# LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC. AND AFFILIATES

## CONSOLIDATED FINANCIAL STATEMENTS

## JUNE 30, 2020 AND 2019

CPAs / ADVISORS

blue

# LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.
# AND AFFILIATES

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JUNE 30, 2020 AND 2019

CPAs / ADVISORS

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Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

**REPORT OF INDEPENDENT AUDITORS**

Board of Directors
Little Company of Mary Hospital of Indiana, Inc. and Affiliates
Jasper, Indiana

We have audited the accompanying consolidated financial statements of Little Company of Mary Hospital of Indiana, Inc. and Affiliates (the "Corporation"), a wholly controlled subsidiary of the American Province of Little Company of Mary Sisters, which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Board of Directors
Little Company of Mary Hospital of Indiana, Inc. and Affiliates
Jasper, Indiana

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2020 and 2019, and the results of its operations 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, 2019, the Corporation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2020, on our consideration of the Corporation'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 Corporation's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
October 15, 2020

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.**
**AND AFFILIATES**

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2020 AND 2019

## ASSETS

| | 2020 | 2019 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | $ 63,750,373 | $ 41,314,701 |
| Investments | 10,249,164 | 6,711,411 |
| Patient accounts receivable | 21,213,756 | 24,556,391 |
| Other receivables | 2,192,345 | 2,646,856 |
| Inventory and other current assets | 5,318,488 | 5,780,084 |
| Pension asset | 2,372,782 | -0- |
| Total current assets | 105,096,908 | 81,009,443 |
| **Assets limited as to use, less current portion** | | |
| Board designated funds | 88,737,264 | 87,520,597 |
| Trustee held, less current portion | 812 | 93,182 |
| Donor restricted funds | 3,483,399 | 1,899,217 |
| Investments held by Foundation | 5,909,956 | 5,508,359 |
| Total assets limited as to use | 98,131,431 | 95,021,355 |
| **Property and equipment** | | |
| Land and improvements | 11,046,937 | 10,918,762 |
| Buildings and building equipment | 121,562,028 | 121,009,807 |
| Furniture and equipment | 103,337,152 | 98,776,970 |
| Construction in process | 1,172,693 | -0- |
| | 237,118,810 | 230,705,539 |
| Less allowances for depreciation | 151,252,230 | 141,994,975 |
| Total property and equipment, net | 85,866,580 | 88,710,564 |
| **Other assets** | | |
| Pension asset | -0- | 2,372,782 |
| Other long-term assets | 1,955,611 | 1,813,717 |
| Total assets | $ 291,050,530 | $ 268,927,861 |

See accompanying notes to consolidated financial statements.

# LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.
# AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2020 AND 2019

## LIABILITIES AND NET ASSETS

| | 2020 | 2019 |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable | $ 5,167,920 | $ 4,965,841 |
| Accrued expenses and other current liabilities | 19,481,807 | 17,440,073 |
| Estimated settlements due to third-party payors | 12,880,723 | 2,126,391 |
| Current portion of long-term debt | 2,011,102 | 2,019,409 |
| Total current liabilities | 39,541,552 | 26,551,714 |
| **Long-term liabilities** | | |
| Long-term debt, less current portion | 44,963,675 | 47,032,435 |
| Total long-term liabilities | 44,963,675 | 47,032,435 |
| Total liabilities | 84,505,227 | 73,584,149 |
| **Net assets** | | |
| Without donor restrictions | 203,061,904 | 193,444,495 |
| With donor restrictions | 3,483,399 | 1,899,217 |
| Total net assets | 206,545,303 | 195,343,712 |
| Total liabilities and net assets | $ 291,050,530 | $ 268,927,861 |

See accompanying notes to consolidated financial statements.

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.**
**AND AFFILIATES**

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2020 AND 2019

| | 2020 | 2019 |
|---|---|---|
| **Revenue and other support without donor restrictions** | | |
| Patient service revenue | $ 224,480,976 | $ 227,913,624 |
| Other revenue and support | 8,740,597 | 4,253,421 |
| Total revenue and other support without donor restrictions | 233,221,573 | 232,167,045 |
| **Expenses** | | |
| Salaries and wages | 105,714,473 | 102,527,128 |
| Employee benefits | 20,465,960 | 25,127,045 |
| Supplies and drugs | 37,378,709 | 36,665,781 |
| Professional fees | 9,509,588 | 8,527,157 |
| Depreciation and amortization | 12,221,044 | 12,692,583 |
| Purchased services | 10,904,048 | 9,786,514 |
| Hospital assessment fee and healthy Indiana plan | 10,075,294 | 9,842,451 |
| Interest | 2,296,008 | 2,386,008 |
| Facility fees and leases | 11,437,462 | 11,813,805 |
| Other | 6,663,550 | 6,561,124 |
| Total expenses | 226,666,136 | 225,929,596 |
| Income from operations before pension termination | 6,555,437 | 6,237,449 |
| **Pension termination** | -0- | 2,750,789 |
| Income from operations after pension termination | 6,555,437 | 3,486,660 |
| **Nonoperating gains (losses)** | | |
| Investment return, net | 2,655,386 | 2,845,393 |
| Net unrealized losses on investments | (389,367) | -0- |
| Other | 419,975 | 335,769 |
| Total nonoperating gains, net | 2,685,994 | 3,181,162 |
| Excess of revenues over expenses | 9,241,431 | 6,667,822 |
| **Other changes in net assets without donor restrictions** | | |
| Net unrealized gains on investments | -0- | 1,610,137 |
| Net assets released from restriction | 375,978 | 899,673 |
| Pension related changes other than net periodic pension cost | -0- | 2,589,169 |
| Changes in net assets without donor restrictions | 9,617,409 | 11,766,801 |
| **Net assets with donor restrictions** | | |
| Contributions | 1,960,160 | 723,149 |
| Net assets released from restriction | (375,978) | (899,673) |
| Changes in net assets with donor restrictions | 1,584,182 | (176,524) |
| Changes in net assets | 11,201,591 | 11,590,277 |
| **Net assets** | | |
| Beginning of year | 195,343,712 | 183,753,435 |
| End of year | $ 206,545,303 | $ 195,343,712 |

See accompanying notes to consolidated financial statements.

# LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.
# AND AFFILIATES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## YEARS ENDED JUNE 30, 2020 AND 2019

| | 2020 | 2019 |
|---|---|---|
| **Operating activities** | | |
| Changes in net assets | $ 11,201,591 | $ 11,590,277 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Restricted contributions | (1,960,160) | (723,149) |
| Depreciation and amortization | 12,221,044 | 12,692,583 |
| Net realized and unrealized (gain) losses on investments | 318,637 | (1,720,360) |
| Amortization of original issue (premiums) discounts, net | (58,302) | (58,302) |
| Loss on the disposal of assets | 19,220 | 26,452 |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable | 3,342,635 | (1,172,781) |
| Other current assets | 916,107 | 714,560 |
| Other long-term assets | (182,608) | (181,536) |
| Accounts payable | (314,921) | 82,598 |
| Accrued expenses and other current liabilities | 2,041,734 | 4,264,523 |
| Estimated settlements due to third-party payors | 10,754,332 | 292,642 |
| Pension asset | -0- | 273,441 |
| Net cash flows from operating activities | 38,299,309 | 26,080,948 |
| **Investing activities** | | |
| Additions to property and equipment | (8,838,566) | (8,519,226) |
| Proceeds from disposal of property and equipment | -0- | 2,906 |
| Change in investments and assets limited as to use | (6,966,466) | (2,300,898) |
| Net cash flows from investing activities | (15,805,032) | (10,817,218) |
| **Financing activities** | | |
| Restricted contributions | 1,960,160 | 723,149 |
| Repayments of long-term debt | (2,018,765) | (1,923,616) |
| Net cash flows from financing activities | (58,605) | (1,200,467) |
| Net change in cash and cash equivalents | 22,435,672 | 14,063,263 |
| **Cash and cash equivalents** | | |
| Beginning of year | 41,314,701 | 27,251,438 |
| End of year | $ 63,750,373 | $ 41,314,701 |
| **Supplemental cash flows information** | | |
| Property and equipment included in accounts payable | $ 517,000 | $ 422,000 |

See accompanying notes to consolidated financial statements.

## 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

The mission of Little Company of Mary Hospital of Indiana, Inc. d/b/a Memorial Hospital and Health Care Center, Inc. (Corporation) is as follows:

*Christ's healing mission of compassion empowers us to be for others through quality and excellence.*

The Corporation is a subsidiary of and operates under the auspices of the American Province of The Little Company of Mary Sisters (American Province). The American Province is a religious community of the Roman Catholic Church, which operates health care facilities in the United States and certain other countries. The Board of Directors of the Corporation is appointed by the members of the Provincial Council of the American Province. The Corporation operates a general primary acute care hospital located in Jasper, Indiana.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly controlled affiliates, Memorial Hospital Foundation, Inc. (Foundation), and Barrett Health Corporation of Southwestern Indiana, LLC (Barrett). Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Nonoperating gains and losses include investment income, realized gains and losses on investments, gains or losses on the sale or disposal of property and equipment, and other gains and losses.

Significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

### Use of Estimates

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

Charity Care and Community Benefit

Patients are provided care regardless of their ability to pay and charity services are provided in accordance with charity care policies of the Corporation. These policies define charity services as those services for which no payment is anticipated and are based on federal poverty income levels and certain other factors. Because collection of amounts determined to qualify as charity care is not pursued, such amounts are not reported as revenue. The Corporation did not change its charity care policies during the year.

Of the Corporation's total expenses reported within the consolidated statements of operations and changes in net assets, an estimated $1,467,000 and $1,253,000 arose from providing services to charity patients during 2020 and 2019, respectively.

The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Corporation's total expenses divided by gross patient service revenue.

Cash Equivalents

All highly liquid instruments with an original maturity of 90 days or less excluding investments and assets limited as to use are considered to be cash equivalents. Cash equivalents consist primarily of short-term certificates of deposit and money market funds. The Corporation maintains its cash in accounts, which at times may exceed federally insured limits.

The Corporation has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

The Corporation invests in certain fixed income securities in order to enhance the return on funds available in current operations as needed. Included in these funds are cash equivalents, U.S. government obligations, and corporate obligations.

Patient Accounts Receivable

Patient accounts receivable are reported at the amounts that reflects the consideration which the Corporation expects to be entitled in exchange for providing patient care, as further described in Note 3.

Patient accounts receivable can be impacted by the effectiveness of the Corporation's collection efforts. Additionally, significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the net realizable value of accounts receivable. The Corporation also continually reviews the net realizable value of accounts receivable by monitoring historical cash collections as a percentage of trailing net operating revenues, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables and the impact of recent acquisitions and dispositions.

Final settlements for some payors and programs are subject to adjustment based on administrative review and audit by third parties. As a result of these final settlements, the Corporation has recorded amounts due to third-party.

Given the current regulatory and reimbursement environment, there can be no assurances that adequate reimbursement levels will continue to be available for the services provided by the Corporation. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the Corporation's financial condition, results of operations and cash flows.

