



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2020 AND 2019

CPAs / ADVISORS



UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Union Health System, Inc.
Terre Haute, Indiana

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Union Health System, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheets as of December 31, 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits 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 System'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 System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Board of Directors
Union Health System, Inc.
Terre Haute, Indiana

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of December 31, 2020 and 2019, and the 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.

REPORT ON SUPPLEMENTARY INFORMATION

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets, consolidating statements of operations and changes in net assets, and consolidating statements of operations (Union Hospital, Inc. and Subsidiaries) as listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets of the individual entities, and is not a required part of the consolidated financial statements. The accompanying schedule of property and equipment of mortgagor is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2021 on our consideration of the System'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 System's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
April 22, 2021

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 AND 2019

	ASSETS	
	2020	2019
Current assets		
Cash and cash equivalents	\$ 115,452,507	\$ 83,215,144
Patient accounts receivable, net	71,193,248	53,121,998
Inventories	6,425,477	5,966,243
Prepaid expenses and other current assets	16,284,768	15,269,718
Total current assets	209,356,000	157,573,103
Investments limited as to use		
Funds held by trustee	15,224,985	10,694,840
Board designated	169,119,846	117,046,394
Total investments limited as to use	184,344,831	127,741,234
Property and equipment		
Land and improvements	39,110,260	38,269,946
Buildings and fixed equipment	418,891,664	380,439,203
Movable equipment	194,983,656	185,386,285
	652,985,580	604,095,434
Less allowances for depreciation	366,439,507	347,918,262
	286,546,073	256,177,172
Construction in progress	1,152,140	366,455
Total property and equipment, net	287,698,213	256,543,627
Other assets		
Due from Union Health Foundation, Inc.	6,283,253	4,849,697
Intangible assets, net and other	1,911,305	4,011,409
Investment in joint ventures	12,872,312	7,506,822
	21,066,870	16,367,928
Total assets	\$ 702,465,914	\$ 558,225,892

See accompanying notes to consolidated financial statements.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 AND 2019

LIABILITIES AND NET ASSETS

	<u>2020</u>	<u>2019</u>
Current liabilities		
Accounts payable and other current liabilities	\$ 40,167,667	\$ 31,806,639
Salaries, wages and related liabilities	42,936,352	36,560,122
Estimated third party settlements	18,665,398	1,240,396
Current portion of long-term debt	<u>12,491,113</u>	<u>10,080,732</u>
Total current liabilities	114,260,530	79,687,889
Long-term liabilities		
Long-term debt, less current portion	281,073,965	253,141,939
Other long-term liabilities	<u>-0-</u>	<u>39,471</u>
Total long-term liabilities	<u>281,073,965</u>	<u>253,181,410</u>
Total liabilities	395,334,495	332,869,299
Net assets		
Without donor restrictions	298,833,887	218,602,273
Noncontrolling interests in UHT, LLC	<u>525,948</u>	<u>544,684</u>
Total net assets without donor restrictions	299,359,835	219,146,957
With donor restrictions	<u>7,771,584</u>	<u>6,209,636</u>
Total net assets	<u>307,131,419</u>	<u>225,356,593</u>
Total liabilities and net assets	<u>\$ 702,465,914</u>	<u>\$ 558,225,892</u>

See accompanying notes to consolidated financial statements.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Operating revenue		
Net patient service revenue	\$ 550,193,938	554,814,290
Other revenue	58,793,118	23,189,623
Total operating revenue	608,987,056	578,003,913
Operating expenses		
Physician, mid-level, and other provider salaries and wages	56,315,786	58,817,346
Other salaries and wages	144,658,318	135,401,915
Employee benefits	36,703,895	38,847,847
Medical supplies and drugs	94,417,732	95,534,776
Physician services	20,511,690	20,141,349
Contract services	88,459,311	84,802,481
Rent and leases	10,030,952	10,330,132
Utilities, supplies, and other	38,185,612	37,128,329
Hospital assessment fee	21,432,988	20,017,624
Depreciation and amortization	26,298,271	27,305,120
Interest	12,200,758	12,521,485
Total operating expenses	549,215,313	540,848,404
Income from operations	59,771,743	37,155,509
Non-operating gains		
Investment return, net	19,059,828	14,120,512
Other	2,809,986	5,798,011
Total non-operating gains	21,869,814	19,918,523
Excess of revenue over expenses	81,641,557	57,074,032
Other changes in net assets without donor restrictions		
Distribution to non-controlling interests	(1,428,679)	(1,611,079)
Change in net assets without donor restrictions	80,212,878	55,462,953
Net assets with donor restrictions		
Other changes in receivable from Union Health Foundation, Inc.	1,561,948	1,352,692
Change in net assets	81,774,826	56,815,645
Net assets		
Beginning of year	225,356,593	168,540,948
End of year	\$ 307,131,419	\$ 225,356,593

See accompanying notes to consolidated financial statements.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Operating activities		
Change in net assets	\$ 81,774,826	\$ 56,815,645
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	24,235,771	24,795,305
Amortization of intangible asset	2,062,500	2,509,815
Amortization of long-term debt issuance costs	289,029	298,309
Distribution to non-controlling interests	1,428,679	1,611,079
Loss on disposal of property and equipment	8,279	87,223
Net realized and unrealized gain on investments	(16,167,967)	(11,398,696)
Changes in operating assets and liabilities		
Patient accounts receivable	(18,071,250)	2,445,044
Other current and noncurrent assets	(8,235,726)	(2,197,168)
Accounts payable and other current liabilities	7,250,818	(903,639)
Salaries, wages and related liabilities	6,376,230	1,610,697
Other long-term liabilities	(39,471)	(46,514)
Estimated third-party payor settlements	17,425,002	(336,866)
Net cash flows from operating activities	98,336,720	75,290,234
Investing activities		
Purchases of property and equipment	(73,471,222)	(10,898,326)
Proceeds from sale of property and equipment	6,432	23,529
Purchase of investments	(56,739,588)	(55,046,302)
Proceeds from sale of investments	16,303,958	13,376,929
Net cash flows from investing activities	(113,900,420)	(52,544,170)
Financing activities		
Payments on long-term debt	(10,132,007)	(13,100,857)
Proceeds from issuance of long-term debt	60,665,004	4,011,244
Payments for long-term debt issuance costs	(1,303,255)	-0-
Distribution to non-controlling interests	(1,428,679)	(1,611,079)
Net cash flows from financing activities	47,801,063	(10,700,692)
Change in cash and cash equivalents	32,237,363	12,045,372
Cash and cash equivalents		
Beginning of year	83,215,144	71,169,772
End of year	\$ 115,452,507	\$ 83,215,144
Noncash investing and financing activities		
Capital acquisitions included in accounts payable	\$ 1,110,210	\$ -0-
Conversion of capital lease to long-term debt	\$ 19,176,364	\$ -0-
Supplemental cash flow information		
Cash paid for interest	\$ 11,911,729	\$ 12,223,176

See accompanying notes to consolidated financial statements.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

1. ORGANIZATION

Nature of Operations

Union Health System, Inc. (UHS), an Indiana nonprofit corporation, is the sole member of Union Hospital, Inc. (the Corporation). UHS and the Corporation are each 50% members of Union Associated Physicians Clinic, LLC (UAPC). UHS, UAPC, and the Corporation are collectively referred to as the System. The System was formed in November 2009 to provide vision and strategic direction in the formation of a regional health care system to expand and improve the delivery of health care services in order to meet the health care needs of residents in the System's service area.

