,199
Total assets limited as to use, net	255,286,446	245,698,026
Property and equipment, net	82,804,360	87,168,343
Other assets		
Investment in joint ventures	1,446,459	1,480,380
Notes receivable, net	2,139,032	2,633,848
Goodwill and other intangible assets, net	3,489,859	1,968,096
Other	2,640,330	2,004,383
Total other assets	9,715,680	8,086,707
Total assets	$ 389,201,889	$ 382,696,177

See accompanying notes to financial statements.

MARION GENERAL HOSPITAL, INC.

BALANCE SHEETS
JUNE 30, 2019 AND 2018

LIABILITIES AND NET ASSETS

	2019	2018
Current liabilities		
Accounts payable	$ 5,196,908	$ 6,272,976
Accrued liabilities		
Salaries and related liabilities	6,172,852	6,634,141
Interest	761,940	776,375
Other	304,220	366,047
Estimated third-party settlements	671,595	1,851,602
Current portion of long-term debt	2,110,000	2,040,000
Total current liabilities	15,217,515	17,941,141
Long-term liabilities		
Long-term debt, less current portion	58,701,377	60,778,956
Pension liability	21,208,153	19,985,637
Other long-term liabilities	1,274,025	1,252,688
Total long-term liabilities	81,183,555	82,017,281
Total liabilities	96,401,070	99,958,422
Net assets		
Without donor restrictions	292,800,819	282,727,600
With donor restrictions	-0-	10,155
Total net assets	292,800,819	282,737,755
Total liabilities and net assets	$ 389,201,889	$ 382,696,177

See accompanying notes to financial statements.

MARION GENERAL HOSPITAL, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Unrestricted revenue and support		
Patient service revenue, net of contractual allowances and discounts		$ 183,059,821
Less provision for bad debts		11,537,756
Net patient service revenue	$ 180,002,046	171,522,065
Other revenue	1,879,953	1,700,191
Net assets released from restrictions	10,155	-0-
Total unrestricted revenue and support	181,892,154	173,222,256
Expenses		
Salaries and wages	65,842,280	61,880,634
Employee benefits	19,239,315	16,006,241
Physician services	8,141,401	6,406,623
Professional services	11,748,293	10,847,997
Medical supplies	12,246,591	11,541,402
Drugs and IV solutions	10,070,849	10,480,624
Food	921,353	841,561
Purchased services	14,878,247	15,135,969
Rent	2,231,223	2,072,360
Plant and equipment maintenance	5,486,994	4,969,516
Utilities	2,196,607	2,237,452
Nonmedical supplies	2,291,232	2,204,445
Leased property	1,305,467	1,575,386
Other	1,638,831	1,647,182
Insurance	1,783,059	1,584,268
HAF and HIP programs	11,709,760	8,332,197
Interest	2,027,695	1,884,623
Depreciation	11,139,021	11,531,749
Total expenses	184,898,218	171,180,229
Income (loss) from operations	(3,006,064)	2,042,027
Nonoperating gains (losses)		
Investment return and other, net	12,127,646	18,073,180
Contributions, gifts, and bequests	1,113,818	35,870
Excess of revenue, support and gains over expenses	10,235,400	20,151,077
Other changes		
Net unrealized loss on investments	-0-	(5,912,065)
Pension related changes other than net periodic pension cost	(162,181)	2,491,051
Change in net assets without donor restrictions	10,073,219	16,730,063
Change in net assets with donor restrictions		
Net assets released from restrictions	(10,155)	-0-
Change in net assets	10,063,064	16,730,063
Net assets		
Beginning of year	282,737,755	266,007,692
End of year	$ 292,800,819	$ 282,737,755

See accompanying notes to financial statements.

MARION GENERAL HOSPITAL, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Operating activities		
Change in net assets	$ 10,063,064	$ 16,730,063
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	11,139,021	11,531,749
Amortization of debt issuance costs and premium	32,421	33,649
Amortization of notes receivable	1,437,249	1,150,869
Provision for bad debts - net patient service revenue	-0-	11,537,756
Provision recovery for bad debts - other	-0-	(106,806)
Loss on disposal of property and equipment	9,929	104,725
Contribution of property and equipment	(1,095,000)	-0-
Unrealized (gain) loss on investments	(5,820,630)	5,912,065
Realized (gain) loss on sale of investments	2,284,037	(11,597,385)
Gain on equity in joint ventures	(752,869)	(593,714)
Changes in operating assets and liabilities:		
Accounts receivable	(2,633,581)	(10,865,232)
Accrued interest, inventories, prepaid expenses, and other current assets	(944,391)	5,139
Other long-term assets	(490,789)	(403,976)
Pension liability	1,222,516	(1,800,647)
Accounts payable and accrued liabilities	(2,215,013)	(4,155,431)
Estimated third-party settlements	(1,180,007)	(2,262,460)
Net cash flows from operating activities	11,055,957	15,220,364
Investing activities		
Additions to property and equipment	(5,013,728)	(10,634,374)
Proceeds from the sale of property and equipment	3,492	2,500
Proceeds from the sale or maturity of investments	68,106,742	242,500,308
Business acquisition	(1,700,000)	-0-
Purchases of investments	(72,899,394)	(261,043,551)
Dividends received from joint ventures	254,893	333,696
Advances on notes receivable	(1,246,794)	(1,292,929)
Payments received on notes receivable	248,860	393,822
Net cash flows from investing activities	(12,245,929)	(29,740,528)
Financing activities		
Repayments of long-term debt	(2,040,000)	(1,975,000)
Net change in cash	(3,229,972)	(16,495,164)
Cash		
Beginning of year	11,374,378	27,869,542
End of year	$ 8,144,406	$ 11,374,378
Supplemental cash flows information		
Interest paid, net of amounts capitalized of approximately $37,000 and $47,000 in 2019 and 2018, respectively	$ 2,042,130	$ 1,880,756
Contribution of property and equipment	$ 1,095,000	$ -0-
Property and equipment included in accounts payable	$ 622,731	$ 2,060,545

See accompanying notes to financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Marion General Hospital, Inc. (the Hospital), a not-for-profit corporation, provides inpatient and outpatient services primarily to residents from Grant County and surrounding areas. The Hospital operates an acute care general hospital with 106 acute care beds, 20 nursery beds, and 18 inpatient acute rehabilitation beds. The Hospital was formed in 1902 and is located in Marion, Indiana.