The Corporation is primarily located in Jasper, Indiana. The Corporation grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The concentration of net patient accounts receivables from patients and third-party payors as of June 30, 2020 and 2019 is as follows:

| | 2020 | 2019 |
|---|---|---|
| Medicare | 25% | 24% |
| Medicaid | 8% | 10% |
| Blue Cross | 12% | 12% |
| Commercial | 31% | 31% |
| Self-pay | 24% | 23% |
| | 100% | 100% |

Contract Costs

The Corporation has applied the practical expedient provided by Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Corporation otherwise would have recognized is one year or less in duration.

Other Receivables

Other receivables consist mainly of physician loans that are expected to be forgiven or received within the period of one year.

Inventory and Other Current Assets

Inventory and other current assets consist primarily of pharmaceutical and medical supply inventories and prepaid expenses. Inventory is valued at the lower of cost or net realizable value with cost being determined on the first-in, first-out (FIFO) method. Inventory at year-end consists mainly of pharmaceuticals and medical supplies.

Assets Limited as to Use and Investment Income

Nonparticipating certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at contract value, which approximates fair value. Marketable debt, US Government and government agency obligations and common stocks are reported at fair value. US Government and government agency obligations are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency. Mutual funds are reported at fair value based on the fund's market price. Donated investments are reported at fair value at the date of receipt. Dividends, interest income and realized gains (losses) on sales of investments are recorded as nonoperating investment gains (losses) while unrealized gains on investments are reported as other changes in net assets without donor restrictions in the consolidated statements of operations and changes in net assets. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Board designated investments limited as to use consist of short-term investments (principally money market mutual funds), US Government and government agency obligations, marketable debt securities, common stocks, and mutual funds. Investments are generally reported at fair value.

Board designated investments limited as to use represent certain funds from operations, investments held by the Foundation, donor restricted funds and other sources designated by the Board of Directors of the Corporation to be used to fund future capital asset replacements, for the retirement of certain long-term debt, or for other purposes.

Investments held by trustee have been established as required by terms of the various bond agreements. Such funds are to be used for payment of principal and interest, replacement or construction of property and equipment, and cash reserves. Funds held for obligations classified as current liabilities are reported as current assets.

Property and Equipment and Depreciation

Property and equipment are stated at cost, or if donated, at fair value at the date of donation, and include expenditures for new additions and repairs which substantially increase the useful lives of existing property and equipment. Maintenance repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss for the period is recognized. Provisions for depreciation of property and equipment are computed using the straight-line method based upon the estimated useful lives of the assets, which range from 2 to 40 years.

Financial Statement Presentation and Net Assets

The accompanying consolidated financial statements have been prepared on the accrual basis, and have been prepared with a focus on the entity as a whole. Net assets, support, revenues, gains, and losses are classified based on the existence or absence of donor restrictions.

Net assets with donor restrictions are those assets whose use by the Corporation has been limited by donors for capital projects or for a specific time or purpose. The primary projects and purposes relate to the cancer center, medication program and palliative care.

When donor restrictions expire, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of operations and changes in net assets as net assets released from restriction. The net assets released from restrictions for 2020 and 2019 primarily consist of funds for various capital projects. Resources arising from the results of operations or assets set aside by the Board of Directors are not considered to be with donor restrictions.

Compensated Absences

The Corporation's policy on compensated absences (which include vacation, holidays and a personal day) allows full time employees and regular part time employees to accrue days off, to a maximum of 240 hours. Compensated absences are accrued when incurred and reported as a liability on the consolidated balance sheet.

Contributions and Support

The Corporation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.  The Corporation did not have any refundable advances at June 30, 2020 and 2019.

See Note 13 for additional information surrounding support.

Advertising Costs

Advertising costs are expenses as incurred. Total advertising expense for 2020 and 2019 was approximately $262,000 and $278,000, respectively.

Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator, excess of revenues over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenues over expenses, consistent with industry practice for 2020, include pension related changes other than net periodic pension cost and contributions of long-lived assets and certain other items. Additionally in 2019, unrealized gains and losses on all other than trading securities were excluded from the performance indicator.

Medical Malpractice

The Corporation purchases professional and general liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of $1,800,000 for an occurrence of malpractice and provided a maximum recovery of $1,650,000 prior to July 1, 2019. The Act requires the Corporation to maintain medical malpractice liability insurance in the amount of at least $500,000 per occurrence ($10,000,000 in the annual aggregate). Prior to July 1, 2019, the Act required the Corporation to maintain medical malpractice liability insurance in the amount of at least $400,000 per occurrence ($12,000,000 in the annual aggregate). The Act also requires the Corporation to pay a surcharge to the State Patient’s Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable.

The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

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

Pension Plan

Effective October 31, 2017, the Corporation’s Board of Directors elected to terminate the defined benefit plan and all obligations were settled prior to June 30, 2019. Previously, the Corporation’s defined benefit pension plan covered substantially all employees. The benefits were based on years of service and each employee’s compensation during the years of employment. Contributions were based on a seven-year amortization of any shortfall determined by comparing the funding target liability to the actuarial value of assets.

Income Taxes

The Corporation and Foundation are organized as not-for-profit corporations under Section 501(c)(3) of the United States Internal Revenue Code. The exemption is on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. As such, the Corporation and Foundation are generally exempt from income taxes. However, the Corporation and Foundation are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Barrett is organized as limited liability company, whereby net taxable income is taxed directly to the members and not Barrett. Thus, the consolidated financial statements do not include any provision for Federal or State income taxes. Barrett has filed its federal and state income tax returns for periods through December 31, 2019.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Corporation and recognize a tax liability if the Corporation 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 Corporation, and has concluded that as of June 30, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. 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).

Subsequent Events

The Corporation has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were issued which was October 15, 2020.