The Corporation is an Indiana not-for-profit corporation, which owns and operates Union Hospital (the Hospital), a 278 staffed-beds and regional referral center hospital located in Terre Haute, Indiana. The Hospital is a full-service, acute-care hospital with medical-surgical, obstetric, pediatric, coronary care, post-coronary care, intensive care, maximum care, and medical rehabilitation units. Additionally, as the largest hospital in west central Indiana, the Hospital is a referral center for such services as its newborn intensive care unit (Level II), open heart surgery, cardiac rehabilitation clinic, radiology, non-invasive cardiology services, cardiopulmonary services, and radiation therapy. The Hospital and its related consolidated entities provide comprehensive health care services to the residents of Terre Haute and the surrounding communities, west central Indiana, and east central Illinois through its acute, specialty care facilities, and physician medical practices.

UAPC is an Indiana, not-for-profit, limited liability company, which operates a multi-specialty physician clinic and consists of approximately 115 physicians and allied health professionals.

The consolidated financial statements include the accounts of UHS, the Corporation, IPACS, Inc. (IPACS), Center for Occupational Health (COH), Union Hospital Therapy, LLC (UHT) and UAPC (collectively, the System). Union Hospital Clinton is a designated Medicare critical access hospital operating as a division of the Corporation. IPACS is a wholly owned, taxable subsidiary of the Corporation engaged in providing collection services to hospitals, hospital physicians, and other health care providers. COH provides work related injury care and other occupational medicine services and is also a wholly owned tax-exempt subsidiary of the Corporation. All material intercompany accounts and transactions have been eliminated.

During 2014, UHT was formed for the purpose of providing physical, occupational, and speech therapy, and related rehabilitation services. The Corporation ownership interest in UHT is 51%. The Corporation maintains substantial participation in the operations of UHT in addition to an economic interest in UHT's financial position. The 49% non-controlling interest is owned by Clinical Management Solutions, LLC. All material intercompany accounts and transactions have been eliminated.

The System is also related to various organizations principally through overlapping board membership, which does not constitute control. These organizations include Union Health Foundation, Inc., Union Hospital Health Services, Inc., and Visiting Nurse Association of the Wabash Valley, Inc. The majority of all fund-raising activities are conducted by Union Health Foundation, Inc. (the Foundation).

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Accordingly, unrestricted gifts and bequests received without donor restrictions directly by the System are recorded as nonoperating gains, and restricted gifts and bequests received by the Foundation for the benefit of the Corporation are recorded by the Corporation as net assets with donor restrictions until expended by the System for their intended purpose.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

All significant intercompany balances and transactions have been eliminated in consolidation.

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 estimated third-party payor settlements 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.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding investments limited as to use. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate fair value.

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

Patient service revenue and the related accounts receivable are recorded at the amount that reflects the consideration to which the System 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 System 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 System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System 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 System receiving inpatient acute care services or patients receiving services in outpatient centers or in their homes. The System measures the performance obligation from admission into the System, 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.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

The method of reimbursement for the System is fee for service. The timing of revenue and recognition for healthcare services is transferred over time. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the System does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System 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 System 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 System's policy, and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or net realizable value and principally valued using the average cost method.

Investments Limited as to Use

Investments limited as to use include investments set aside by the Board of Directors for future capital improvements and retirement of debt over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes; and investments held by trustees under bond indenture agreements; and donor-restricted funds. Amounts that are required for obligations classified as current liabilities, and other amounts previously paid from operating cash that are to be reimbursed by the applicable funds, are reported in current assets.

Investments limited as to use are generally commingled for investment purposes and consist of short-term investments (principally money market deposit accounts), U.S. government obligations, mutual funds, corporate obligations, common stocks, and commingled funds.

Investments limited as to use are stated at fair value on the consolidated balance sheets. Therefore, investment return, net includes interest, dividends, investment expenses, realized gains and losses, and unrealized gains and losses on investments as part of excess of revenue over expenses.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

The fair value of assets is based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The cost of securities sold is based on the specific identification method.

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 System's investments could occur in the near term and that such changes could materially affect the amounts reflected in the consolidated 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 and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows: land improvements 3 to 30 years, buildings 5 to 40 years, and equipment 3 to 25 years. The System's policy is to designate certain available net assets without donor restrictions for expansion and renovation.

Equipment under capital lease obligations is amortized on the straight-line method over the lease term or the estimated useful life of the equipment, whichever period is shorter. Such amortization is included with depreciation and amortization in the consolidated statements of operations and changes in net assets. Interest cost incurred on borrowed funds during the period of construction and other interest costs are capitalized as a component of the cost of constructing the assets. Repair and maintenance costs are expensed when incurred.

The System periodically evaluates whether circumstances have occurred that would indicate whether the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of such assets may not be recoverable. When factors indicate that such assets should be evaluated for possible impairment, an estimate is made of the undiscounted cash flows over the remaining life of the assets in measuring whether the asset is recoverable in accordance with accounting standards.

Intangible Assets

Intangible assets arising from the purchase of physician practices (primarily non-compete provisions) and service lines are carried at cost. Amortization is computed using the straight-line method based on the assets' estimated useful lives. During 2020 and 2019, the System purchased targeted service lines for approximately \$-0- and \$3,690,000, respectively. As of December 31, 2020 and 2019, intangible assets approximated \$1,854,000 and \$3,917,000, respectively, and recorded within intangible assets, net and other on the consolidated balance sheets. The System expects to record future amortization of approximately \$1,900,000 in 2021.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Unamortized Debt Issuance Costs

Costs incurred in connection with the issuance of long-term debt are amortized using the bonds outstanding method, which approximates the amortization under the effective interest rate method and are included in interest expense in the accompanying consolidated statements of operations and changes in net assets. The unamortized debt issuance costs are included in the consolidated balance sheets as a reduction in related long-term debt.

Medical Malpractice Insurance

The System has a self-insurance plan for professional liability insurance. A third-party claims administrator has been retained to process all benefit claims. Claims are processed and presented for payment upon occurrence. The System makes periodic deposits into a trust fund for the proper administration and protection of the fund.

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,800,000 for an occurrence of malpractice. Prior to July 1, 2019, the Act provided a maximum recovery of \$1,650,000 for an occurrence of malpractice. The Act required the System to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence and \$15,000,000 in the annual aggregate. Prior to July 1, 2019, the Act required the System to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence and \$12,000,000 in the annual aggregate.

The Act also requires the System 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.

The System has malpractice insurance through a captive insurance company up to the Act thresholds per occurrence and aggregate amounts. A third-party claims administrator has been retained to process all benefit claims. Claims are processed and presented for payment upon occurrence. The System makes periodic deposits into a trust fund for the proper administration and protection of the fund.

The System also provides medical malpractice insurance for its employed physicians who practice in the state of Illinois with limits of \$1,000,000 per occurrence and \$3,000,000 in the aggregate.

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 System's claim experience, an accrual for estimated malpractice claims costs was approximately \$1,497,000 as of December 31, 2020 and 2019. It is reasonably possible that this estimate could change materially in the near term.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Malpractice insurance coverage provided through the Compensation Fund and the captive insurance company is provided on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured.

