MARION
HEALTH

FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

CPAs / ADVISORS

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of Marion General Hospital, Inc. dba Marion Health (the Hospital), which comprise the balance sheets as of June 30, 2021 and 2020, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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. dba Marion Health
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, 2021 and 2020, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2021, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
October 7, 2021

MARION HEALTH

BALANCE SHEETS
JUNE 30, 2021 AND 2020

ASSETS

	2021	2020
Current assets		
Cash	$ 41,780,994	$ 36,658,197
Current portion of trustee funds	45,632,086	-0-
Account receivable		
Patient services	24,640,629	22,703,824
Physician services	2,248,090	2,091,085
Other	2,884,674	1,543,770
Accrued interest	149	-0-
Inventories	2,227,460	2,264,928
Current portion of notes receivable	729,273	872,264
Prepaid expenses	2,909,609	2,400,003
Total current assets	123,052,964	68,534,071
Assets limited as to use		
Board designated funds	321,487,074	259,954,742
Trustee held	26,443,428	85
Total assets limited as to use	347,930,502	259,954,827
Property and equipment, net	88,173,155	78,011,201
Other assets		
Investment in joint venture	1,460,046	1,531,804
Notes receivable, net of current portion	1,421,828	1,973,080
Lease right-of-use assets	4,567,769	5,028,665
Goodwill and other intangible assets, net	2,687,897	3,085,557
Other	3,582,818	3,144,208
Total other assets	13,720,358	14,763,314
Total assets	$ 572,876,979	$ 421,263,413

See accompanying notes to financial statements.

MARION HEALTH

BALANCE SHEETS
JUNE 30, 2021 AND 2020

LIABILITIES AND NET ASSETS

	2021	2020
Current liabilities		
Accounts payable	$ 5,364,725	$ 5,105,279
Accrued liabilities		
Salaries and related liabilities	10,768,010	8,460,370
Interest	1,603,358	717,486
Other	15,115,421	16,468,781
Estimated third-party settlements	1,833,524	41,618
Refundable advances	-0-	6,066,794
Current portion of long-term debt	1,863,221	2,175,000
Current portion of lease liabilities	1,486,535	1,535,432
Total current liabilities	38,034,794	40,570,760
Long-term liabilities		
Long-term debt, less current portion	137,469,812	56,557,526
Lease liabilities, less current portion	3,101,344	3,517,028
Pension liability	15,990,299	20,117,900
Other long-term liabilities	1,274,810	1,208,860
Total long-term liabilities	157,836,265	81,401,314
Total liabilities	195,871,059	121,972,074
Net assets		
Undesignated	55,518,846	39,336,597
Designated	321,487,074	259,954,742
Total net assets without donor restrictions	377,005,920	299,291,339
Total liabilities and net assets	$ 572,876,979	$ 421,263,413

See accompanying notes to financial statements.

MARION HEALTH

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Revenues		
Patient service revenue	$ 195,296,265	$ 183,662,720
Other revenue	9,245,938	6,748,960
Total revenues	204,542,203	190,411,680
Expenses		
Salaries and wages	76,362,770	73,494,676
Employee benefits	15,873,844	16,428,391
Physician services	6,420,559	7,420,586
Professional services	11,843,428	11,069,353
Medical supplies	14,419,444	12,751,348
Drugs and IV solutions	13,969,557	12,294,842
Food	1,047,397	925,839
Purchased services	9,942,023	12,934,100
Rent	2,116,511	2,367,021
Plant and equipment maintenance	5,276,576	5,184,870
Utilities	2,106,311	2,305,164
Nonmedical supplies	2,673,789	2,604,778
Leased property	1,500,130	1,403,597
Other	1,616,666	2,084,751
Insurance	2,097,839	1,815,340
HAF and HIP programs	12,368,341	12,060,945
Interest	1,815,156	1,882,229
Depreciation and amortization	10,863,114	11,093,170
Total expenses	192,313,455	190,121,000
Operating income	12,228,748	290,680
Nonoperating		
Investment return and other, net	63,436,973	7,084,920
Loss on extinguishment of debt	(96,846)	-0-
Net periodic pension cost	(1,590,954)	(2,872,653)
Contributions, gifts, and bequests	18,105	24,667
Excess of revenues over expenses	73,996,026	4,527,614
Other changes		
Pension related changes other than net periodic pension cost	3,718,555	1,962,906
Change in net assets	77,714,581	6,490,520
Net assets		
Beginning of year	299,291,339	292,800,819
End of year	$ 377,005,920	$ 299,291,339

See accompanying notes to financial statements.