Going Concern Evaluation

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

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. This new standard, which the Corporation is not required to adopt until its fiscal year ending June 30, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their balance sheet 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 balance sheet.

The Corporation is presently evaluating the effects that this ASU will have on its future financial statements, including related disclosures.

## 2. CHANGE IN ACCOUNTING PRINCIPLES

ASU 2018-08

Effective July 1, 2019, the Corporation adopted FASB ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* as topic 958 (ASU 2018-08). ASU 2018-08 clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred.

Additionally, the amendments in this ASU require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return on assets transferred or a right of release of a promisor's obligation to transfer assets. Finally, ASU 2018-08 amends the "simultaneous release accounting policy" to allow a not-for-profit entity to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. The adoption of ASU 2018-08 did not have a material impact on the 2020 consolidated financial statements.

ASU 2016-01

On July 1, 2019, the Corporation 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 requires 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 revenues 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 ASU does not have a material effect on the Corporation's consolidated financial position, results of operations, or disclosures in the notes to the consolidated financial statements. The primary impact on the Corporation is that changes in the fair value of equity investments will be recognized within the performance indicator, excess revenues over expenses, rather than below the performance indicator where it was previously presented.

## 3. PATIENT SERVICE REVENUE

The Corporation's revenues generally relate to contracts with patients in which the Corporation's performance obligations are to provide health care services to the patients. Patient service revenue is reported at the amount that reflects the consideration to which the Corporation 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 Corporation 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 Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation 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 receiving inpatient acute care services or patients receiving services in our outpatient centers or in their homes (home care).

The Corporation measures the performance obligation from admission into the Corporation, 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. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to patients and the Corporation does not believe it is required to provide additional goods or services related to that obligation.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in FASB 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 Corporation determines the transaction price based on standard charges, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Corporation’s policy, and implicit price concessions provided to uninsured patients. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Corporation determines its estimate of implicit price concessions based on its historical collection experience with this class of patients. The Corporation continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and changes in contractual terms.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare: Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

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 Corporation'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 2020 or 2019.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation 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. The amounts recognized due to changes in its estimates of explicit and implicit price concessions for the years ended June 30, 2020 and 2019 are not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation 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 Corporation expects to collect based on its collection history with those patients. Implicit price concessions were approximately $11,800,000 and $13,582,000 for the years ended June 30, 2020 and 2019, respectively.

Patients who meet the Corporation'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 Corporation has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by payors. The following tables provide details of this factor.

| | 2020 | 2019 |
|---|---|---|
| Medicare | $ 76,031,867 | $ 77,194,507 |
| Medicaid | 19,814,328 | 20,117,319 |
| Commercial and other | 127,995,893 | 129,953,141 |
| Patients | 638,887 | 648,657 |
| | $ 224,480,976 | $ 227,913,624 |

Revenue from patient’s deductibles and coinsurance are included in the preceding categories based on the primary payor.

The Corporation participates in the State of Indiana’s Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF 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 the Healthy Indiana Plan (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 2020 and 2019, the Corporation recognized HAF and HIP Program expenses of approximately $10,075,000 and $9,842,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP assessments are included in the consolidated statements of operations and changes in net assets as in operating expenses. The Medicaid rate increases under the HAF Program and the HIP payments are included in patient service revenue in the statements of operations and changes in net assets.

Reimbursement from the Medicare and Medicaid programs is determined from annual cost reports, which are subject to audit by the programs. The Corporation's management believes that amounts recorded in the consolidated financial statements for estimated settlements will approximate the final settlements for open cost reports. The Corporation's cost reports have been audited by the government or its agents and settled through June 30, 2017.

## 4. INVESTMENTS AND ASSETS LIMITED AS TO USE

The composition of investments and assets limited as to use at June 30 is set forth below:

| | 2020 | 2019 |
|---|---|---|
| Investments | | |
| Cash equivalents | $ 898,633 | $ 179,906 |
| U.S. government obligations | 5,240,885 | 4,493,506 |
| Corporate obligations | 4,109,646 | 2,037,999 |
| | 10,249,164 | 6,711,411 |
| Board designated funds | | |
| Certificates of deposit and cash equivalents | 6,162,702 | 952,932 |
| Mutual funds | 56,381,510 | 55,165,990 |
| U.S. government obligations | 12,469,008 | 15,140,726 |
| Corporate obligations | 6,528,303 | 7,857,243 |
| Limited partnership funds | 7,195,741 | 8,403,706 |
| | 88,737,264 | 87,520,597 |
| Trustee held funds | | |
| Cash equivalents | 812 | 93,182 |
| Donor restricted funds and investments held by Foundation | | |
| Cash equivalents | 3,668,280 | 1,665,992 |
| Common stocks | 2,781,499 | 3,022,669 |
| Mutual funds | 506,546 | 826,832 |
| Corporate obligations | 1,247,703 | 770,332 |
| U.S. government obligations | 1,186,222 | 1,118,218 |
| Other | 3,105 | 3,533 |
| | 9,393,355 | 7,407,576 |
| | $ 108,380,595 | $ 101,732,766 |

The composition of investment return recognized in the consolidated statements of operations and changes in net assets follows:

| | 2020 | 2019 |
|---|---|---|
| Interest and dividend income | $ 2,584,656 | $ 2,735,170 |
| Realized gains on sale of investments | 529,322 | 326,018 |
| Realized losses on sale of investments | (458,592) | (215,795) |
| Unrealized gains (losses) on investments | (389,367) | 1,610,137 |
| Investment income, net | $ 2,266,019 | $ 4,455,530 |

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

## 5. FAIR VALUE MEASUREMENTS

Effective July 1, 2019, the Corporation adopted FASB ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this ASU removed and modified certain disclosure requirements in Topic 820. As such, the fair value measurement disclosures for 2019 have been restated for these changes.