Basis of Accounting

The Hospital prepares its financial statements using the accrual basis of accounting. Accrual accounting requires the recognition of revenues when they are earned and measureable in the accounting period when services are provided, and the recognition of expenses in the period in which they occur.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including estimated third-party settlements, defined pension plan obligations and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period and could differ from actual results.

Cash

The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash.

Patient Accounts Receivable, Net Patient Service Revenue and Estimated Third-Party Payor Settlements

Patient service revenue and the related accounts receivable are recorded at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others, and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Hospital bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services or patients receiving services in our outpatient centers or in their homes. The Hospital measures the performance obligation from admission into the Hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. The method of reimbursement for the Hospital is fee for service. The timing of revenue and recognition for healthcare services is transferred over time.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policy, and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

<u>Inventories</u>

Inventories, consisting of medical supplies, are stated on the lower of weighted average cost or net realizable value.

<u>Assets Limited as to Use</u>

Assets limited as to use include assets set aside by the board of directors for future capital improvements and other purposes, over which the board of directors retains control and may, at its discretion, subsequently use for other purposes. Assets held by trustees under indenture agreements are also included within this caption and are classified as current assets to the extent they are to be used to pay for current liabilities. Restricted assets included assets whose use by the Hospital has been limited by donors to a specific purpose until that purpose was satisfied.

These investments are recorded at fair value in the balance sheets. Therefore, 2019 investment return and other, net includes interest, dividends, realized gains and losses, and unrealized gains and losses on investments as part of excess of revenue, support, and gains over expenses.

In 2018, unrealized gains and losses on other-than-trading were excluded from the excess of revenue, support, and gains over expenses unless the unrealized loss on investment security was considered other-than-temporary.

Generally, the fair value of the private equity funds (fund of funds) is based on the fair value of the underlying marketable securities determined by the individual manager of the private equity funds. Although the manager uses its best judgment in estimating the fair value of the investments in the investment funds, there are inherent limitations in any estimation technique. Therefore, the values reported are not necessarily indicative of the amount that the investments funds could realize in a current transaction.

These estimated values may differ significantly from the values that would have been used had a ready market for the investments in the investment funds existed and the difference could be material. Private equity funds totaled approximately $16,713,000 (6.6% of board-designated funds) and $18,196,000 (7.5% of board-designated funds) as of June 30, 2019 and 2018, respectively.

A decline in the market value of any other-than-trading security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to excess of revenue, support, and gains over expenses and a new cost basis for the security is established. During 2018, management continually reviewed the investment portfolio and evaluated whether declines in the fair value of debt securities should be considered other-than-temporary. In 2018, the Hospital did not record other-than-temporary declines in the fair value of its investments.

Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of the Hospital's investments could occur in the near term and that such changes could materially affect the amounts reflected in the financial statements. A critical factor in this evaluation is the length of time and extent to which the market value of the individual security has been less than cost. Other factors considered include recommendations of investment advisors and conditions specific to the issuer or industry in which the issuer operates.

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost. Property and equipment donated to the Hospital are recorded as additions to net assets with donor restrictions at their fair value at the date of receipt and as a transfer to net assets without donor restrictions when the assets are placed in service.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method using a half-year convention in the year of acquisition and disposal. Estimated useful lives range from 2 to 40 years depending on asset classification.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Hospital first compares undiscounted cash flows expected to be generated by that asset or group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Unamortized Debt Issuance Costs and Original Issue Discounts

The costs incurred and capitalized in issuing Hospital Revenue Bonds are classified with long-term debt and are amortized into interest expense by the bonds outstanding method over the respective term of each bond series.

The premium and discount incurred in issuing the Hospital Revenue Bonds are classified with long-term debt and are amortized into interest expense using the effective-interest method over the respective term of the debt issues.

Notes Receivable

Notes receivable are comprised of loans and advances to certain physicians, tuition advances to various employees and prospective employees, and recruitment loan advances to various employees in amounts ranging from approximately $125 to $89,000 due through May 2039.

Business Combinations, Goodwill and Other Intangible Assets

The Hospital accounts for a business combination using the acquisition method of accounting, and accordingly, the net assets of the acquired entity are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. Other intangible assets are amortized on a straight-line basis over a period ranging from two to seven years. Goodwill and other intangible assets, at cost, approximated $3,900,000 and $2,266,000 as of June 30, 2019 and 2018 with accumulated amortization of approximately $410,000 and $298,000, respectively. Amortization is expected to be approximately $87,000 annually for each of the next five years.

The Hospital's policy is to evaluate goodwill and intangible assets based on consideration of such factors as the occurrence of a significant adverse event or change in the environment in which the business operates or if the expected future cash flows (undiscounted and without interest) are less than the carrying amount of the asset.

Goodwill is assessed annually for impairment. No impairment was recognized in 2019 and 2018, as the Hospital does not believe that there are any factors or circumstances indicating impairment as of June 30, 2019 and 2018.

On August 23, 2018, the Hospital acquired Urgent Care MSO, LLC, and Med Express Urgent Care, P.C. (collectively "MedExpress") to further the Hospital's mission of providing access to patient healthcare services. The following table summarizes the consideration paid for MedExpress and the amounts of the assets acquired. There were no liabilities assumed in the transaction.

Consideration	
Cash	$ 1,700,000
Recognized amounts of net identifiable assets acquired	
Property, plant, and equipment	$ 57,000
Supplies	10,000
Identifiable intangible assets	433,000
Goodwill	1,200,000
Total identifiable net assets	$ 1,700,000

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are available for operating purposes under the direction of the board of directors or designated by the board of directors for specific use. Net assets with donor restrictions are subject to donor stipulations for specific operating purposes or time restrictions including donor restrictions requiring the net assets to be held in perpetuity or for a specified term with investment return available for operations or specific purpose. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. There were no net assets with donor restrictions as of June 30, 2019. During 2019, approximately $10,000 of donor restricted net assets were released when the donor restrictions were satisfied.