MARION HEALTH

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Operating activities		
Change in net assets	$ 77,714,581	$ 6,490,520
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	10,863,114	11,093,170
Amortization of debt issuance costs and premium	(311,500)	31,149
Forgiveness of notes receivable	1,610,004	1,502,398
Gain on disposal of property and equipment	(40,344)	(34,258)
Unrealized (gain) loss on investments	(60,674,972)	542,295
Realized loss on sale of investments	4,189,269	50,308
Gain on equity in joint ventures	(453,232)	(910,292)
Loss on extinguishment of debt	96,846	-0-
Changes in operating assets and liabilities:		
Accounts receivable	(2,093,810)	1,953,246
Accrued interest, inventories, prepaid expenses, and other current assets	(1,813,191)	(632,124)
Other long-term assets	(215,127)	(5,617,887)
Pension liability	(4,127,601)	(1,090,253)
Accounts payable and accrued liabilities	1,116,711	22,999,384
Refundable advances	(6,066,794)	6,066,794
Estimated third-party settlements	1,791,906	(629,977)
Net cash flows from operating activities	21,585,860	41,814,473
Investing activities		
Additions to property and equipment	(19,746,942)	(5,606,847)
Proceeds from the sale of property and equipment	53,304	49,302
Proceeds from the sale or maturity of investments	8,779,196	64,686,920
Purchases of investments	(85,674,927)	(69,370,387)
Dividends received from joint ventures	226,905	332,775
Advances on notes receivable	(1,318,808)	(1,446,373)
Payments received on notes receivable	403,047	163,928
Net cash flows from investing activities	(97,278,225)	(11,190,682)
Financing activities		
Proceeds from long-term debt	114,999,857	-0-
Repayments of long-term debt	(33,046,175)	(2,110,000)
Payments for bond issuance costs	(1,138,520)	-0-
Net cash flows from financing activities	80,815,162	(2,110,000)
Net change in cash	5,122,797	28,513,791
Cash		
Beginning of year	36,658,197	8,144,406
End of year	$ 41,780,994	$ 36,658,197
Supplemental cash flows information		
Interest paid, net of amounts capitalized of approximately $24,000 and $45,000 in 2021 and 2020, respectively	$ 1,240,784	$ 1,926,683
Property and equipment included in accounts payable	$ 584,256	$ 303,907

See accompanying notes to financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Marion General Hospital, Inc. dba Marion Health (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 113 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 as performance obligations are satisfied and measurable 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 health care 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 the Financial Accounting Standards Board (the 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.

Inventories

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

Assets Limited as to Use

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, investment return and other, net includes interest, dividends, realized gains and losses, and unrealized gains and losses on investments as part of excess of revenues over expenses.

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 $16,704,000 (4.2% of assets limited as to use) and $14,077,000 (5.4% of assets limited to use) as of June 30, 2021 and 2020, respectively.

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, Bond Premiums and Bond 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 $250 to $76,000. These notes receivable are unsecured and mature through June 2041. Notes receivable can be subject to forgiveness if certain conditions are met by the borrower.

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, if any. The Hospital amortizes goodwill on a straight-line basis over a period not to exceed ten years, tests for impairment upon a triggering event, and elected to test for impairment at the entity level in the case of a triggering event. 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 $3,490,000 as of June 30, 2021 and 2020 with accumulated amortization of $802,000 and $404,000 as of June 30, 2021 and 2020, respectively. Amortization is expected to be $398,000 in 2022 and 2023, $337,000 in, 2024, $311,000 in 2025 and 2026, and $933,000 thereafter.

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, 2021 and 2020.

Excess Revenues over Expenses

The statements of operations and changes in net assets include a performance indicator, excess revenues over expenses. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Transactions incidental to the provision of patient care services are reported as nonoperating. Changes in net assets without donor restrictions, which are excluded from the performance indicator, consistent with industry practice for 2021 and 2020, 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).