Net Assets and Financial Statement Presentation

The System is required to report information regarding its financial position and activities according to two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) based upon the existence or absence of donor-imposed restrictions. Net assets without donor restrictions represent the part of the net assets of the System that is not restricted by donor-imposed stipulations. Net assets with donor restrictions are those assets whose use by the System has been limited by donors primarily for a specified time period or purpose. When a donor restriction expires or is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released for property and equipment. Property and equipment donated to the System 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. Net assets with donor restrictions include approximately \$6,283,000 and \$4,850,000 of funds held by the Foundation for the benefit of the System at December 31, 2020 and 2019, respectively. These amounts represent planned contributions of property and equipment received on behalf of the System by the Foundation and other amounts the Foundation has granted to the System and are included within Due from Union Health Foundation Inc. on the consolidated balance sheets. Other miscellaneous funds are held as net assets with donor restrictions in the approximate amounts of \$1,489,000 and \$1,360,000 as of December 31, 2020 and 2019, respectively, and held for future capital improvements.

Health Insurance

The System's employee health care insurance is provided through a combination of self-insurance and purchased re-insurance coverage from a commercial carrier. The System maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. For the Corporation, the specific annual attachment point for an individual is \$350,000 with no policy period maximum. There is no aggregate limit on claims for the Corporation. For UAPC, the specific annual attachment point for an individual is \$325,000 with no lifetime maximum on claims. The maximum annual aggregate reimbursement under the policy is \$1,000,000 per year. Total health insurance expense for the Corporation was approximately \$10,760,000 and \$13,798,000, respectively. Total health insurance expense for UAPC was approximately \$4,040,000 and \$3,910,000 respectively. Health insurance expense for the Corporation and UAPC is included in employee benefits in the consolidated statements of operations and changes in net assets.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Income Taxes

UHS and the Corporation are organized as not-for-profit corporations under Section 501(c)(3) of the United States Internal Revenue Code. Effective January 1, 2018, UAPC was granted exemption from income taxes under Section 501(c)(3) as a not-for-profit limited liability company. Prior to receiving this exemption, UAPC was a limited liability company, whereby net taxable income is taxed directly to the members of the limited liability company. As such, UHS, the Corporation, and UAPC are generally exempt from income taxes. However, these entities are 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 UHS, the Corporation, and UAPC, and recognize a tax liability if UHS, the Corporation, and UAPC have 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 UHS, the Corporation, and UAPC, and has concluded that as of December 31, 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. UHS, the Corporation, and UAPC are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Filings are current through 2019. The impact of the subsidiaries tax consequences is immaterial to these consolidated financial statements.

Operating Indicator

The System's operating indicator, income from operations, includes all unrestricted net income, gains and support, and expenses from System operations directly related to recurring and ongoing health care operations during the reporting period. The operating indicator excludes net investment return and gains and losses deemed by management not to be directly related to providing health care services.

Performance Indicator

The System's performance indicator, excess of revenues over expenses, includes all changes in net assets without donor restrictions, investment returns restricted by donors, distributions to non-controlling owners, and contributions of property and equipment.

Going Concern Evaluation

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

Reclassifications

Certain amounts from the 2019 consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications did not impact previously reported net assets or changes in net assets.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Subsequent Events

The System has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were available to be issued which is April 22, 2021.

Recently Issued Accounting Standards

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). This new standard, which the System is not required to adopt until its fiscal year ending December 31, 2022, 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 System is presently evaluating the effects that this ASU will have on its future consolidated financial statements, including related disclosures.

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

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigation and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Laws and regulations concerning government programs, including Medicare and Medicaid, are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The System 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 System'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. For 2020 and 2019, adjustments were recognized due to changes in the System's estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. As of December 31, 2020, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through December 31, 2016.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

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Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System 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 System expects to collect based on its collection history with those patients.

Patients who meet the System'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.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. 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.

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

The composition of net patient service revenue by primary payor for 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Medicare	\$ 209,073,696	\$ 227,473,859
Medicaid	88,031,030	83,222,144
Managed care and commercial insurance	242,085,333	238,570,145
Self-pay and other	11,003,879	5,548,142
	<u>\$ 550,193,938</u>	<u>\$ 554,814,290</u>

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

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A summary of net patient service revenue, including information on service lines, for 2020 and 2019 follows:

	2020	2019
Inpatient services	\$ 560,260,908	\$ 549,529,046
Outpatient services	1,006,277,995	1,073,747,126
Physician practice services	123,763,855	133,449,360
	1,690,302,758	1,756,725,532
Less financial assistance	14,709,697	23,091,873
Less contractual adjustments	1,096,732,581	1,139,128,139
	1,111,442,278	1,162,220,012
	578,860,480	594,505,520
Less implied price concessions	28,666,542	39,691,230
	\$ 550,193,938	\$ 554,814,290

For the years ended December 31, 2020 and 2019, substantially all of the net patient service revenue related to goods and services that transfer to the customer over time.

The System grants credit without collateral to its patients, most of whom are local residents and are generally insured under third-party payor agreements. The mix of receivables and revenue from patients and third-party payors for 2020 and 2019 follows:

	Receivables		Revenue	
	2020	2019	2020	2019
Medicare	39%	37%	38%	41%
Medicaid	13%	18%	16%	15%
Managed care and commercial insurance	36%	31%	44%	43%
Self-pay and other	12%	14%	2%	1%
	100%	100%	100%	100%

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

- **Medicare:** The System is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The System is reimbursed for Medicare inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) and Medicare outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the System'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 System'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 System.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

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- **Medicaid:** The System is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The System 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 System has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the System under these arrangements is a discount from established charges and fee schedule payments.

The Centers for Medicare and Medicaid Services (CMS) has been granted authority to suspend payments, in whole or in part, to Medicare providers if CMS possess reliable information on overpayment, fraud or if willful misrepresentation exists. If CMS suspects payments are being made as the result of fraud or misrepresentation, CMS may suspend payment at any time without providing prior notice to the System. 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 System 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 System's financial position, results of operations, and cash flows.

Financial Assistance, Community Benefit and Assistance to the Uninsured

The System provides care to patients regardless of their ability to pay. A patient qualifies for financial assistance based on certain established policies of the System. 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 2020 and 2019, measured at established rates, was approximately \$14,710,000 and \$23,092,000, respectively. The decrease in financial assistance between years primarily corresponds to increases in services provided during 2019 and changes in payor mix. The System did not modify its financial assistance policy in 2020 or 2019. Medicaid expansion, combined with other health care reform initiatives, increased insurance coverage for patients who were previously uninsured. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The System receives reimbursements from certain governmental payors to assist in the funding of financial assistance.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

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Of the System's total expenses reported during 2020 and 2019, an estimated \$4,779,000 and \$7,109,000, 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 System's total expenses to gross patient service revenue.

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

The System 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 hospital assessment fee expense reported in the consolidated statements of operations and changes in net assets. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims.

The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Beginning July 1, 2017, hospitals also started funding HIP, the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program, but the funding includes physician, state administration, and certain non-hospital expenditures. During 2020 and 2019, the System recognized HAF and HIP program expense of approximately \$21,433,000 and \$20,018,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP program expense is included in the consolidated statements of operations and changes in net assets as an operating expense. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the consolidated statements of operations and changes in net assets.