Excess of Revenue, Support, and Gains over Expenses

The statements of operations and changes in net assets include a performance indicator, excess of revenue, support, and gains over expenses. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue, support, and expenses. Transactions incidental to the provision of patient care services are reported as gains and losses. Changes in net assets without donor restrictions, which are excluded from the performance indicator, consistent with industry practice for 2019, include pension related changes other than net periodic pension cost and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purposes of acquiring such assets). Additionally in 2018, unrealized gains and losses on all other than trading securities were excluded from the performance indicator.

Contributions

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with donor restricted net assets are reclassified as without donor restricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are included in nonoperating gains (losses) in the accompanying financial statements.

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for the self-insured portion of both reported claims and claims incurred but not reported and is recorded in other long-term liabilities.

Income Taxes

The Hospital is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. As such, the Hospital is generally exempt from income taxes. However, the Hospital is required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital, and has concluded that as of June 30, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Hospital filed its federal and state income tax returns for periods through June 30, 2018. 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).

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the current year presentation. The reclassification had no impact on the previously reported net assets or the change in net assets.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are issued.

Subsequent Events

The Hospital has 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 were issued which is October 16, 2019.

Recently Issued Accounting Standards

In February 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. This new standard, which the Hospital is not required to adopt until its fiscal year ending June 30, 2020, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

In May 2019, FASB issued ASU 2019-06, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958), Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. The accounting alternatives in this ASU, if elected, will reduce for preparers the cost and complexity associated with the subsequent accounting for goodwill and the accounting for certain items that currently are considered to be identifiable intangible assets for not-for-profit entities. A not-for-profit entity that elects the accounting alternative should amortize goodwill on a straight-line basis over a period not to exceed ten years, test for impairment upon a triggering event, and have the option to elect to test for impairment at the entity level. This ASU also provides not-for-profit entities with an alternative to subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently from the other assets of a business and all noncompetition agreements acquired. This ASU is effective upon issuance and not-for-profit entities electing to adopt these alternatives do not have to demonstrate preferability.

The Hospital is presently evaluating the effects that these ASUs will have on its future financial statements, including related disclosures.

2. CHANGE IN ACCOUNTING PRINCIPLES

ASU 2016-14

Effective July 1, 2018, the Hospital adopted FASB ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 simplifies and improves how a not-for-profit organization classifies its net assets, as well as information it presents in the financial statements and notes about its liquidity, financial performance and cash flows. The Hospital has adjusted the presentation of its 2019 financial statements herein and retrospectively adjusted the presentation of its 2018 financial statements. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 14) and disclosures related to the functional allocation of expenses were expanded (Note 15).

The impact of the adoption of ASU No. 2016-14 on the Hospital's net assets is as follows:

Balance Sheet	Previously Reported 6/30/2018	Adjustment	Currently Reported 6/30/2018
Net assets			
Unrestricted	$ 282,727,600	$ (282,727,600)	$ -0-
Permanently restricted	10,155	(10,155)	-0-
Without donor restrictions	-0-	282,727,600	282,727,600
With donor restrictions	-0-	10,155	10,155
Total net assets	$ 282,737,755	$ -0-	$ 282,737,755
Statements of operations and changes in net assets			
Change in			
Unrestricted net assets	$ 16,730,063	$ (16,730,063)	$ -0-
Net assets without donor restrictions	-0-	16,730,063	16,730,063
	$ 16,730,063	$ -0-	$ 16,730,063

There was no significant impact to the statement of cash flows as a result of adopting this ASU.

ASU 2014-09 and Topic 606

On July 1, 2018, the Hospital adopted the new revenue recognition accounting standard issued by the FASB and codified in the FASB ASC as topic 606 (ASC 606). The revenue recognition standard in ASC 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. The standard also requires expanded disclosures (Note 3) regarding the Hospital's revenue recognition policies and significant judgments employed in the determination of revenue.

The Hospital applied the modified retrospective approach to all contracts when adopting ASC 606. As a result, upon the Hospital's adoption of ASC 606 the majority of what was previously classified as the provision for bad debts in the statement of operations and changes in net assets is now reflected as implicit price concessions (as defined by ASC 606) and therefore included as a reduction to net patient service revenue in 2019. For changes in credit issues not assessed at the date of service, the Hospital prospectively recognizes those amounts in operating expenses on the statements of operations and changes in net assets, if any. For periods prior to the adoption of ASC 606, the provision for bad debts was presented consistent with the previous revenue recognition standards that required such provision to be presented separately as a component of net patient service revenue.

Additionally, upon adoption of ASC 606, the allowance for doubtful accounts of approximately $7,343,000 ($7,272,000 for the Hospital and $71,000 for Physicians) as of July 1, 2018 was reclassified as a component of net patient accounts receivable. Other than these changes, the adoption of ASC 606 did not have a material impact on the 2019 financial statements, and the Hospital does not expect it to have a material impact on its results of operations on a prospective basis. As part of the adoption of ASC 606, the Hospital elected two of the available practical expedients provided for in the standard. First, the Hospital does not adjust the transaction price for any financing components as those were deemed insignificant. Additionally, the Hospital expenses all incremental customer contract acquisition costs as incurred, because such costs are not material and would be amortized over a period less than one year.

Net Patient Service Revenues under ASC 606:

Upon adoption of ASC 606, net patient service revenues are recorded at the transaction price estimated by the Hospital to reflect the total consideration due from patients and third-party payors in exchange for providing goods and services in patient care. These services are considered to be a single performance obligation and have a duration of less than one year. Revenues are recorded as these goods and services are provided. The transaction price, which involves significant estimates, is determined based on the Hospital's standard charges for the goods and services provided, with a reduction recorded for price concessions related to third-party contractual arrangements as well as patient discounts and other patient price concessions. During the year-ended June 30, 2019, the impact of changes to the inputs used to determine the transaction prices was considered immaterial to the current period.