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. The Hospital also evaluates whether a contribution is unconditional or conditional based on the absence or presence of barriers and any right of return provisions.

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, 2021 and 2020, 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, 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).

Reclassification

Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 presentation. The reclassifications had no effect on previously reported net assets or change in net assets.

Going Concern Evaluation

Management evaluated whether there were conditions or events that raised 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 were issued.

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 were issued which was October 7, 2021.

2. 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 2021 or 2020. As of June 30, 2021, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through June 30, 2018.

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 patient service revenue in the period of the change. For 2021 and 2020, 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 table provides details of these factors. The composition of patient service revenue by primary payor for 2021 and 2020 is as follows:

	2021	2020
Medicare	$ 65,584,740	$ 60,696,608
Medicaid	32,793,061	25,301,986
Blue Cross	57,532,910	59,636,177
Commercial	35,914,801	34,784,166
Self-pay, welfare, and contract	3,470,753	3,243,783
	$ 195,296,265	$ 183,662,720

A summary of patient service revenue, including information on service lines, for 2021 and 2020 follows:

	2021	2020
Patient service revenue		
Inpatient services	$ 109,102,409	$ 101,114,468
Outpatient services	380,799,341	360,593,396
Physician practice services	58,706,975	63,265,875
Financial assistance	(12,111,726)	(16,111,898)
	536,496,999	508,861,841
Contractual allowances	(334,322,272)	(312,367,497)
	202,174,727	196,494,344
Implicit price concessions	(6,878,462)	(12,831,624)
Patient service revenue	$ 195,296,265	$ 183,662,720

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 as of June 30 2021 and 2020 and revenue for the years then ended from patients and third-party payors follows:

	Receivables		Revenue	
	2021	2020	2021	2020
Medicare	34%	37%	34%	33%
Medicaid	14%	12%	17%	14%
Blue Cross	17%	15%	29%	32%
Commercial	17%	14%	18%	19%
Self-pay, welfare, and contract	18%	22%	2%	2%
	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 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 Center 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 2021 and 2020, measured at established rates, was approximately $12,112,000 and $16,112,000, respectively. 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 2021 and 2020, an estimated $4,342,000 and $6,020,000, 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 $4,679,000 and $7,962,000 in 2021 and 2020, respectively. This policy did not change during 2021 or 2020.

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. Hospitals also fund 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 2021 and 2020, the Hospital recognized HAF and HIP program expense of approximately $12,368,000 and $12,061,000, 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 2021 and 2020, the Hospital did not record any revenue related to Medicaid DSH payments.

3. 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. 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, 2021 and 2020:

	2021	2020
Cash	$ 2,104,084	$ 3,071,733
Mutual funds	259,677,746	200,120,797
Private equity funds	16,704,058	14,076,505
Fixed income securities	43,001,186	$ 42,685,707
Total board designated funds	321,487,074	259,954,742
Cash held by trustee	72,075,514	85
Total assets limited as to use	$ 393,562,588	$ 259,954,827

The cash held by trustee includes both current and noncurrent portions and relates to the Indiana Financing Authority, Hospital revenue bonds, Series 2012A (for 2020 only), Series 2020A, and Series 2021A, interest, project, and issuance funds.

Investment return is comprised of the following for 2021 and 2020:

	2021	2020
Other nonoperating gains (losses)		
Investment return		
Interest and dividends	$ 6,594,884	$ 6,767,231
Net realized loss on investments	(4,189,269)	(50,308)
Unrealized gain (loss) on investments	60,674,972	(542,295)
Other gain		
Gain on equity in joint ventures	453,232	910,292
	$ 63,436,973	$ 7,084,920

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 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, 2021 and 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 net asset value (NAV) and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.
- *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.
- *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.