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 Corporation 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 at June 30, 2020 and 2019.

- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Corporation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Corporation are deemed to be actively traded.

- *Money market funds:* Generally transact subscription and redemption activity at a $1 stable NAV; however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

- *U.S. government obligations*: Valued using pricing models maximizing the use of observable inputs

- *Corporate obligations*: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

- *Limited partnership 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 limited partnership 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 NAV of the fund and, consequently, the fair value of the Corporation'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 NAV. It is therefore reasonably possible that if the Corporation were to sell these investments in the secondary market, a buyer may require a discount to the reported NAV, and the discount could be significant.

The following tables sets forth by level, within the hierarchy, the Corporation's assets and liabilities measured at fair value on a recurring basis as of June 30, 2020 and 2019 are as follows:

| | June 30, 2020 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Investments and assets limited as to use | | | | |
| Common stocks | | | | |
| Materials | $ 91,082 | $ 91,082 | $ -0- | $ -0- |
| Industrials | 76,525 | 76,525 | -0- | -0- |
| Consumer discretionary | 318,154 | 318,154 | -0- | -0- |
| Energy | 45,006 | 45,006 | -0- | -0- |
| Finance | 298,238 | 298,238 | -0- | -0- |
| Health care | 441,372 | 441,372 | -0- | -0- |
| Information technology | 1,045,302 | 1,045,302 | -0- | -0- |
| Services | 258,927 | 258,927 | -0- | -0- |
| Other | 206,893 | 206,893 | -0- | -0- |
| Mutual funds | | | | |
| Value | 9,344,015 | 9,344,015 | -0- | -0- |
| Blended | 12,520,068 | 12,520,068 | -0- | -0- |
| Growth | 7,047,448 | 7,047,448 | -0- | -0- |
| Fixed income | 27,976,525 | 27,976,525 | -0- | -0- |
| U.S. government obligations | 18,896,115 | -0- | 18,896,115 | -0- |
| Corporate obligations | | | | |
| Financial | 7,779,979 | -0- | 7,779,979 | -0- |
| Consumer | 4,105,673 | -0- | 4,105,673 | -0- |
| Other | 3,105 | -0- | 3,105 | -0- |
| | | $ 59,669,555 | $ 30,784,872 | $ -0- |
| Certificates of deposit and cash equivalents | 10,730,427 | | | |
| Limited partnership funds (a) | 7,195,741 | | | |
| Total investments and assets limited as to use | $108,380,595 | | | |

| | June 30, 2019 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Investments and assets limited as to use | | | | |
| Common stocks | | | | |
| Materials | $ 205,907 | $ 205,907 | $ -0- | $ -0- |
| Industrials | 78,509 | 78,509 | -0- | -0- |
| Consumer discretionary | 207,792 | 207,792 | -0- | -0- |
| Energy | 148,269 | 148,269 | -0- | -0- |
| Finance | 417,217 | 417,217 | -0- | -0- |
| Health care | 502,019 | 502,019 | -0- | -0- |
| Information technology | 849,739 | 849,739 | -0- | -0- |
| Services | 422,913 | 422,913 | -0- | -0- |
| Other | 190,304 | 190,304 | -0- | -0- |
| Mutual funds | | | | |
| Value | 10,083,381 | 10,083,381 | -0- | -0- |
| Blended | 12,124,533 | 12,124,533 | -0- | -0- |
| Growth | 7,148,141 | 7,148,141 | -0- | -0- |
| Fixed income | 26,636,767 | 26,636,767 | -0- | -0- |
| U.S. government obligations | 20,752,450 | -0- | 20,752,450 | -0- |
| Corporate obligations | | | | |
| Financial | 5,910,162 | -0- | 5,910,162 | -0- |
| Consumer | 4,755,412 | -0- | 4,755,412 | -0- |
| Other | 3,533 | -0- | 3,533 | -0- |
| | | $ 59,015,491 | $ 31,421,557 | $ -0- |
| Certificates of deposit and cash equivalents | 2,892,012 | | | |
| Limited partnership funds (a) | 8,403,706 | | | |
| Total investments and assets limited as to use | $101,732,766 | | | |

(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 consolidated balance sheets.

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

Fair Value of Investments in Entities that Use Net Asset Value

June 30, 2020

| Assets limited as to use | Fair Value | Subscription | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|---|
| Limited partnership - pooled investments | $ 28,190 | None | None | Quarterly | Full liquidity mode to distribute over next few quarters |
| Limited partnership - pooled investments | 180,506 | None | None | Quarterly | Full liquidity mode to distribute over next few quarters |
| Limited partnership - pooled investments | 4,498,937 | None | None | None | None |
| Limited partnership - energy | 421,663 | None | 647,822 | Illiquid | None |
| Limited partnership - real estate | 1,294,451 | None | 93,556 | Illiquid | None |
| Limited partnership - secondary | 771,994 | None | 625,194 | Illiquid | None |
| | $ 7,195,741 | | | | |

June 30, 2019

| Assets limited as to use | Fair Value | Subscription | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|---|
| Limited partnership - pooled investments | $ 974,666 | None | None | Quarterly | 155 Days |
| Limited partnership - pooled investments | 767,099 | None | None | Quarterly | Full liquidity mode to distribute over next few quarters |
| Limited partnership - pooled investments | 4,485,001 | None | None | None | None |
| Limited partnership - energy | 515,866 | None | 758,385 | Illiquid | None |
| Limited partnership - real estate | 1,218,104 | None | 173,818 | Illiquid | None |
| Limited partnership - secondary | 442,970 | None | 887,555 | Illiquid | None |
| | $ 8,403,706 | | | | |