ASU 2016-01

On July 1, 2018, the Hospital early adopted FASB ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01) which affects all entities that hold financial assets or owe financial liabilities. The guidance in ASU 2016-01 supersedes the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through the excess of revenue, support, and gains over expenses. An entity's equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this guidance. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments. This new

ASU will not have a material effect on the Hospital's financial position, results of operations, or disclosures in the notes to the financial statements. The primary impact on the Hospital will be that changes in the fair value of equity investments will be recognized within the performance indicator, excess of revenue, support and gains over expenses, rather than below it was previously presented.

3. NET PATIENT SERVICE REVENUE, RELATED RECEIVABLES AND ESTIMATED SETTLEMENTS

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigation and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Laws and regulations concerning government programs, including Medicare and Medicaid, 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. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Hospital believes that it is in compliance with all applicable laws and regulations.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2019 or 2018. As of June 30, 2019, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through June 30, 2017.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. For 2019 and 2018, adjustments were recognized due to changes in the Hospital's estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. Subsequent changes that are significant and determined to be the result of an adverse change in the patient's ability to pay, determined on a portfolio basis, are recorded as bad debt expense.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients.

Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized. The following tables provide details of these factors.

The composition of net patient service revenue by primary payor for 2019 and 2018 is as follows:

	2019	2018
Medicare	$ 64,130,233	$ 58,361,312
Medicaid	27,114,534	21,905,181
Blue Cross	51,972,872	57,338,782
Commercial	34,874,366	31,936,247
Self-pay, welfare, and contract	1,910,041	1,980,543
	$ 180,002,046	$ 171,522,065

A summary of net patient service revenue, including information on service lines, for 2019 and 2018 follows:

	2019	2018
Patient service revenue		
Inpatient services	$ 111,103,056	$ 113,383,262
Outpatient services	355,795,119	334,894,163
Physician practice services	53,940,637	30,009,628
Financial assistance	(16,168,792)	(12,389,863)
	504,670,020	465,897,190
Less contractual allowances	(311,364,814)	(282,837,369)
	193,305,206	183,059,821
Less implied price concessions	(13,303,160)	-0-
Less provision for bad debts	-0-	(11,537,756)
Net patient service revenue	$ 180,002,046	$ 171,522,065

The Hospital grants credit without collateral to its patients, most of whom are local residents and are generally insured under third-party payor agreements. The mix of receivables and revenue from patients and third-party payors for 2019 and 2018 follows:

	Receivables		Revenue	
	2019	2018	2019	2018
Medicare	33%	30%	36%	34%
Medicaid	15%	21%	15%	13%
Blue Cross	10%	10%	29%	33%
Commercial	17%	16%	19%	19%
Self-pay, welfare, and contract	25%	23%	1%	1%
	100%	100%	100%	100%

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- ***Medicare***. The Hospital is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The Hospital is reimbursed for Medicare inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) and Medicare outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.
- ***Medicaid***. The Hospital is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. There is no cost settlement for either of the inpatient or outpatient programs.
- ***Other***. The Hospital has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these arrangements is a discount from established charges and fee schedule payments.

The Centers for Medicare and Medicaid Services (CMS) has been granted authority to suspend payments, in whole or in part, to Medicare providers if CMS possess reliable information on overpayment, fraud or if willful misrepresentation exists. If CMS suspects payments are being made as the result of fraud or misrepresentation, CMS may suspend payment at any time without providing prior notice to the Hospital. The initial suspension period is limited to 180 days. However, the payment suspension period can be extended indefinitely if the matter is under investigation by the United States Department of Health and Human Services Office of Inspector General or the United States Department of Justice. Therefore, the Hospital is unable to predict if or when it may be subject to a suspension of payments by the Medicare and/or Medicaid programs, the possible length of the suspension period, or the potential cash flow impact of a payment suspension. Any such suspension would adversely impact the Hospital's financial position, results of operations, and cash flows.

Financial Assistance, Community Benefit and Assistance to the Uninsured

The Hospital provides care to patients regardless of their ability to pay. A patient qualifies for financial assistance based on certain established policies of the Hospital. Essentially, these policies define financial assistance as those services for which no payment is anticipated, up to 300% of Federal Poverty Income Guidelines, published by the Department of Health and Human Services and where incurred charges are considered significant when compared to the income of the patient. Because collection of amounts determined to qualify as financial assistance is not pursued, such amounts are not reported as revenue.

Financial assistance provided during 2019 and 2018, measured at established rates, was approximately $16,169,000 and $12,390,000, respectively. The increase in financial assistance between years primarily relates to the Hospital modifying its financial assistance policy during 2018. The Hospital did not modify its financial assistance policy in 2019. Medicaid expansion, combined with other health care reform initiatives, increased insurance coverage for patients who were previously uninsured. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The Hospital receives reimbursements from certain governmental payors to assist in the funding of financial assistance.

Of the Hospital's total expenses reported during 2019 and 2018, an estimated $5,693,000 and $4,552,000, respectively, arose from providing services to charity patients. The estimated costs of providing financial assistance services are based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses to gross patient service revenue.

The Hospital has a policy for uninsured patients with discounted rates similar to contractual payors. Uninsured self-pay discounts provided to patients were approximately $9,104,000 and $8,019,000 in 2019 and 2018, respectively. This policy did not change during 2019 or 2018.

Medicaid and Hospital Assessment Fee (HAF) and Healthy Indiana Plan (HIP) Programs

The Hospital participates in the State of Indiana's HAF Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF and HIP program expense reported in the statements of operations and changes in net assets. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims.

The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Beginning July 1, 2017, hospitals also started funding HIP, the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program but the funding includes physician, state administration, and certain non-hospital expenditures. During 2019 and 2018, the Hospital recognized HAF and HIP program expense of approximately $11,710,000 and $8,332,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP program expense is included in the statements of operations and changes in net assets as an operating expense. The Medicaid rate increases under the HAF Program are included in patient service revenue in the statements of operations and changes in net assets.