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, 2021 and 2020:

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Assets				
Assets limited as to use				
Mutual funds				
Fixed income	$ 58,475,219	$ 58,475,219	$ -0-	$ -0-
Global bond	28,120,225	28,120,225	-0-	-0-
International	61,039,880	61,039,880	-0-	-0-
Large cap	89,891,485	89,891,485	-0-	-0-
Small cap	12,243,395	12,243,395	-0-	-0-
Natural resources	9,907,542	9,907,542	-0-	-0-
Total mutual funds	259,677,746	$ 259,677,746	$ -0-	$ -0-
Debt securities				
Government bonds	7,350,289	-0-	7,350,289	-0-
Mortgage-backed securities	2,358,276	-0-	2,358,276	-0-
Municipal bonds	2,734,070	-0-	2,734,070	-0-
Corporate bonds	26,160,760	-0-	26,160,760	-0-
Asset-backed securities	2,553,841	-0-	2,553,841	-0-
Other	1,843,950	-0-	1,843,950	-0-
Total fixed income securities	43,001,186	-0-	43,001,186	-0-
		$ 259,677,746	$ 43,001,186	$ -0-
Private equity funds (a)	16,704,058			
Cash	74,179,598			
	$ 393,562,588			

	June 30, 2020			
	Total	Level 1	Level 2	Level 3
Assets				
Assets limited as to use				
Mutual funds				
Fixed income	$ 56,080,218	$ 56,080,218	$ -0-	$ -0-
Global bond	22,192,184	22,192,184	-0-	-0-
International	47,932,243	47,932,243	-0-	-0-
Large cap	62,789,046	62,789,046	-0-	-0-
Small cap	6,800,402	6,800,402	-0-	-0-
Natural resources	4,326,704	4,326,704	-0-	-0-
Total mutual funds	200,120,797	$ 200,120,797	$ -0-	$ -0-
Debt securities				
Government bonds	6,784,247	-0-	6,784,247	-0-
Mortgage-backed securities	2,799,230	-0-	2,799,230	-0-
Municipal bonds	3,831,714	-0-	3,831,714	-0-
Corporate bonds	25,172,801	-0-	25,172,801	-0-
Asset-backed securities	2,398,341	-0-	2,398,341	-0-
Other	1,699,374	-0-	1,699,374	-0-
Total fixed income securities	42,685,707	-0-	42,685,707	-0-
		$ 200,120,797	$ 42,685,707	$ -0-
Private equity funds (a)	14,076,505			
Cash	3,071,818			
	$ 259,954,827			

(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 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 NAV

The following table summarizes investments measured at fair value based on NAV per share as of June 30, 2021 and 2020.

	Fair Value		Unfunded	Redemption	Redemption
Investment	2021	2020	Commitments	Frequency	Notice Period
Saville Row Hedged Equity	$ 16,704,058	$ 14,076,505	None	January 1, April 1, July 1, & October 1	55-70 days

5. PROPERTY AND EQUIPMENT

Property, equipment, and their estimated useful lives are as follows as of June 30, 2021 and 2020:

	2021	2020	Range of estimated useful lives
Land	$ 9,044,643	$ 5,191,829	
Land improvements	3,364,440	3,353,531	10-20 years
Buildings	75,538,329	68,855,462	5-40 years
Medical office buildings	18,730,730	18,730,730	5-40 years
Building service equipment	56,206,848	55,073,046	5-25 years
Leasehold improvements	2,481,340	3,756,061	15-20 years
Fixed equipment	3,509,530	3,509,530	10-20 years
Major movable equipment	72,780,135	72,943,656	2-20 years
Vehicles	1,074,421	1,059,245	4 years
	242,730,416	232,473,090	
Accumulated depreciation	(159,991,276)	(154,909,526)	
Construction in progress	5,434,015	447,637	
	$ 88,173,155	$ 78,011,201	

The Hospital capitalizes interest cost as a component cost of significant construction and renovation projects. Interest cost capitalized was approximately $24,000 and $45,000 in 2021 and 2020, 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 2021 and 2020.

As of June 30, 2021, the Hospital had commitments for property and equipment of approximately $18,879,000.