4. INVESTMENTS WHOSE USE IS LIMITED

Beginning in 2019, all investments are considered trading securities by management. Investments whose use is limited that are required for certain obligations classified as current liabilities are reported in current assets. A description and the carrying value of the investments whose use by the Board of Directors is as follows as of December 31, 2020 and 2019:

	2020	2019
Common stocks	\$ 34,973,238	\$ 19,947,348
Mutual funds	90,135,013	54,761,519
US Government obligations	21,994,497	16,150,234
Corporate obligations	6,456,192	5,134,035
Commingled funds	28,768,502	27,960,947
Money market deposit accounts	2,017,389	3,787,151
	<u>\$ 184,344,831</u>	<u>\$ 127,741,234</u>

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

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Investment return, net consists of the following:

	2020	2019
Interest and dividends	\$ 2,891,861	\$ 2,721,816
Realized gains	1,821,301	527,762
Unrealized gains	14,346,666	10,870,934
	<u>\$ 19,059,828</u>	<u>\$ 14,120,512</u>

5. FAIR VALUE MEASUREMENTS

On January 1, 2020, the System adopted the FASB ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for the Fair Value Measurement*. The amendments in this ASU removed 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 System 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 December 31, 2020 and 2019.

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- *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 System 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 System are deemed to be actively traded.
- *US Government obligations:* Valued based upon the active market on which the individual securities are traded.
- *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.
- *Commingled funds:* Valued at the NAV of units as reported by the fund. The NAV, as provided by the investment manager, is used as a practical expedient to estimate fair value. 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 System'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 System 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.
- *Money market mutual funds:* Valued based at the 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.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

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Assets measured at fair value on a recurring basis as of December 31, 2020 and 2019 are as follows:

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Investments limited as to use				
Common stocks				
Communications	\$ 1,494,046	\$ 1,494,046	\$ -0-	\$ -0-
Consumer	4,695,742	4,695,742	-0-	-0-
Energy	1,653,980	1,653,980	-0-	-0-
Financial	6,496,412	6,496,412	-0-	-0-
Healthcare	5,955,160	5,955,160	-0-	-0-
Industrials	6,644,743	6,644,743	-0-	-0-
Information technology	5,670,834	5,670,834	-0-	-0-
Materials	2,362,321	2,362,321	-0-	-0-
Total common stocks	<u>34,973,238</u>	<u>34,973,238</u>	-0-	-0-
Mutual funds				
Fixed income funds	9,090,618	9,090,618	-0-	-0-
Large cap funds	59,906,219	59,906,219	-0-	-0-
International funds	20,888,260	20,888,260	-0-	-0-
Index funds	249,916	249,916	-0-	-0-
Total mutual funds	<u>90,135,013</u>	<u>90,135,013</u>	-0-	-0-
US Government obligations	21,994,497	21,994,497	-0-	-0-
Corporate obligations				
Mid yield	6,456,192	-0-	6,456,192	-0-
Total corporate obligations	<u>6,456,192</u>	<u>-0-</u>	<u>6,456,192</u>	<u>-0-</u>
	153,558,940	<u>\$ 147,102,748</u>	<u>\$ 6,456,192</u>	<u>\$ -0-</u>
Money market deposit accounts	2,017,389			
Commingled funds *	28,768,502			
Total investments limited as to use	<u>\$ 184,344,831</u>			

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Investments limited as to use				
Common stocks				
Communications	\$ 924,069	\$ 924,069	\$ -0-	\$ -0-
Consumer	3,437,879	3,437,879	-0-	-0-
Energy	1,725,236	1,725,236	-0-	-0-
Financial	4,053,831	4,053,831	-0-	-0-
Healthcare	2,701,929	2,701,929	-0-	-0-
Industrials	2,962,329	2,962,329	-0-	-0-
Information technology	2,717,931	2,717,931	-0-	-0-
Materials	1,424,144	1,424,144	-0-	-0-
Total common stocks	19,947,348	19,947,348	-0-	-0-
Mutual funds				
Fixed income funds	12,578,351	12,578,351	-0-	-0-
Large cap funds	31,356,107	31,356,107	-0-	-0-
International funds	10,694,317	10,694,317	-0-	-0-
Index funds	132,744	132,744	-0-	-0-
Total mutual funds	54,761,519	54,761,519	-0-	-0-
US Government obligations	16,150,234	16,150,234	-0-	-0-
Corporate obligations				
Mid yield	5,134,035	-0-	5,134,035	-0-
Total corporate obligations	5,134,035	-0-	5,134,035	-0-
	95,993,136	\$ 90,859,101	\$ 5,134,035	\$ -0-
Money market deposit accounts	3,787,151			
Commingled funds *	27,960,947			
Total investments limited as to use	\$ 127,741,234			

* In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts present 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 System 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 consolidated financial statements.

Fair Value of Investments in Entities that Use Net Asset Value

The following table summarizes investments measured at fair value based on net asset value (NAVs) per share as of December 31, 2020 and 2019.

Investment	Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	2020	2019			
Commingled funds	\$ 28,768,502	\$ 27,960,947	None	Daily	Daily

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

6. LONG-TERM DEBT AND LEASES

The following is a summary of long-term debt as of December 31, 2020 and 2019:

	2020	2019
Mortgage note payable (project 073-22274) in the original amount of approximately \$266,600,000 bearing fixed interest on the unpaid balance at 3.33%, payable in monthly installments of principal and interest of approximately \$1,310,000, maturing on September 1, 2041, collateralized by property and equipment with a net book value of approximately \$287,698,000 as of December 31, 2020.	\$ 234,725,363	\$ 242,493,940
Mortgage note payable (project 073-22333) in the original amount of approximately \$60,600,000 bearing fixed interest on the unpaid balance at 2.28%, payable in monthly installments of principal and interest of approximately \$307,000, maturing on September 1, 2041, collateralized by property and equipment with a net book value of approximately \$287,698,000 as of December 31, 2020.	\$ 60,635,600	\$ -0-
Loans payable for purchases of medical group service lines in October 2017 and January 2019 due September 2021 and December 2021, respectively, with monthly installments of approximately \$69,000 and \$103,000, respectively, and fixed interest rates of 4.25% and 5.50%, respectively. The loans are unsecured.	1,957,601	4,037,848
Capital leases and other	813,968	20,244,111
Total long-term debt	298,132,532	266,775,899
Less current portion	12,491,113	10,080,732
Less unamortized debt issue costs	4,567,454	3,553,228
	\$ 281,073,965	\$ 253,141,939

The scheduled maturities and mandatory redemptions of long-term debt are as follows:

Year Ending December 31,		
2021	\$	12,491,113
2022		10,861,206
2023		11,074,458
2024		11,386,450
2025		11,743,824
Thereafter		240,575,481
	\$	298,132,532

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

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During December 2020, the System financed the purchase of several properties, of which the System was leasing space, with an approximate \$60,600,000 mortgage loan insured by the U.S. Department of Housing and Urban Development (HUD), authorized pursuant to Section 242 of the National Housing Act and the corresponding Regulations issued thereunder. The lender of this mortgage is Jones Lang LaSalle Multifamily, LLC. The agreement has monthly principal and interest payments of approximately \$307,000 from February 2021 through September 2041.

During August 2016, the System refinanced outstanding debt (Series 2011, 2007, 1993, and 2014A bonds) with an approximate \$266,600,000 mortgage loan insured by the U.S. Department of Housing and Urban Development (HUD), authorized pursuant to Section 242 of the National Housing Act and the corresponding Regulations issued thereunder. The lender of this mortgage is Jones Lang LaSalle Multifamily, LLC. The agreement has monthly principal and interest payments of approximately \$1,310,000 from September 2016 through September 2041.