## 6. LONG-TERM DEBT

Long-term debt consists principally of tax-exempt revenue bonds as follows:

| | 2020 | 2019 |
|---|---|---|
| Hospital Authority of the City of Jasper Revenue and Refunding Bonds, Series 2013, commencing December 2013 through November 2035 in amounts ranging from $1,615,000 to $4,060,000. Interest payable semiannually between 3.00% and 5.75% | $ 46,040,000 | $ 47,925,000 |
| Note payable to bank, due August 30, 2020, fixed interest of 2.97%, monthly interest and principle payments due in the amount of $11,435 | 31,102 | 164,867 |
| | 46,071,102 | 48,089,867 |
| Original issue premiums (discounts), net | 903,675 | 961,977 |
| | 46,974,777 | 49,051,844 |
| Less current portion | 2,011,102 | 2,019,409 |
| | $ 44,963,675 | $ 47,032,435 |

Maturities of long-term debt for the next five years and thereafter are as follows:

| Year Ending June 30, | |
|---|---|
| 2021 | $ 2,011,102 |
| 2022 | 2,080,000 |
| 2023 | 2,185,000 |
| 2024 | 2,290,000 |
| 2025 | 2,405,000 |
| Thereafter | 35,100,000 |
| | $ 46,071,102 |

Interest paid totaled approximately $2,354,000and $2,444,000 in 2020 and 2019, respectively.

In December 2013, the Hospital Authority of the City of Jasper issued $56,585,000 (par value) of Fixed Rate Revenue and Refunding Bonds, Series 2013 (the Series 2013 Bonds), dated December 31, 2013, on behalf of the Corporation. A portion of the proceeds of the Series 2013 Bonds were used for the purpose of refunding the previously held Series 2002 Bonds and the Series 2008 Bonds. In addition, the remaining portion of the Series 2013 Bonds, as of June 30, 2020, are being held for the purpose of financing a portion of the costs of construction, equipping, and renovation and improvement of certain facilities of the Corporation.

The Series 2013 Bonds are collateralized by a security interest in substantially all assets of the Corporation and all proceeds therefrom, with the exception of donor-restricted contributions. The note payable to bank is secured by real property with a net book value of approximately $575,000 as of June 30, 2020.

The Corporation has agreed to certain covenants, which, among other things, limit additional indebtedness and guarantees and require the Corporation to maintain specific financial ratios. Management believes they are in compliance with the covenants at June 30, 2020 and 2019.

## 7. RETIREMENT PLANS

The Corporation participates in a non-contributory defined benefit pension plan (Plan) which covers the Sisters of the American Province, Little Company of Mary Hospital and Health Care Centers (Illinois), and substantially all employees of the Corporation. Benefits are based upon years of service with the Corporation and annual compensation levels.

In May of 2012, the Corporation’s Board of Directors approved a resolution to freeze the defined benefit plan effective December 31, 2012. The effect of this was to stop the accrual of future benefits under the plan. Furthermore, no future employees or currently inactive plan participants will become active plan participants. All active plan participants became fully vested, no future accrual service will be or was credited and no future changes in compensation will be or was taken into account in determining a participant’s accrued benefits. Effective October 31, 2017, the Corporation’s Board of Directors elected to terminate the defined benefit plan and all obligations were settled prior to June 30, 2019. As a result, the Corporation recognized a loss on pension termination of approximately $2,751,000 during 2019.

The Corporation adopted the provisions of accounting standards relating to defined benefit pension and other postretirement plans. These standards require employers to recognize in their balance sheets the overfunded or underfunded status of defined benefit plans, measured as the difference between the fair value of plan assets and the projected benefit obligation based upon a measurement date of June 30, 2020 and 2019, respectively.

The following table sets forth the Plan's funded status and amounts allocated to the Corporation recognized in the financial statements at June 30, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | $ -0- | $ 54,309,835 |
| Employee contributions | -0- | -0- |
| Service cost | -0- | -0- |
| Interest cost | -0- | 791,520 |
| Actuarial losses (gains) | -0- | (483,675) |
| Benefit payments | -0- | (54,617,680) |
| Projected benefit obligation at end of year | -0- | -0- |
| Changes in plan assets | | |
| Fair value of plan assets at beginning of year | 2,372,782 | 56,956,058 |
| Actual return on plan assets | -0- | 148,242 |
| Hospital contributions | -0- | -0- |
| Employee contributions | -0- | -0- |
| Actual expenses paid | -0- | (113,838) |
| Benefit payments | -0- | (54,617,680) |
| Fair value of plan assets at end of year | 2,372,782 | 2,372,782 |
| Funded status | | |
| Funded status of the plan, end of year | $ 2,372,782 | $ 2,372,782 |

During 2019, a lump sum payment was offered in lieu of annuities to all participating employees in the Plan as part of the termination. Approximately $54,618,000 of lump sum payments were made during 2019 and are included as a component of benefits paid in the table above. No such payments were made during 2020. The Corporation intends to make final lump sum payments during 2021.