6. INVESTMENT IN JOINT VENTURE

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, 2021 and 2020, Hospital's ownership in Progressive Cancer Center, LLC is approximately 52%, respectively. 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 $155,000 and $418,000 related to its investment in Progressive Cancer Center, LLC for 2021 and 2020, respectively. The Hospital received dividend distributions during 2021 and 2020 of $227,000 and $333,000 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, 2021 and 2020:

	2021	2020
Total assets	$ 3,396,298	$ 3,855,015
Total liabilities	$ 595,467	$ 926,695
Total equity	$ 2,800,831	$ 2,928,320
Total revenue	$ 1,941,351	$ 2,505,997
Net income	$ 294,861	$ 820,548

7. LONG-TERM DEBT

Long-term debt consists of the following as of June 30, 2021 and 2020:

	2021	2020
Indiana Finance Authority		
Hospital revenue bonds, Series 2021A		
Serial bonds payable through July 1, 2036, interest at 4.000% to 5.000%	$ 25,170,000	$ -0-
Hospital revenue bonds, Series 2020A		
Serial bonds payable through July 1, 2050, interest at 4.000%	69,430,000	-0-
Hospital revenue bonds, Series 2015A		
Variable rate securities, payable through June 2041, variable rate interest of 0.79% at June 30, 2021	26,115,000	27,580,000
Hospital revenue bonds, Series 2012A		
Serial bonds payable through July 1, 2029, interest from 2.000% to 5.000%	-0-	14,765,000
Term bonds with final redemption on July 1, 2032, interest at 4.375%	-0-	8,820,000
Term bonds with final redemption on July 1, 2036, interest at 5.000%	-0-	7,900,000
Term loan with final redemption on January 1, 2031, interest at 2.710%	8,903,825	-0-
	129,618,825	59,065,000
Unamortized premium	11,018,011	177,181
Current portion	(1,863,221)	(2,175,000)
Unamortized debt issue costs	(1,303,803)	(509,655)
	$ 137,469,812	$ 56,557,526

In April 2021, the Hospital issued $25,170,000 of Series 2021A Bonds, through the Indiana Finance Authority (the Authority), at a premium of approximately $5,897,000 to refund the Series 2012A Bonds. The proceeds from this transaction, after accounting for debt issuance costs, were deposited into an irrevocable trust with an escrow agent for the sole purpose of refunding the Series 2012A Bonds, in addition to paying any interest due. As the Series 2012A Bonds were refunded in July 2021, the transaction resulted in an advance refunding of the Series 2012A Bonds, resulting in in-substance defeasance of the related debt. Therefore, the associated assets in the trust and associated debt related to the Series 2012A Bonds have been removed from the balance sheets. The transaction resulted in a loss on extinguishment of debt of approximately $97,000.

The 2021A Bonds are due in annual principal payments ranging from $550,000 to $2,785,000 with fixed interest ranging from 4.00% to 5.00% through July 2036.

In November 2020, the Hospital issued $69,430,000 of Series 2020A Bonds, through the Authority, at a premium of approximately $5,503,000 to finance various capital projects, including renovation of the Hospital's emergency department located on the Hospital's main campus in Marion, Indiana and construction of a new emergency room and clinical facility located in Gas City, Indiana. The 2020A Bonds are due in annual principal payments ranging from $1,825,000 to $7,300,000 with fixed interest of 4.00% through July 2050.

In July 2015, the Hospital issued $33,000,000 of Series 2015A Bonds through the Authority. The proceeds were used to retire previously issued 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 January 2021, the Hospital entered into a loan agreement with Regions Commercial Equipment Finance, LLC (Regions) for $9,000,000 to acquire two medical office buildings. The loan is due in monthly payments of approximately $49,000 through December 2030 with a balloon payment of $5,190,000 due in January 2031. The loan is secured by real property with a net book value of approximately $9,000,000.

The Hospital granted a security interest in its gross revenue (as defined under the master trust indenture) as collateral for the Series 2021A, 2020A, 2015A, 2012A Bonds (prior to defeasance), and loan agreement with Regions. 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, 2021 and 2020.

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

June 30,	
2022	$ 1,863,221
2023	2,457,910
2024	2,527,266
2025	2,588,088
2026	2,698,609
Thereafter	117,483,731
	$ 129,618,825

8. LEASES

The Hospital recognizes right-of-use (ROU) assets and lease liabilities for leases with terms greater than 12 months or leases that contain a purchase option that is reasonably certain to be exercised. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease.

The Hospital has operating and finance leases for medical offices and equipment. Leasing arrangements required fixed payments and also include an amount that is probable will be owed under residual value guarantees, if applicable. Lease payments also include payments related to purchase or termination options when the lessee is reasonably certain to exercise the option or is reasonably certain not to exercise the option, respectively. The Hospital's lease agreements do not contain any material restrictive covenants. The leases have remaining terms of 1 to 5 years.