In June 2015, October 2017, and January 2019 the Corporation financed the purchase of a medical group's Cardiac Cath Lab, Non-Invasive Cardiology, and Cardiac PET service lines for approximately \$4,600,000, \$3,330,000, and \$3,690,000 respectively. The terms of the loans used to finance the purchases are shown in the summary table above. Payments made during the years ended December 31, 2020 and 2019 totaled approximately \$2,080,000 and \$2,510,000, respectively. The related intangible assets, reflecting primarily of the fair value of medical records and a non-compete contracts, are a component of intangible assets at net value within the consolidated balance sheets. The loan related to the purchase of the Cardiac Cath Lab was paid off during 2019.

The System is also required to meet certain financial covenants. The System believes it is in compliance with all covenants as of December 31, 2020 and 2019.

The System leases buildings, medical equipment, and software under capital leases with various expiration dates. Cost and accumulated depreciation of the buildings and equipment under capital leases was approximately \$19,600,000 and \$3,300,000 at December 31, 2019. During 2020, the capital lease agreement was terminated, and the underlying property was purchased as part of the December 2020 mortgage loan issuance. Remaining capital leases are immaterial to the consolidated financial statements.

The System has operating leases for medical equipment and office space. Total rent and lease expense for the years ended December 31, 2020 and 2019 was approximately \$10,030,000 and \$10,330,000, respectively. Future minimum lease payments under noncancelable operating leases as of December 31, 2020 that have initial or remaining lease terms in excess of one year are as follows:

Year Ending December 31,	
2021	\$ 3,914,004
2022	2,494,614
2023	1,401,446
2024	273,829
2025	41,884
Thereafter	1,839
	<u>\$ 8,127,616</u>

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2020 and 2019:

	2020	2019
Subject to expenditure for specific purpose		
Capital items	\$ 1,488,331	\$ 1,359,939
Funds held by Foundation for program expenditures	6,283,253	4,849,697
Total net assets with donor restrictions	\$ 7,771,584	\$ 6,209,636

8. NET ASSETS WITHOUT DONOR RESTRICTIONS

The System's net assets without donor restrictions consist of the following:

	2020	2019
Net assets without donor restrictions		
Undesignated	\$ 129,714,041	\$ 101,555,879
Board designated primarily for future capital needs	169,119,846	117,046,394
Total net assets without donor restrictions	\$ 298,833,887	\$ 218,602,273

The Board of Directors of the System has established an operating reserve with the objective of setting funds aside to be drawn upon in the event of financial distress, immediate liquidity needs, or to fund future capital needs.

9. NONCONTROLLING INTEREST

The following table depicts the changes in consolidated net assets attributable to the controlling financial interest of the Corporation and the 49% non-controlling interest Clinical Management Solutions, LLC holds in Union Hospital Therapy, LLC (UHT).

	Controlling Interest	Noncontrolling Interest	Total
Balance December 31, 2018	\$ 163,173,698	\$ 510,306	\$ 163,684,004
Excess of revenue over expenses	55,428,575	1,645,457	57,074,032
Other changes in net assets without donor restrictions	-0-	(1,611,079)	(1,611,079)
Change in net assets without donor restrictions	55,428,575	34,378	55,462,953
Balance December 31, 2019	\$ 218,602,273	\$ 544,684	\$ 219,146,957
Excess of revenue over expenses	80,231,614	1,409,943	81,641,557
Other changes in net assets without donor restrictions	-0-	(1,428,679)	(1,428,679)
Change in net assets without donor restrictions	80,231,614	(18,736)	80,212,878
Balance December 31, 2020	\$ 298,833,887	\$ 525,948	\$ 299,359,835

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

10. AFFILIATED ENTITY AND RELATED PARTY TRANSACTIONS

The System contracts with AP&S Clinic for management services, which are provided to UAPC and the Corporation. Management expenses totaled approximately \$13,056,000 and \$12,761,000 for the years ended December 31, 2020 and 2019, respectively, and are included in contract services in the consolidated statements of operations and changes in net assets. Effective July 31, 2018, AP&S Clinic transferred its operations and staffing to UAPC. On December 31, 2020, a net receivable is owed from the AP&S Clinic to the System in the amount of approximately \$2,000. On December 31, 2019, a net payable is owed from the System to AP&S Clinic in the amount of approximately \$1,330,000. Balances as of 2020 and 2019 are reflected in accounts payable and other current liabilities in the consolidated balance sheets.

UAPC paid approximately \$3,188,000 and \$3,037,000 during 2020 and 2019, respectively, in rental expense to AP&S II, a related real estate entity. UAPC entered into a capital lease arrangement during 2013 with AP&S III, a related real estate entity where total payments from UAPC to AP&S III during the years ended December 31, 2020 and 2019 totaled approximately \$1,900,000. This capital lease was terminated during 2020 as part of the December 2020 mortgage loan issuance as discussed in Note 6.

UAPC is related to AP&S Clinic, AP&S II, and AP&S III as some physicians employed by UAPC have ownership interests in AP&S Clinic, AP&S II, and AP&S III.

The Corporation provided management and other services for the Foundation and other related organizations for the years ended December 31, 2020 and 2019. These amounts are immaterial to the consolidated financial statements as a whole. In addition, the Corporation received contributions from the Foundation for the years ended December 31, 2020 and 2019 that were immaterial to the consolidated financial statements. These amounts are recorded within other revenue in the consolidated statements of operations and changes in net assets.

UAPC participates in a joint venture, Oncology Services Group, LLC (OSG). The Corporation contracts with OSG to provide staffing related to oncology and chemotherapy. These expenses totaled approximately \$3,000,000 for the years ended December 31, 2020 and 2019 and are included in contract services in the consolidated statements of operations and changes in net assets. At December 31, 2020 and 2019, the Corporation had a payable to OSG in the amount of \$24,000 and \$50,000, respectively, reflected in accounts payable and other current liabilities in the consolidated balance sheets.

UAPC participates in a joint venture, Ambulatory Surgery Management Services, LLC (ASMS II). The System contracts with ASMS II to provide staffing related to ambulatory surgery. These expenses totaled approximately \$6,162,000 and \$6,573,000 for the years ended December 31, 2020 and 2019, respectively, and are included in contract services in the consolidated statements of operations and changes in net assets. At December 31, 2020 and 2019, the System had a receivable from ASMS II in the approximate amount of \$355,000 and \$341,000 reflected in prepaid expenses and other current assets in the consolidated balance sheets, respectively.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

UAPC participates in a joint venture, Cardiovascular Management, LLC (CVM). The Corporation contracts with CVM to provide equipment, supplies and staffing related to certain cardiology services. These expenses totaled approximately \$33,390,000 and \$28,857,000 for the years ended December 31, 2020 and 2019, respectively, and are included in contract services in the consolidated statements of operations and changes in net assets. At December 31, 2020 and 2019, the Corporation had a payable to CVM in the approximate amounts of \$11,921,000 and \$4,202,000, respectively, reflected in accounts payable and other current liabilities in the consolidated balance sheets.

11. INVESTMENTS IN JOINT VENTURES

The Corporation is a member of a Vermont insurance company, Tecumseh Health Reciprocal Risk Retention Group (THRRRG), as means to comply with the Corporation's required portion of the insurance coverage pursuant to the Act, as well as its liability insurance. Membership in THRRRG includes 14 hospitals as of December 31, 2020. The Corporation's investment in THRRRG amounts to approximately \$5,356,000 and \$4,580,000 as of December 31, 2020 and 2019, respectively.