During 2019 and 2018, the Hospital did not record any revenue related to Medicaid DSH payments.

4. ASSETS LIMITED AS TO USE

Assets limited as to use include assets set aside by the Board of Directors primarily for capital improvements and funds held by trustee subject to indenture agreements. Beginning in 2019, all investments are considered trading securities by management. Assets limited as to use that are required for certain obligations classified as current liabilities are reported in current assets.

A description and the carrying value of the assets limited as to use by the Board of Directors is as follows as of June 30, 2019 and 2018:

	2019	2018
Cash	$ 550,444	$ 1,242,610
Mutual funds	206,400,822	223,147,104
Private equity funds	16,713,202	18,196,464
Fixed income securities	30,228,962	-0-
	$ 253,893,430	$ 242,586,178

The funds held by trustee subject to indentures (investments are comprised of cash and cash equivalents) consist of the following as of June 30, 2019 and 2018:

	2019	2018
Indiana Financing Authority		
Hospital revenue bonds,		
Series 2012A, Interest fund	$ 1,393,016	$ 1,391,416
Variable rate demand revenue bonds,		
Series 2015A, Project fund	-0-	2,471,476
	$ 1,393,016	$ 3,862,892

Investment return is comprised of the following for 2019 and 2018:

	2019	2018
Other nonoperating gains (losses)		
Investment return		
Interest and dividends	$ 7,838,184	$ 5,882,081
Net realized gain (loss) on investments	(2,284,037)	11,597,385
Unrealized gain on investments	5,820,630	-0-
Other gain		
Gain on equity in joint ventures	752,869	593,714
	$ 12,127,646	$ 18,073,180
Unrealized loss on investments	$ -0-	$ (5,912,065)

5. FAIR VALUE MEASUREMENTS

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that 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 or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2019 and 2018:

- *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 net asset value (NAV) and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.
- *Private Equity Funds:* Valued at the NAV of units of the fund. The NAV, as provided by the investment manager, is used as a practical expedient to estimate fair value. The private equity funds consist of investments in a variety of domestic and foreign equity and debt securities, managed accounts and other investment vehicles that employ diversified styles and strategies. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. Due to the nature of the investments held by the fund, changes in market conditions and the economic environment may significantly impact the net asset value of the fund and, consequently, the fair value of the Hospital's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the Hospital were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.
- *Debt securities*: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing the value on yields currently available on comparable securities of issuers with similar credit ratings.

The following tables set forth by level, within the hierarchy, the Hospital's assets measured at fair value on a recurring basis as of June 30, 2019 and 2018:

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
Assets				
Assets limited as to use				
Mutual funds				
Fixed income	$ 70,213,116	$ 70,213,116	$ -0-	$ -0-
Global bond	16,302,668	16,302,668	-0-	-0-
International	47,888,992	47,888,992	-0-	-0-
Large cap	57,808,135	57,808,135	-0-	-0-
Small cap	9,177,020	9,177,020	-0-	-0-
Natural resources	5,010,891	5,010,891	-0-	-0-
Total mutual funds	206,400,822	$ 206,400,822	$ -0-	$ -0-
Debt securities				
US Treasuries	9,904,779	9,904,779	-0-	-0-
Mortgage-backed securities	3,342,323	-0-	3,342,323	-0-
Municipal bonds	2,393,655	-0-	2,393,655	-0-
Corporate bonds	12,294,054	-0-	12,294,054	-0-
Asset-backed securities	2,294,151	-0-	2,294,151	-0-
Total fixed income securities	30,228,962	9,904,779	20,324,183	-0-
		$ 216,305,601	$ 20,324,183	$ -0-
Private equity funds (a)	16,713,202			
Cash	1,943,460			
	$ 255,286,446			

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Assets				
Assets limited as to use				
Mutual funds				
Fixed income	$ 86,792,248	$ 86,792,248	$ -0-	$ -0-
Global bond	20,870,575	20,870,575	-0-	-0-
International	44,379,785	44,379,785	-0-	-0-
Large cap	53,891,602	53,891,602	-0-	-0-
Small cap	9,982,943	9,982,943	-0-	-0-
Managed futures mutual funds	7,229,951	7,229,951	-0-	-0-
Total mutual funds	223,147,104	$ 223,147,104	$ -0-	$ -0-
Private equity funds (a)	18,196,464			
Cash	5,115,657			
	$ 246,459,225			

(a) In accordance with Subtopic 820-10, certain investments that were measured at NAV per share or its equivalent have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented at fair value in the balance sheets.

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2019 and 2018.

The Hospital holds investments, which are exposed to various risks such as interest rate, market, and credit risks. 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.

Fair Value of Investments in Entities that Use Net Asset Value

The following table summarizes investments measured at fair value based on NAV per share as of June 30, 2019 and 2018.

	Fair Value		Unfunded	Redemption	Redemption
Investment	2019	2018	Commitments	Frequency	Notice Period
Saville Row Hedged Equity	$ 16,713,202	$ 18,196,464	None	January 1, April 1, July 1, & October 1	55-70 days

6. PROPERTY AND EQUIPMENT

Property, equipment, and their estimated useful lives are as follows as of June 30, 2019 and 2018:

	2019	2018	Range of estimated useful lives
Land	$ 5,191,829	$ 4,646,548	
Land improvements	3,353,531	3,353,531	10-20 years
Buildings	67,803,411	65,660,743	5-40 years
Medical office buildings	18,191,537	18,191,537	5-40 years
Building service equipment	53,657,684	48,503,441	5-25 years
Leasehold improvements	3,551,213	3,287,382	15-20 years
Fixed equipment	3,509,530	3,176,435	10-20 years
Major movable equipment	70,915,959	70,648,050	2-20 years
Vehicles	1,030,564	1,030,472	4 years
	227,205,258	218,498,139	
Less accumulated depreciation	(145,192,062)	(136,181,998)	
Construction in progress	791,164	4,852,202	
	$ 82,804,360	$ 87,168,343	

Construction in progress as of June 30, 2019 primarily relates to various facility improvement projects. The estimated cost to complete these projects as of June 30, 2019 is approximately $900,000 and all of that has been contractually committed.