The Hospital's ROU assets and lease liabilities are recognized on the lease commencement date in an amount that represents the present value of future lease payments over the lease term. The Hospital utilizes its collateralized incremental borrowing rate commensurate to the lease term as the discount rate for its leases unless the Hospital can specifically determine the lessor's implicit rate. Certain lease contracts contain non-lease components such as maintenance and utilities. The Hospital has made a policy election to not separate the lease and non-lease components, and thus recognize a single lease component for all of its right-of-use assets and lease liabilities. The operating lease ROU asset also includes any lease payments made and excludes lease incentives, if any.

Short-term leases (leases with an initial term of 12 months or less or leases that are cancelable by the lessee and lessor without significant penalties) are not capitalized but are expensed on a straight-line basis over the lease term, which are not material to the financial statements.

In evaluating contracts to determine if they qualify as a lease, the Hospital considers factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if the Hospital can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. Furthermore, the Hospital assesses whether it is reasonably certain to exercise options to extend or terminate a lease considering all relevant factors that create economic incentive to exercise such options, including asset, contract, market, and entity-based factors. These evaluations may require significant judgment.

The components of the Hospital's lease cost for 2021 and 2020 are as follows:

	2021	2020
Operating lease cost	$ 1,399,983	$ 1,778,146
Finance lease cost		
Amortization expense	309,171	-0-
Interest on lease liabilities	31,580	-0-
Total finance lease cost	340,751	-0-
Total lease expense	$ 1,740,734	$ 1,778,146

The Hospital's right-of-use assets and lease liabilities as of and for the year ended June 30, 2021 and 2020 are as follows:

	2021	2020
Right-of-use assets		
Operating lease assets	$ 2,955,465	$ 5,028,665
Finance lease assets	1,612,304	-0-
	$ 4,567,769	$ 5,028,665
Lease liabilities		
Operating lease liabilities - current	$ 1,113,268	$ 1,535,432
Finance lease liabilities - current	373,267	-0-
Total operating and finance lease liabilities - current	$ 1,486,535	$ 1,535,432
Operating lease liabilities - noncurrent	$ 1,848,042	$ 3,517,028
Finance lease liabilities - noncurrent	1,253,302	-0-
Total operating and finance lease liabilities - noncurrent	$ 3,101,344	$ 3,517,028

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 1,399,983	$ 1,778,146
Operating cash flows from finance leases	$ 31,580	$ -0-
Financing cash flows from finance leases	$ 309,171	$ -0-
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 857,527	$ 6,612,916
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 1,921,476	$ -0-
Weighted-average remaining lease term - operating leases	4.0 years	3.7 years
Weighted-average remaining lease term - finance leases	4.2 years	Not applicable
Weighted-average discount rate - operating leases	4.22%	2.74%
Weighted-averge discount rate - finance leases	2.24%	Not applicable

Future payments of lease liabilities are as follows:

Year Ending June 30,	Leases Operating	Leases Finance
2022	$ 1,163,288	$ 405,818
2023	784,935	405,817
2024	550,699	405,817
2025	450,454	405,817
2026	106,105	79,333
Total lease payments	3,055,481	1,702,602
Less interest	(94,171)	(76,033)
Present value of lease liabilities	$ 2,961,310	$ 1,626,569

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 Pension Plan was frozen and amended to cease all further benefit accruals under the Pension 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. Additionally, there was no service cost for 2021 or 2020 in light of these changes to the Pension Plan.

The following tables set forth the Pension Plan change in benefit obligation, change in plan assets, and weighted average assumptions as of June 30, 2021 and 2020 (Measurement Date):

	2021	2020
Change in benefit obligation		
Benefit obligation, beginning of year	$ 99,064,908	$ 93,627,846
Interest cost	2,184,882	2,862,842
Actuarial (gain)/loss	(3,325,353)	7,589,605
Benefit payments	(5,235,361)	(5,015,385)
Projected benefit obligation, end of year	92,689,076	99,064,908
Changes in plan assets		
Fair value of plan assets, beginning of year	78,947,008	72,419,693
Actual return on plan assets	987,130	9,542,700
Employer contributions	2,000,000	2,000,000
Benefit payments	(5,235,361)	(5,015,385)
Fair value of plan assets, end of year	76,698,777	78,947,008
Unfunded status		
Unfunded status of the plan, end of year	$ (15,990,299)	$ (20,117,900)
Amounts recorded in the balance sheet consist of		
Pension liability	$ (15,990,299)	$ (20,117,900)

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 expected amortization of actuarial loss for the year ending June 30, 2022 is approximately $2,170,000.