Other pension disclosures for 2020 and 2019 include:

| | 2020 | 2019 |
|---|---|---|
| Amounts not yet reflected in net periodic benefit cost and included in other changes in net assets without restrictions | | |
| Transition obligation asset (obligation) | $ -0- | $ -0- |
| Prior service cost | -0- | -0- |
| Actuarial loss | -0- | -0- |
| Other changes in net assets without restrictions | $ -0- | $ -0- |
| Components of net periodic benefit cost | | |
| Service cost | $ -0- | $ -0- |
| Interest cost | -0- | 791,520 |
| Expected return on plan assets | -0- | (679,700) |
| Net amortization and deferral | -0- | -0- |
| Settlement/curtailment expense | -0- | 2,750,789 |
| Net periodic benefit cost | $ -0- | $ 2,862,609 |
| Other changes in net assets without restrictions | | |
| Prior service cost arising during year | $ -0- | $ -0- |
| Net gain arising during year | -0- | 161,620 |
| Amortization of loss | -0- | -0- |
| Curtailment/settlement loss | -0- | (2,750,789) |
| Total other changes in net assets without restrictions | $ -0- | $ (2,589,169) |
| Amounts expected to be amortized from other changes in net assets without restrictions over the next fiscal year | | |
| Amortization of transition (obligation) asset | $ -0- | $ -0- |
| Amortization of prior service cost | $ -0- | $ -0- |
| Actuarial loss | $ -0- | $ -0- |
| Weighted-average actuarial assumptions to determine net periodic pension cost as of June 30 | | |
| Discount rate | Not applicable | 4.00% |
| Expected long-term rate of return on assets | Not applicable | 3.25% |
| Rate of compensation increase | Not applicable | Not applicable |
| Weighted-average actuarial assumptions to determine benefit obligation cost as of June 30 | | |
| Discount rate | Not applicable | 4.07% |
| Expected long-term rate of return on assets | Not applicable | 3.25% |
| Rate of compensation increase | Not applicable | Not applicable |
| Additional year end information | | |
| Projected benefit obligation | $ -0- | $ -0- |
| Accumulated benefit obligation | $ -0- | $ -0- |
| Fair value of plan assets | $ 2,372,782 | $ 2,372,782 |

Determination of net periodic pension cost for the years ended June 30, 2020 and 2019 is based on assumptions and census data as of January 1, 2020 and 2019, respectively.

The principal long-term determinant of a portfolio's investment return is its asset allocation. In addition, active management strategies have added value relative to passive benchmark returns. The expected long-term rate of return assumption is based on the mix of assets in the plan, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management. This assumption is periodically benchmarked against peer plans.

The Plan's weighted-average, asset allocations as of June 30, 2020 and 2019, by asset category, are as follows:

| | 2020 | 2019 |
|---|---|---|
| Cash and cash equivalents | 100% | 0% |
| Equity funds | 0% | 18% |
| Fixed income funds | 0% | 82% |
| | 100% | 100% |

The Plan's assets are invested in a portfolio that provides for asset allocation strategies across equity markets, both domestic and international, and debt markets. The portfolio's objective is to maximize the Plan's surplus, minimize annual contributions, and fund the annual interest credit. Management and its investment advisor have prepared asset allocation recommendations based on detailed analyses of the Plan's current and expected future financial needs. Based upon these analyses and objectives of the Plan, the following is the target asset allocation:

| | 2020 | 2019 |
|---|---|---|
| Cash and cash equivalents | 100% | 0% |
| Equity funds | 0% | 20% |
| Fixed income and other funds | 0% | 80% |
| | 100% | 100% |

Following is an analysis of the fair value of major classes of Plan assets as of June 30, 2020 and 2019:

| | June 30, 2020 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| **Asset category** | | | | |
| Cash and cash equivalents | $ 2,372,782 | $ -0- | $ 2,372,782 | $ -0- |
| Total plan assets | $ 2,372,782 | $ -0- | $ 2,372,782 | $ -0- |

| | June 30, 2019 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| **Asset category** | | | | |
| Equity mutual funds | | | | |
| Domestic | $ 418,690 | $ 364,042 | $ 54,648 | $ -0- |
| Fixed income mutual funds | | | | |
| Domestic | 1,954,073 | -0- | 1,954,073 | -0- |
| Cash and cash equivalents | 19 | -0- | 19 | -0- |
| Total plan assets | $ 2,372,782 | $ 364,042 | $ 2,008,740 | $ -0- |

See Note 5 for a description of the fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value.

The Corporation also maintains 401(k), 403(b) and 457(b) plans for eligible employees. The 403(b) and 457(b) plans do not provide for employer matching contributions from the Corporation. The amount of employer matching contributions for the 401(k) plan is determined each year by the Corporation. The amount of employer matching contributions for the 401(k) plan for the years ended June 30, 2020 and 2019 was approximately $1,622,000 and $1,545,000, respectively.

## 8. FUNCTIONAL EXPENSES

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Corporation. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, which is allocated based on square footage, salaries and benefits, which are allocated based on estimates of time and effort, and employee benefits, which are allocated based on a percentage of salaries and benefits.

The remaining operating expenses below were allocated based on an identified percentage developed through the Corporation's analysis of indirect cost. Although the methods used were appropriate, alternative methods may provide different results.

The Corporation provides general health care services to patients in the communities in which it operates. Expenses related to providing these services are as follows:

| | 2020 | | |
|---|---|---|---|
| | Health care Services | General & Administrative | Total |
| Salaries and wages | $ 87,314,673 | $ 18,399,800 | $ 105,714,473 |
| Employee benefits | 17,268,260 | 3,197,700 | 20,465,960 |
| Supplies and drugs | 36,814,809 | 563,900 | 37,378,709 |
| Professional fees | 5,463,988 | 4,045,600 | 9,509,588 |
| Depreciation and amortization | 10,255,044 | 1,966,000 | 12,221,044 |
| Purchased services | 7,225,648 | 3,678,400 | 10,904,048 |
| Hospital assessment fee and healthy Indiana plan | 10,075,294 | -0- | 10,075,294 |
| Interest | 2,296,008 | -0- | 2,296,008 |
| Facility fees and leases | 5,522,062 | 5,915,400 | 11,437,462 |
| Other | 3,716,850 | 2,946,700 | 6,663,550 |
| Total expenses | $ 185,952,636 | $ 40,713,500 | $ 226,666,136 |