The Hospital capitalizes interest cost as a component cost of significant construction and renovation projects. Interest cost capitalized was approximately $37,000 and $47,000 in 2019 and 2018, respectively. Investment income earned on unexpended debt proceeds administered by a trustee for specific projects is offset against the amount of interest cost capitalized. Such amounts were not significant to the financial statements as a whole during 2019 and 2018.

7. INVESTMENT IN JOINT VENTURES

The Hospital has an equity interest in a joint venture to operate a cancer care center (Progressive Cancer Center, LLC) in Marion, Indiana. As of June 30, 2019 and 2018, Hospital's ownership in Progressive Cancer Center, LLC is approximately 51%. The Hospital accounts for the investment under the equity method of accounting, as the governance structure is such that the Hospital cannot exercise control. The Hospital recognized a gain of approximately $221,000 and $296,000 related to its investment in Progressive Cancer Center, LLC for 2019 and 2018, respectively. The Hospital received dividend distributions during 2019 and 2018 of approximately $255,000 and $334,000 respectively. The gain is included in investment income, net in the statements of operations and changes in net assets.

The following is the unaudited condensed financial information of Progressive Cancer Care, LLC as of and for the years ended June 30, 2019 and 2018:

	2019	2018
Total assets	$ 3,791,026	$ 3,891,053
Total liabilities	$ 943,890	$ 987,038
Total equity	$ 2,847,136	$ 2,904,015
Total revenue	$ 2,083,299	$ 2,107,414
Net income	$ 433,801	$ 580,279

8. LONG-TERM DEBT

Long-term debt consists of the following as of June 30, 2019 and 2018:

	2019	2018
Indiana Finance Authority		
Hospital revenue bonds, Series 2015A		
Variable rate securities, payable through June 2041, variable rate interest of 2.390% at June 30, 2019	$ 29,005,000	$ 30,375,000
Hospital revenue bonds, Series 2012A		
Serial bonds payable through July 1, 2029, interest from 2.000% to 5.000%	15,450,000	16,120,000
Term bonds with final redemption on July 1, 2032, interest at 4.375%	8,820,000	8,820,000
Term bonds with final redemption on July 1, 2036, interest at 5.000%	7,900,000	7,900,000
	61,175,000	63,215,000
Unamortized premium	195,580	214,379
Less current portion	(2,110,000)	(2,040,000)
Less unamortized debt issue costs	(559,203)	(610,423)
	$ 58,701,377	$ 60,778,956

In July 2015, the Hospital issued $33,000,000 of Series 2015A Bonds through the Indiana Finance Authority (the Authority). The proceeds were used to refund the Series 2008A Bonds, in addition to making upgrades and renovations to the Hospital's main facility. The Series 2015A Bonds and are due in varying principal amounts ranging from $245,000 to $2,350,000 through June 2041.

The Hospital, the Authority, and BMO Harris Bank (BMO) then entered into a Bond Purchase Agreement (the Agreement) where BMO purchased from the Authority all of the Series 2015A Bonds in a private placement. The Agreement provides that BMO will hold the Series 2015A Bonds until the initial purchase date, which runs through July 2025. Until the initial purchase date, the Series 2015A Bonds would bear interest at the Libor Index rate (.738% plus 68% of 1M BBA LIBOR), reset monthly, with principal and interest payments determined using a 25-year amortization schedule.

At the end of the initial purchase date, the Series 2015A Bonds may be converted to another interest rate mode, remarketed to another bondholder or holders or renewed for another term period with BMO. The Series 2015A Bonds could be converted to another interest rate mode to accommodate market conditions at that time. If the Series 2015A Bonds could not be remarketed at the initial purchase date, the Hospital would be subject to payment of the remaining principal of approximately $19,780,000.

In April 2012, the Hospital issued $35,910,000 of Series 2012A Serial and Term Bonds, through the Authority, at a premium of approximately $339,000 to finance inpatient room renovations, purchase equipment, and to refinance and retire the Series 2002 Bonds. The 2012A Serial Bonds are due in annual principal payments ranging from $670,000 to $2,705,000 through July 2029. The 2012A Term Bonds are due in annual principal payments of ranging from $2,815,000 to $3,250,000 beginning in 2030 through July 2036.

The Hospital granted a security interest in its gross revenue (as defined under the master trust indenture) as collateral for the Series 2015A and 2012A bonds. In addition to various financial covenants, the Hospital covenants that it will not permit any lien or security interest on the Hospital's property and equipment other than certain permitted encumbrances. The Hospital believes it was in compliance with the financial covenants as of June 30, 2019 and 2018.

Below is the debt maturity schedule for the Hospital’s long-term debt.

Year Ending June 30,		
2020	$	2,110,000
2021		2,175,000
2022		2,240,000
2023		2,305,000
2024		2,385,000
Thereafter		49,960,000
	$	61,175,000

9. PENSION PLANS

Defined Benefit Plan

The Hospital has a noncontributory defined benefit pension plan (Pension Plan) covering substantially all employees of the Hospital hired before July 1, 2005. The funding policy is to contribute annually at least the minimum contribution required to comply with the Employee Retirement and Security Act (ERISA) regulations.

Effective December 31, 2009, the Pension Plan was amended to calculate frozen benefits accrued under all prior benefit formulas as of December 31, 2009 (based on monthly plan compensation and service prior to December 31, 2009) and to add a new benefit formula for service after December 31, 2009 equal to 0.5% of monthly plan compensation per year of service earned after December 31, 2009.

Effective December 31, 2010, the Hospital and the Board of Directors froze the Pension Plan. Furthermore, the Pension Plan was amended to cease all further benefit accruals under the Plan for participants with 5 or more years of vesting service as of December 31, 2006. (Accruals for participants with less than 5 years of vesting service as of December 31, 2006 were frozen as of December 31, 2006.)