As stated in Note 10, UAPC is a member of CVM along with other independent physicians. UAPC's investment in CVM reflects a 50% ownership, is recorded under the equity method of accounting, and amounts to approximately \$5,532,000 and \$1,680,000 as of December 31, 2020 and 2019, respectively.

The interest is recorded in investments in joint ventures on the consolidated balance sheets and the Corporation's gain on its investment in these joint ventures are recorded in other non-operating gains (losses) on the consolidated statements of operations and changes in net assets.

The Corporation has ownership interest in other joint ventures accounted for under the equity method, the effects of which are immaterial to the consolidated financial statements as a whole. OSG and ASMS II, which are reflected in Note 10, are considered to have immaterial effects as noted herein.

12. POST RETIREMENT BENEFITS

The Corporation has a 403(b) defined contribution plan, which includes a 50% employer match up to 6% of employee deferrals in addition to an employer discretionary add-on of 1.67% for the years ended December 31, 2020 and 2019. The related contributions for the plan approximated \$4,534,000 and \$4,085,000 for the years ended December 31, 2020 and 2019, respectively. UAPC also has a 401(k) discretionary defined contribution plan for which contributions approximated \$1,481,000 and \$1,772,000 during the years ended December 31, 2020 and 2019, respectively.

13. COMMITMENTS AND CONTINGENCIES

The System is involved in other litigation arising in the normal course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without a material adverse effect on the System's financial position or consolidated results of operations, changes in net assets, and cash flows.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

At December 31, 2020, the System has outstanding commitments related to property and equipment of approximately \$2,375,000.

14. LIQUIDITY AND AVAILABILITY OF RESOURCES

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

	<u>2020</u>	<u>2019</u>
Financial assets		
Cash and cash equivalents	\$ 115,452,507	\$ 83,215,144
Patient accounts receivable	71,193,248	53,121,998
Other accounts receivable due within one year	3,864,993	3,862,316
Total financial assets	<u>\$ 190,510,748</u>	<u>\$ 140,199,458</u>

As a part of the System'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 System periodically invests excess cash in investments. The System does not intend to spend from the board designated investments, though these amounts could be made available, if necessary.

15. EXPENSES BY BOTH NATURE AND FUNCTION

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the System. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and interest, 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 System's analysis of indirect cost. Although the methods used were appropriate, alternative methods may provide different results.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Expenses related to providing these services for the years ended December 31, 2020 and 2019 were as follows:

	2020		
	Healthcare Services	Administrative & General	Total
Physician, mid-level, and other provider salaries and wages	\$ 48,597,269	\$ 7,718,517	\$ 56,315,786
Other salaries and wages	124,831,770	19,826,548	144,658,318
Employee benefits	31,673,341	5,030,554	36,703,895
Medical supplies and drugs	94,417,732	-0-	94,417,732
Physician services	17,700,403	2,811,287	20,511,690
Contract services	76,335,274	12,124,037	88,459,311
Rent and leases	8,656,132	1,374,820	10,030,952
Utilities, supplies, and other	32,951,977	5,233,635	38,185,612
Hospital assessment fee	21,432,988	-0-	21,432,988
Depreciation and amortization	22,693,888	3,604,383	26,298,271
Interest	10,528,549	1,672,209	12,200,758
	<u>\$ 489,819,323</u>	<u>\$ 59,395,990</u>	<u>\$ 549,215,313</u>

	2019		
	Healthcare Services	Administrative & General	Total
Physician, mid-level, and other provider salaries and wages	\$ 51,412,682	\$ 7,404,664	\$ 58,817,346
Other salaries and wages	118,355,825	17,046,090	135,401,915
Employee benefits	33,957,193	4,890,654	38,847,847
Medical supplies and drugs	95,534,776	-0-	95,534,776
Physician services	17,605,704	2,535,645	20,141,349
Contract services	74,126,482	10,675,999	84,802,481
Rent and leases	9,029,646	1,300,486	10,330,132
Utilities, supplies, and other	32,454,150	4,674,179	37,128,329
Hospital assessment fee	20,017,624	-0-	20,017,624
Depreciation and amortization	23,867,609	3,437,511	27,305,120
Interest	10,945,124	1,576,361	12,521,485
	<u>\$ 487,306,815</u>	<u>\$ 53,541,589</u>	<u>\$ 540,848,404</u>

16. COVID-19

During 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 adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the System'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. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue, contributions and funding, and investment portfolio declines. Management believes the System 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 available to be issued.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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 primarily under Catalog of Federal Domestic Assistance (CFDA) #93.498. Revenues from PRF grants can be recognized to the extent of expenses incurred specific to responding to the COVID-19 pandemic. Eligible expenses must not be reimbursed from another source and not obligated to be reimbursed from another source. PRF grants that are not fully expended on eligible expenses can then be applied to lost revenues as defined by the guidance issued by the grantor.

The Hospital received PRF grants of approximately \$30,829,000 during 2020. PRF funds are subject to recoupment by the grantor in the event that the conditions for recognition are not satisfied. The Hospital recognized PRF grants of approximately \$8,796,000 in 2020 related to eligible expenses incurred and \$16,254,000 related to lost revenues, which is included in other revenue on the consolidated statements of operations and change in net assets. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated balance sheets. As of December 31, 2020, approximately \$5,779,000 was recorded as refundable advances related to the PRF grants and is included in estimated third party settlements on the consolidated balance sheets.

SUPPLEMENTARY INFORMATION

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2020

	Union Hospital, Inc. and Subsidiaries	Union Associated Physician's Clinic	Eliminations	Union Health System
Assets				
Current assets				
Cash and cash equivalents	\$ 106,662,128	\$ 8,790,379	\$ -0-	\$ 115,452,507
Patient accounts receivable, net	63,920,822	7,272,426	-0-	71,193,248
Inventories	5,933,357	492,120	-0-	6,425,477
Prepaid expenses and other current assets	14,311,890	1,972,878	-0-	16,284,768
Total current assets	<u>190,828,197</u>	<u>18,527,803</u>	<u>-0-</u>	<u>209,356,000</u>
Investments limited as to use				
Funds held by trustee	15,224,985	-0-	-0-	15,224,985
Board designated	169,119,846	-0-	-0-	169,119,846
Total investments limited as to use	<u>184,344,831</u>	<u>-0-</u>	<u>-0-</u>	<u>184,344,831</u>
Property and equipment				
Land and improvements	39,110,260	-0-	-0-	39,110,260
Buildings and fixed equipment	418,891,664	-0-	-0-	418,891,664
Movable equipment	183,762,601	11,221,055	-0-	194,983,656
	<u>641,764,525</u>	<u>11,221,055</u>	<u>-0-</u>	<u>652,985,580</u>
Less allowances for depreciation	359,265,310	7,174,197	-0-	366,439,507
	<u>282,499,215</u>	<u>4,046,858</u>	<u>-0-</u>	<u>286,546,073</u>
Construction in progress	1,145,680	6,460	-0-	1,152,140
Total property and equipment, net	<u>283,644,895</u>	<u>4,053,318</u>	<u>-0-</u>	<u>287,698,213</u>
Other assets				
Due from Union Health Foundation, Inc.	6,283,253	-0-	-0-	6,283,253
Intangible assets, net and other	1,854,375	56,930	-0-	1,911,305
Investment in joint ventures	5,605,840	7,266,472	-0-	12,872,312
	<u>13,743,468</u>	<u>7,323,402</u>	<u>-0-</u>	<u>21,066,870</u>
Total assets	<u>\$ 672,561,391</u>	<u>\$ 29,904,523</u>	<u>\$ -0-</u>	<u>\$ 702,465,914</u>