| | 2019 | | |
|---|---|---|---|
| | Health care Services | General & Administrative | Total |
| Salaries and wages | $ 84,682,053 | $ 17,845,075 | $ 102,527,128 |
| Employee benefits | 21,201,128 | 3,925,917 | 25,127,045 |
| Supplies and drugs | 36,112,677 | 553,104 | 36,665,781 |
| Professional fees | 4,899,485 | 3,627,672 | 8,527,157 |
| Depreciation and amortization | 10,650,693 | 2,041,890 | 12,692,583 |
| Purchased services | 6,485,126 | 3,301,388 | 9,786,514 |
| Hospital assessment fee and healthy Indiana plan | 9,842,451 | -0- | 9,842,451 |
| Interest | 2,386,008 | -0- | 2,386,008 |
| Facility fees and leases | 5,703,724 | 6,110,081 | 11,813,805 |
| Other | 3,659,722 | 2,901,402 | 6,561,124 |
| Total expenses | $ 185,623,067 | $ 40,306,529 | $ 225,929,596 |

## 9. SELF-INSURED HEALTH AND DENTAL PLAN

The Corporation provides self-insured health and dental benefits to its employees. A third-party claims administrator has been retained to process all benefit claims. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. A stop/loss policy through commercial insurance covers individual claims in excess of $275,000 per individual per policy year with no aggregate limit. Self-funded health and dental insurance and related expenses were $11,153,000 and $15,987,000 for 2020 and 2019, respectively.

## 10. COMMITMENTS AND CONTINGENCIES

Litigation

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

Operating Leases

Total lease expense for 2020 and 2019 was approximately $3,347,000 and $3,721,000, respectively. The Corporation has several non-cancellable operating leases expiring at various dates through 2025.

The future minimum payments due under these leases are as follows:

| Year Ending June 30, | | |
|---|---|---|
| 2021 | $ | 2,834,413 |
| 2022 | | 2,517,603 |
| 2023 | | 1,600,013 |
| 2024 | | 1,236,569 |
| 2025 | | 467,810 |
| | $ | 8,656,408 |

Property and Equipment

As of June 30, 2020, the Corporation had commitments for property and equipment projects of approximately $27,745,000, primarily for the Epic electronic health records system and a linear accelerator, through 2021.

## 11. INVESTMENT IN JOINT VENTURE

During 2011, the Corporation invested $60,000 to obtain a 40% interest in the Memorial Hospital Outpatient Surgery Center Management Company, LLC (Management Company) which was formed with the intent to operate a high-quality, cost efficient, outpatient surgery center and to engage in any acts that may be necessary, incidental or convenient to support the surgery center unit of the Corporation. The surgery center department that relates to this management company commenced operations during fiscal year 2013. This 40% interest has been recorded under the equity method of accounting and is located within other assets in the consolidated balance sheets.

As a result of this joint venture, the Corporation recognized a gain during 2020 and 2019 of approximately $439,000 and $350,000, respectively, related to changes in equity of the Management Company. The Corporation received dividend distributions during 2020 and 2019 of approximately $361,000 and $333,000, respectively. The gain is included within other nonoperating gains in the consolidated statements of operations and changes in net assets.

## 12. LIQUIDITY AND AVAILABILITY OF RESOURCES

As of June 30, 2020 the Corporation has approximately $95,213,000 of financial assets available within one year of the consolidated balance sheet date to meet cash needs for general expenditure consisting of cash and cash equivalents of approximately $63,750,000, investments of approximately $10,249,000 and accounts receivable of approximately $21,214,000. As of June 30, 2019, the Corporation had approximately $72,582,000 of financial assets available within one year of the consolidated balance sheet date to meet cash needs for general expenditure consisting of cash and cash equivalents of approximately $41,315,000, investments of approximately $6,711,000 and accounts receivable of approximately $24,556,000. 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 consolidated balance sheet date. Accounts receivable are subject to implied time restrictions, but are expected to be collected within one year. The Corporation has a goal to maintain financial assets to meet 90 days of normal operating expenses, which are, on average, approximately $53,460,000. The Corporation’s policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As a part of the Corporation’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 Corporation periodically invests excess cash in investments. The Corporation does not intend to spend from the board designated investments, though these amounts could be made available, if necessary.

## 13. 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 Corporation’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 healthcare personnel, potential shortages of clinical supplies, loss of, or reduction to, revenue, and investment portfolio declines. Management believes the Corporation is taking appropriate actions to respond to the pandemic. However, the full impact is unknown and cannot be reasonably estimated at the date the consolidated 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 under Catalog of Federal Domestic Assistance (CFDA) #93.498. Revenues from PRF grants are recognized to the extent the Corporation meets the post-payment reporting requirements, terms and conditions and can be used through June 30, 2021. Funds not used during the term must be returned. The Corporation received PRF grants of approximately $13,200,000 during 2020 and has recognized approximately $3,156,000 within other revenue and support in the consolidated statements of operations and changes in nets assets. As of June 30, 2020, $10,000,000 was recorded as refundable advances within estimated third-party settlements in the consolidated balance sheets.

CPAs / ADVISORS

blue

Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

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

Board of Directors
Little Company of Mary Hospital of Indiana, Inc. and Affiliates
Jasper, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Little Company of Mary Hospital of Indiana, Inc. and Affiliates (the Corporation), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 15, 2020.

## Internal Control Over Financial Reporting

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

Board of Directors
Little Company of Mary Hospital of Indiana, Inc. and Affiliates
Jasper, Indiana

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Blue & Co., LLC

Indianapolis, Indiana
October 15, 2020