The following tables set forth the Pension Plan change in benefit obligation, change in plan assets, and weighted average assumptions as of June 30, 2019 and 2018 (Measurement Date):

	2019	2018
Change in benefit obligation		
Benefit obligation, beginning of year	$ 91,684,624	$ 97,322,105
Interest cost	3,533,742	3,401,049
Actuarial (gain)/loss	6,040,507	(4,179,358)
Benefit payments	(7,631,027)	(4,859,172)
Projected benefit obligation, end of year	93,627,846	91,684,624
Changes in plan assets		
Fair value of plan assets, beginning of year	71,698,987	75,535,821
Actual return on plan assets	6,351,733	(977,662)
Employer contributions	2,000,000	2,000,000
Benefit payments	(7,631,027)	(4,859,172)
Fair value of plan assets, end of year	72,419,693	71,698,987
Unfunded status		
Unfunded status of the plan, end of year	$ (21,208,153)	$ (19,985,637)
Amounts recorded in the balance sheet consist of		
Pension liability	$ (21,208,153)	$ (19,985,637)

The Hospital recognizes the cost related to employee service using the projected unit credit actuarial cost method and funds at least the minimum as calculated under ERISA.

The discount rate was selected by applying the benefit payout stream to the Citigroup Pension Discount curve spot rates.

The Hospital's overall expected long-term rate of return on assets is 5.07% for determining net periodic pension cost and 4.31% for determining benefit obligation cost for 2019. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The expected amortization of actuarial loss for the year ending June 30, 2020 is approximately $3,056,000.

The following table sets forth the components of net periodic benefit cost for the 2019 and 2018 for the Pension Plan:

	2019	2018
Amounts not yet reflected in net periodic benefit cost and included in other changes in unrestricted net assets		
Actuarial loss	$ 27,515,037	$ 27,352,856
Components of net periodic benefit cost		
Interest cost	3,533,742	3,401,049
Expected return on plan assets	(3,550,293)	(3,892,875)
Amortization of loss	3,076,886	3,182,230
Net periodic benefit cost	$ 3,060,335	$ 2,690,404
Weighted-average actuarial assumptions to determine net periodic pension cost of June 30		
Discount rate	3.97%	3.59%
Expected long-term rate of return on assets	5.07%	5.30%
Weighted-average actuarial assumptions to determine benefit obligation cost of June 30		
Discount rate	3.15%	3.97%
Expected long-term rate of return on assets	4.31%	5.07%

The Pension Plan asset target allocation for 2019, as well as the allocation as of June 30, 2019 and 2018, by asset category are as follows:

	Target Allocation	Percentage of Plan assets	
Asset category	2020	2019	2018
Fixed income and cash equivalents	100%	100%	100%

See the Fair Value Measurement Note for the valuation methodologies for mutual funds related to the Pension Plan. The valuation methodology for debt securities is based on pricing models maximizing the use of observable inputs for similar securities.

The following is a breakdown of assets held by the Plan as of June 30, 2019 and 2018:

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
Mutual funds				
Bonds	$ 3,473,585	$ 3,473,585	$ -0-	$ -0-
Foreign	3,273,425	3,273,425	-0-	-0-
Total mutual funds	6,747,010	6,747,010	-0-	-0-
Debt securities				
Government obligations	35,763,232	-0-	35,763,232	-0-
Municipal obligations	421,182	-0-	421,182	-0-
Corporate obligations	28,114,249	-0-	28,114,249	-0-
Total fixed income obligations	64,298,663	-0-	64,298,663	-0-
	71,045,673	$ 6,747,010	$ 64,298,663	$ -0-
Cash	1,374,020			
	$ 72,419,693			

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Mutual funds				
Bonds	$ 3,363,502	$ 3,363,502	$ -0-	$ -0-
Foreign	3,427,032	3,427,032	-0-	-0-
Total mutual funds	6,790,534	6,790,534	-0-	-0-
Debt securities				
Government obligations	41,171,846	-0-	41,171,846	-0-
Municipal obligations	654,150	-0-	654,150	-0-
Corporate obligations	20,920,161	-0-	20,920,161	-0-
Total fixed income obligations	62,746,157	-0-	62,746,157	-0-
	69,536,691	$ 6,790,534	$ 62,746,157	$ -0-
Cash	2,162,296			
	$ 71,698,987			

The investment policy covering pension assets is approved by the Finance Committee of the Board of Directors for the Hospital. This Committee meets on a bimonthly basis and makes periodic changes to the policy. The approved investment structure reflects a movement to a "liability driven" investment strategy due to the freeze of the Pension Plan. Investment managers are reviewed on an ongoing basis.

The Hospital expects to contribute approximately $2,000,000 to the Pension Plan in 2020.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the Pension Plan:

Year Ending June 30,		
2020	$	5,066,000
2021		5,218,000
2022		5,351,000
2023		5,409,000
2024		5,475,000
2025-2029		28,001,000
	$	54,520,000

Defined Contribution Plan

The Hospital established a 403(b) Employer Contributory Plan (the Plan) on January 1, 2007, which permits employees of the Hospital to contribute to the Plan, on a pretax basis, up to the applicable limitations under Section 402(g)(l) of the Internal Revenue Code. The contributions made by each employee are fully vested immediately and are not subject to forfeiture. The Hospital matches contributions of 50% of the employee's contribution up to 6% of qualifying wages for all benefit eligible employees. Additionally, the Hospital can elect to make discretionary contributions to the Plan. Contributions made by the Hospital for 2019 and 2018 approximated $1,149,000 and $1,087,000, respectively. Employees are fully vested immediately on the employer match and discretionary contributions.

10. MEDICAL OFFICE BUILDINGS - OPERATING LEASES

The Hospital owns medical office buildings in Marion, Gas City, Fairmount, and Swayzee, Indiana, and leases the buildings to physicians, physician groups, and others under various operating leases, which expire through 2024. Lease rental income of approximately $301,000 and $307,000 is included in other revenue in the statements of operations and changes in net assets for 2019 and 2018, respectively.