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UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2020

	Union Hospital, Inc. and Subsidiaries	Union Associated Physician's Clinic	Eliminations	Union Health System
Liabilities and net assets				
Current liabilities				
Accounts payable and other current liabilities	\$ 38,816,388	\$ 1,351,279	\$ -0-	\$ 40,167,667
Salaries, wages and related liabilities	27,447,145	15,489,207	-0-	42,936,352
Estimated third party settlements	18,665,398	-0-	-0-	18,665,398
Current portion of long-term debt	12,491,113	-0-	-0-	12,491,113
Total current liabilities	<u>97,420,044</u>	<u>16,840,486</u>	<u>-0-</u>	<u>114,260,530</u>
Long-term liabilities				
Long-term debt, less current portion	281,073,965	-0-	-0-	281,073,965
Other long-term liabilities	-0-	-0-	-0-	-0-
Total long-term liabilities	<u>281,073,965</u>	<u>-0-</u>	<u>-0-</u>	<u>281,073,965</u>
Total liabilities	378,494,009	16,840,486	-0-	395,334,495
Net assets				
Without donor restrictions	285,769,850	13,064,037	-0-	298,833,887
Noncontrolling interests in UHT, LLC	525,948	-0-	-0-	525,948
Total net assets without donor restrictions	<u>286,295,798</u>	<u>13,064,037</u>	<u>-0-</u>	<u>299,359,835</u>
With donor restrictions	7,771,584	-0-	-0-	7,771,584
Total net assets	<u>294,067,382</u>	<u>13,064,037</u>	<u>-0-</u>	<u>307,131,419</u>
Total liabilities and net assets	<u>\$ 672,561,391</u>	<u>\$ 29,904,523</u>	<u>\$ -0-</u>	<u>\$ 702,465,914</u>

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UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2019

	Union Hospital, Inc. and Subsidiaries	Union Associated Physician's Clinic	Eliminations	Union Health System
Assets				
Current assets				
Cash and cash equivalents	\$ 79,370,374	\$ 3,844,770	\$ -0-	\$ 83,215,144
Patient accounts receivable, net	47,350,416	5,771,582	-0-	53,121,998
Inventories	5,578,360	387,883	-0-	5,966,243
Prepaid expenses and other current assets	13,754,396	2,043,146	(527,824)	15,269,718
Total current assets	<u>146,053,546</u>	<u>12,047,381</u>	<u>(527,824)</u>	<u>157,573,103</u>
Investments limited as to use				
Funds held by trustee	10,694,840	-0-	-0-	10,694,840
Board designated	117,046,394	-0-	-0-	117,046,394
Total investments limited as to use	<u>127,741,234</u>	<u>-0-</u>	<u>-0-</u>	<u>127,741,234</u>
Property and equipment				
Land and improvements	38,269,946	-0-	-0-	38,269,946
Buildings and fixed equipment	360,882,651	19,556,552	-0-	380,439,203
Movable equipment	175,728,800	9,657,485	-0-	185,386,285
	574,881,397	29,214,037	-0-	604,095,434
Less allowances for depreciation	339,013,433	8,904,829	-0-	347,918,262
	235,867,964	20,309,208	-0-	256,177,172
Construction in progress	342,826	23,629	-0-	366,455
Total property and equipment, net	<u>236,210,790</u>	<u>20,332,837</u>	<u>-0-</u>	<u>256,543,627</u>
Other assets				
Due from Union Health Foundation, Inc.	4,849,697	-0-	-0-	4,849,697
Intangible assets, net and other	3,916,875	94,534	-0-	4,011,409
Investment in joint ventures	4,829,625	2,677,197	-0-	7,506,822
	13,596,197	2,771,731	-0-	16,367,928
Total assets	<u>\$ 523,601,767</u>	<u>\$ 35,151,949</u>	<u>\$ (527,824)</u>	<u>\$ 558,225,892</u>

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UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2019

	Union Hospital, Inc. and Subsidiaries	Union Associated Physician's Clinic	Eliminations	Union Health System
Liabilities and net assets				
Current liabilities				
Accounts payable and other current liabilities	\$ 29,723,813	\$ 2,610,650	\$ (527,824)	\$ 31,806,639
Salaries, wages and related liabilities	21,997,919	14,562,203	-0-	36,560,122
Estimated third party settlements	1,240,396	-0-	-0-	1,240,396
Current portion of long-term debt	10,051,814	28,918	-0-	10,080,732
Total current liabilities	<u>63,013,942</u>	<u>17,201,771</u>	<u>(527,824)</u>	<u>79,687,889</u>
Long-term liabilities				
Long-term debt, less current portion	233,854,099	19,287,840	-0-	253,141,939
Other long-term liabilities	39,471	-0-	-	39,471
Total long-term liabilities	<u>233,893,570</u>	<u>19,287,840</u>	<u>-0-</u>	<u>253,181,410</u>
Total liabilities	296,907,512	36,489,611	(527,824)	332,869,299
Net assets				
Without donor restrictions	219,939,935	(1,337,662)	-0-	218,602,273
Noncontrolling interests in UHT, LLC	544,684	-0-	-0-	544,684
Total net assets without donor restrictions	<u>220,484,619</u>	<u>(1,337,662)</u>	<u>-0-</u>	<u>219,146,957</u>
With donor restrictions	6,209,636	-0-	-0-	6,209,636
Total net assets	<u>226,694,255</u>	<u>(1,337,662)</u>	<u>-0-</u>	<u>225,356,593</u>
Total liabilities and net assets	<u>\$ 523,601,767</u>	<u>\$ 35,151,949</u>	<u>\$ (527,824)</u>	<u>\$ 558,225,892</u>

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UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2020

	Union Hospital, Inc. and Subsidiaries	Union Associated Physician's Clinic	Eliminations	Union Health System
Operating revenue				
Net patient service revenue	\$ 504,731,246	\$ 45,462,692	\$ -0-	\$ 550,193,938
Other revenue	41,692,233	29,287,773	(12,186,888)	58,793,118
Total operating revenue	<u>546,423,479</u>	<u>74,750,465</u>	<u>(12,186,888)</u>	<u>608,987,056</u>
Operating expenses				
Physician, mid-level, and other provider salaries and wages	21,063,196	35,252,590	-0-	56,315,786
Other salaries and wages	113,551,136	31,107,182	-0-	144,658,318
Employee benefits	27,026,947	9,676,948	-0-	36,703,895
Medical supplies and drugs	85,961,496	8,456,236	-0-	94,417,732
Physician services	20,511,690	-0-	-0-	20,511,690
Contract services	89,248,577	10,404,278	(11,193,544)	88,459,311
Rent and leases	7,472,183	3,434,228	(875,459)	10,030,952
Utilities, supplies, and other	32,914,452	5,389,045	(117,885)	38,185,612
Hospital assessment fee	21,432,988	-0-	-0-	21,432,988
Depreciation and amortization	24,442,170	1,856,101	-0-	26,298,271
Interest	10,013,509	2,187,249	-0-	12,200,758
Total operating expenses	<u>453,638,344</u>	<u>107,763,857</u>	<u>(12,186,888)</u>	<u>549,215,313</u>
Income (loss) from operations	92,785,135	(33,013,392)	-0-	59,771,743
Non-operating gains				
Investment return, net	19,055,540	4,288	-0-	19,059,828
Other	763,779	2,046,207	-0-	2,809,986
Total non-operating gains	<u>19,819,319</u>	<u>2,050,495</u>	<u>-0-</u>	<u>21,869,814</u>
Excess of revenue over (under) expenses	<u>\$ 112,604,454</u>	<u>\$ (30,962,897)</u>	<u>\$ -0-</u>	<u>\$ 81,641,557</u>