The following table sets forth the components of net periodic benefit cost for the 2021 and 2020 for the Pension Plan:

	2021	2020
Amounts not yet reflected in net periodic benefit cost and included in other changes in unrestricted net assets		
Actuarial loss	$ 21,833,576	$ 25,552,131
Components of net periodic benefit cost		
Interest cost	2,184,882	2,862,842
Expected return on plan assets	(3,324,406)	(3,046,124)
Amortization of loss	2,730,478	3,055,935
Net periodic benefit cost	$ 1,590,954	$ 2,872,653
Weighted-average actuarial assumptions to determine net periodic pension cost of June 30		
Discount rate	2.27%	3.15%
Expected long-term rate of return on assets	4.31%	4.31%
Weighted-average actuarial assumptions to determine benefit obligation cost of June 30		
Discount rate	2.45%	2.27%
Expected long-term rate of return on assets	3.30%	4.31%

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 Pension Plan asset target allocation for 2022 is 90% fixed income and cash equivalents with 10% equities. The allocation as of June 30, 2021 and 2020, by asset category follows:

	Percentage of Plan assets	
Asset category	2021	2020
Fixed income and cash equivalents	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, 2021 and 2020:

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Mutual funds				
Bonds	$ 3,836,519	$ 3,836,519	$ -0-	$ -0-
Foreign	3,852,068	3,852,068	-0-	-0-
Total mutual funds	7,688,587	7,688,587	-0-	-0-
Debt securities				
Government obligations	35,878,755	-0-	35,878,755	-0-
Municipal obligations	448,931	-0-	448,931	-0-
Corporate obligations	26,386,488	-0-	26,386,488	-0-
Treasury obligations	4,645,248	-0-	4,645,248	-0-
Total fixed income obligations	67,359,422	-0-	67,359,422	-0-
	75,048,009	$ 7,688,587	$ 67,359,422	$ -0-
Cash	1,650,768			
	$ 76,698,777			

	June 30, 2020			
	Total	Level 1	Level 2	Level 3
Mutual funds				
Bonds	$ 3,602,372	$ 3,602,372	$ -0-	$ -0-
Foreign	2,463,211	2,463,211	-0-	-0-
Total mutual funds	6,065,583	6,065,583	-0-	-0-
Debt securities				
Government obligations	21,712,502	-0-	21,712,502	-0-
Municipal obligations	4,273,490	-0-	4,273,490	-0-
Corporate obligations	34,716,723	-0-	34,716,723	-0-
Treasury obligations	8,434,663	-0-	8,434,663	-0-
Total fixed income obligations	69,137,378	-0-	69,137,378	-0-
	75,202,961	$ 6,065,583	$ 69,137,378	$ -0-
Cash	3,744,047			
	$ 78,947,008			

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 $2,000,000 to the Pension Plan in 2022.

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

Year Ending June 30,		
2022	$	5,233,000
2023		5,274,000
2024		5,386,000
2025		5,472,000
2026		5,523,000
2027-2031		26,966,000
	$	53,854,000

Defined Contribution Plan

The Hospital has a 403(b) Employer Contributory Plan (the Plan) 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 2021 and 2020 approximated $1,292,000 and $1,213,000, respectively. Employees are fully vested immediately on the employer match and discretionary contributions.