The Hospital is scheduled to receive future minimum rental payments under these lease agreements as follows:

Year Ending June 30,		
2020	$	236,000
2021		137,000
2022		137,000
2023		125,000
2024		38,000
	$	673,000

11. LEASE OBLIGATIONS

The Hospital leases space under noncancelable operating leases expiring in various years through 2025. Total rental expense under noncancelable leases amounted to approximately $1,286,000 and $1,131,000 for 2019 and 2018, respectively. Future minimum payments under the operating leases with initial terms in excess of one year are as follows:

Year Ending June 30,		
2020	$	1,695,000
2021		1,371,000
2022		1,227,000
2023		707,000
2024		440,000
Thereafter		299,000
	$	5,739,000

12. MALPRACTICE INSURANCE

The Hospital participates in the Indiana Medical Malpractice Act, IC 34-18 (the Act), which provides a maximum recovery of $1,650,000 for an occurrence of malpractice until June 30, 2019, and $1,800,000 thereafter. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least $400,000 per occurrence ($8,000,000 in the annual aggregate) until June 30, 2019. Starting July 1, 2019, the Act will require the Hospital to maintain medical malpractice liability insurance in the amount of at least $500,000 per occurrence ($10,000,000 in the annual aggregate). The Act also requires the Hospital to pay a surcharge to the State Patient’s Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

The Hospital is a member of a Vermont insurance company, Tecumseh Health Reciprocal Risk Retention Group (THRRRG), as a means to comply with the Hospital's required portion of the insurance coverage pursuant to the Act, as well as its liability insurance. Membership in THRRRG includes 14 hospitals as of June 30, 2019. The Hospital's investment in THRRRG of approximately $2,120,000 and $1,588,000 is included in other assets as of June 30, 2019 and 2018, respectively. The Hospital recognized a gain of approximately $532,000 and $298,000 in 2019 and 2018 related to THRRRG, respectively. The gain is included in investment income and other, net on the statements of operations and changes in net assets.

The Hospital has estimated the reserve for loss contingencies using actuarial valuations in determining the estimated reserve for loss contingencies, including the incurred but not reported claims. Management of the Hospital has estimated a reserve for loss contingencies of approximately $641,000 and $607,000, respectively, as of June 30, 2019 and 2018 to cover malpractice exposures.

13. COMMITMENTS AND CONTINGENCIES

Regulatory Investigations

The U.S. Department of Justice, the Internal Revenue Service, and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The Hospital is subject to these regulatory efforts. Management believes that any liability resulting from these matters will not have a material impact on the financial position, results of operations or cash flows of the Hospital.

Legal Matters

The Hospital is involved in various legal actions in the normal course of its operations. Management believes that any liability resulting from these matters will not have a material impact on the financial position, results of operations or cash flows of the Hospital.

Self-Insured Health Plan

The Hospital has a self-insurance plan for its employees' health care benefits. A third party claims administrator has been retained to process all benefit claims. The Plan purchased individual excess risk insurance to cover individual health claims in excess of $250,000. The Plan does not have an aggregate stop loss. Total expense was approximately $9,343,000 for 2019 and $6,844,000 for 2018.

14. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the 2019 balance sheet date, comprise the following:

Cash	$ 8,144,406
Accounts receivable (patient and physician)	26,748,155
Other receivables	458,828
Current portion of notes receivable	926,265
	$ 36,277,654

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. Accounts receivable, other receivables and notes receivable are subject to implied time restrictions, but are expected to be collected within one year.

As a part of the Hospital's liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Hospital periodically invests excess cash in investments. The Hospital has board designated investments of approximately $253,893,000 as of June 30, 2019. Although the Hospital does not intend to spend from these board designated funds (other than amounts appropriated for general expenditure), these amounts could be made available, if necessary.

15. FUNCTIONAL EXPENSES

The Hospital provides inpatient, outpatient and other ancillary services to the residents within its geographical region. Expenses related to proving these services for June 30, 2019 and 2018 are as follows:

	2019			2018		
	Healthcare Services	Management & General	Total	Healthcare Services	Management & General	Total
Expenses						
Salaries and wages	$ 60,452,819	$ 5,389,461	$ 65,842,280	$ 55,391,447	$ 6,489,187	$ 61,880,634
Employee benefits	16,888,766	2,350,549	19,239,315	13,613,016	2,393,225	16,006,241
Physician services	8,141,401	-0-	8,141,401	6,406,623	-0-	6,406,623
Professional services	8,872,782	2,875,511	11,748,293	8,265,002	2,582,995	10,847,997
Medical supplies	12,246,591	-0-	12,246,591	11,541,402	-0-	11,541,402
Drugs	10,070,849	-0-	10,070,849	10,480,624	-0-	10,480,624
Purchased services	11,902,598	2,975,649	14,878,247	12,108,775	3,027,194	15,135,969
Plant and equipment maintenance	4,389,595	1,097,399	5,486,994	3,975,613	993,903	4,969,516
Other	22,153,999	1,923,533	24,077,532	18,369,769	2,125,082	20,494,851
Interest	1,923,614	104,081	2,027,695	1,790,392	94,231	1,884,623
Depreciation	9,099,514	2,039,507	11,139,021	9,422,044	2,109,705	11,531,749
Total expenses	$ 166,142,528	$ 18,755,690	$ 184,898,218	$ 151,364,707	$ 19,815,522	$ 171,180,229

Certain costs such as salaries and wages, employee benefits and physician services have been allocated among health care services and management and general categories based on actual direct expenditures incurred by departments, locations, and cost centers, and cost allocations based upon time spent by the Hospital's personnel. Other expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include professional services, purchased services, plant and equipment maintenance, other expenses, depreciation, and interest, which are allocated based on the ratio of direct costs charged to the category to total direct costs. Although the methods used were appropriate, alternative methods may provide different results. Fundraising costs were not significant to the Hospital in 2019 and 2018.