10. MEDICAL OFFICE BUILDINGS

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 2026. Lease rental income of approximately $547,000 and $292,000 is included in other revenue in the statements of operations and changes in net assets for 2021 and 2020, respectively. The Hospital is scheduled to receive future minimum rental payments under these lease agreements as follows:

Year Ending June 30,		
2022	$	640,000
2023		484,000
2024		336,000
2025		198,000
2026		91,000
	$	1,749,000

11. MALPRACTICE INSURANCE

The Hospital participates in the Indiana Medical Malpractice Act, IC 34-18 (the Act), which provides a maximum recovery of $1,800,000. The Act requires 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 several hospitals as of June 30, 2021. The Hospital's investment in THRRRG of approximately $2,911,000 and $2,613,000 is included in other assets as of June 30, 2021 and 2020, respectively. The Hospital recognized a gain of $298,000 and $492,000 in 2021 and 2020 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 $610,000 and $638,000, respectively, as of June 30, 2021 and 2020 to cover malpractice exposures.

12. 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 health care 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 $7,884,000 for 2021 and $8,949,000 for 2020.

13. 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 2021 and 2020 balance sheet date, comprise the following:

	2021	2020
Cash	$ 41,780,994	$ 36,658,197
Accounts receivable (patient and physician)	26,888,719	24,794,909
Other receivables	2,884,674	1,543,770
	$ 71,554,387	$ 62,996,876

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 and other receivables are subject to implied time restrictions, but are expected to be collected within one year. The current portion of notes receivable is excluded from liquidity as a portion of balance will be forgiven rather than collected.

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 $321,487,000 and $259,955,000 as of June 30, 2021 and 2020, respectively. 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.

14. 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, 2021 and 2020 are as follows:

	2021			2020		
	Healthcare Services	Management & General	Total	Healthcare Services	Management & General	Total
Expenses						
Salaries and wages	$ 68,590,218	$ 7,772,552	$ 76,362,770	$ 66,271,336	$ 7,223,340	$ 73,494,676
Employee benefits	13,538,544	2,335,300	15,873,844	14,027,747	2,400,644	16,428,391
Physician services	6,420,559	-0-	6,420,559	7,420,586	-0-	7,420,586
Professional services	8,650,718	3,192,710	11,843,428	8,407,265	2,662,088	11,069,353
Medical supplies	14,419,444	-0-	14,419,444	12,751,348	-0-	12,751,348
Drugs	13,969,557	-0-	13,969,557	12,294,842	-0-	12,294,842
Purchased services	7,953,618	1,988,405	9,942,023	10,347,280	2,586,820	12,934,100
Plant and equipment maintenance	4,221,261	1,055,315	5,276,576	4,147,896	1,036,974	5,184,870
Other	23,630,891	1,896,093	25,526,984	23,486,638	2,080,797	25,567,435
Interest	1,724,398	90,758	1,815,156	1,788,118	94,111	1,882,229
Depreciation and amortization	8,923,625	1,939,489	10,863,114	9,076,081	2,017,089	11,093,170
Total expenses	$ 172,042,833	$ 20,270,622	$ 192,313,455	$ 170,019,137	$ 20,101,863	$ 190,121,000

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 amortization, 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 2021 and 2020.

15. COVID-19

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

During 2020, Provider Relief Fund (PRF) grants authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. The Hospital received approximately $10,746,000 of these funds from the CARES Act during 2020. PRF amounts are recognized to the extent the hospital meets the terms and conditions of the grant. The Hospital recognized PRF of $4,679,000 as other revenue in the statement of operations and changes in net assets during 2020. The remaining portion of $6,067,000 was deferred as a refundable advances as of June 30, 2020. The amount was recognized as revenue in 2021 as the conditions of the grant were satisfied by the Hospital. Compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues may also be subject to future government review and interpretation as they are emerging and uncertain at the time the financial statements were issued. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues, and it is not possible to determine the impact (if any) such claims would have upon the Hospital's financial position.

The CARES Act also allowed health care providers to request accelerated and advanced payments for Medicare services. The Hospital requested and received approximately $16,194,000 of accelerated and advanced Medicare payments under this CARES Act provision in 2020. As of June 30, 2021 and 2020, amounts owed by the Hospital under this program were $14,692,000 and $16,194,000, respectively. These amounts are included in other accrued liabilities on the balance sheets.

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blue

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

Board of Directors
Marion General Hospital dba Marion Health
Marion, Indiana

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of Marion General Hospital dba Marion Health (the Hospital), which comprise the balance sheet as of June 30, 2021, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 7, 2021

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Blue & Co., LLC

Indianapolis, Indiana
October 7, 2021