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UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2020

	Union Hospital, Inc. and Subsidiaries	Union Associated Physician's Clinic	Eliminations	Union Health System
Other changes in net assets without donor restrictions				
Distribution to non-controlling interests	\$ (1,428,679)	\$ -0-	\$ -0-	\$ (1,428,679)
Transfers for property and equipment additions	-0-	-0-	-0-	-0-
Transfers between Union Hospital, Inc. and UAPC	(45,364,596)	45,364,596	-0-	-0-
Change in net assets without donor restrictions	65,811,179	14,401,699	-0-	80,212,878
Net assets with donor restrictions				
Other changes in receivable from Union Health Foundation, Inc.	1,561,948	-0-	-0-	1,561,948
Net assets released for property and equipment	-0-	-0-	-0-	-0-
Change in net assets with donor restrictions	1,561,948	-0-	-0-	1,561,948
Change in net assets	67,373,127	14,401,699	-0-	81,774,826
Net assets				
Beginning of year	226,694,255	(1,337,662)	-0-	225,356,593
End of year	\$ 294,067,382	\$ 13,064,037	\$ -0-	\$ 307,131,419

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UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2019

	Union Hospital, Inc. and Subsidiaries	Union Associated Physician's Clinic	Eliminations	Union Health System
Operating revenue				
Net patient service revenue	\$ 506,324,245	\$ 48,490,045	\$ -0-	\$ 554,814,290
Other revenue	13,632,509	21,156,880	(11,599,766)	23,189,623
Total operating revenue	<u>519,956,754</u>	<u>69,646,925</u>	<u>(11,599,766)</u>	<u>578,003,913</u>
Operating expenses				
Physician, mid-level, and other provider salaries and wages	21,225,600	37,591,746	-0-	58,817,346
Other salaries and wages	106,031,193	29,370,722	-0-	135,401,915
Employee benefits	29,232,673	9,615,174	-0-	38,847,847
Medical supplies and drugs	87,444,653	8,090,123	-0-	95,534,776
Physician services	20,141,349	-0-	-0-	20,141,349
Contract services	84,990,278	10,597,116	(10,784,913)	84,802,481
Rent and leases	7,756,562	3,260,639	(687,069)	10,330,132
Utilities, supplies, and other	31,749,664	5,506,449	(127,784)	37,128,329
Hospital assessment fee	20,017,624	-0-	-0-	20,017,624
Depreciation and amortization	25,305,390	1,999,730	-0-	27,305,120
Interest	10,376,214	2,145,271	-0-	12,521,485
Total operating expenses	<u>444,271,200</u>	<u>108,176,970</u>	<u>(11,599,766)</u>	<u>540,848,404</u>
Income (loss) from operations	75,685,554	(38,530,045)	-0-	37,155,509
Non-operating gains				
Investment return, net	14,113,845	6,667	-0-	14,120,512
Other	642,548	5,155,463	-0-	5,798,011
Total non-operating gains	<u>14,756,393</u>	<u>5,162,130</u>	<u>-0-</u>	<u>19,918,523</u>
Excess of revenue over (under) expenses	<u>\$ 90,441,947</u>	<u>\$ (33,367,915)</u>	<u>\$ -0-</u>	<u>\$ 57,074,032</u>

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UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2019

	Union Hospital, Inc. and Subsidiaries	Union Associated Physician's Clinic	Eliminations	Union Health System
Other changes in net assets without donor restrictions				
Distribution to non-controlling interests	\$ (1,611,079)	\$ -0-	\$ -0-	\$ (1,611,079)
Transfers for property and equipment additions	-0-	-0-	-0-	-0-
Transfers between Union Hospital, Inc. and UAPC	(25,417,787)	25,417,787	-0-	-0-
Change in net assets without donor restrictions	63,413,081	(7,950,128)	-0-	55,462,953
Net assets with donor restrictions				
Other changes in receivable from Union Health Foundation, Inc.	1,352,692	-0-	-0-	1,352,692
Net assets released for property and equipment	-0-	-0-	-0-	-0-
Change in net assets with donor restrictions	1,352,692	-0-	-0-	1,352,692
Change in net assets	64,765,773	(7,950,128)	-0-	56,815,645
Net assets				
Beginning of year	161,928,482	6,612,466	-0-	168,540,948
End of year	\$ 226,694,255	\$ (1,337,662)	\$ -0-	\$ 225,356,593

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UNION HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2020

	Union Hospital	Union Hospital Clinton	Total Union Hospital, Inc.	IPACS, Inc.	COH	UHT, LLC	Eliminations	Total Union Hospital, Inc. and Subsidiaries
Operating revenue								
Net patient service revenue	\$ 477,470,629	\$ 25,676,430	\$ 503,147,059	\$ -0-	\$ 1,584,187	\$ -0-	\$ -0-	\$ 504,731,246
Other revenue	39,503,803	3,497,595	43,001,398	987,112	-0-	9,885,911	(12,182,188)	41,692,233
Total operating revenue	<u>516,974,432</u>	<u>29,174,025</u>	<u>546,148,457</u>	<u>987,112</u>	<u>1,584,187</u>	<u>9,885,911</u>	<u>(12,182,188)</u>	<u>546,423,479</u>
Operating expenses								
Physician, mid-level, and other provider salaries and wages	15,385,543	272,663	15,658,206	297,382	-0-	5,107,608	-0-	21,063,196
Other salaries and wages	106,870,922	6,680,214	113,551,136	-0-	-0-	-0-	-0-	113,551,136
Employee benefits	24,520,474	1,519,224	26,039,698	68,212	-0-	919,037	-0-	27,026,947
Medical supplies and drugs	83,953,300	1,813,459	85,766,759	-0-	194,737	-0-	-0-	85,961,496
Physician services	18,183,073	2,328,617	20,511,690	-0-	-0-	-0-	-0-	20,511,690
Contract services	86,080,222	2,350,784	88,431,006	42,623	1,344,498	792,948	(1,362,498)	89,248,577
Rent and leases	7,035,329	430,871	7,466,200	15,791	4,427	-0-	(14,235)	7,472,183
Utilities, supplies, and other	40,205,894	2,511,021	42,716,915	361,839	453,145	188,008	(10,805,455)	32,914,452
Hospital assessment fee	19,977,445	1,455,543	21,432,988	-0-	-0-	-0-	-0-	21,432,988
Depreciation and amortization	23,339,326	1,097,782	24,437,108	565	4,497	-0-	-0-	24,442,170
Interest	10,012,597	36	10,012,633	-0-	-0-	876	-0-	10,013,509
Total operating expenses	<u>435,564,125</u>	<u>20,460,214</u>	<u>456,024,339</u>	<u>786,412</u>	<u>2,001,304</u>	<u>7,008,477</u>	<u>(12,182,188)</u>	<u>453,638,344</u>
Income (loss) from operations	81,410,307	8,713,811	90,124,118	200,700	(417,117)	2,877,434	-0-	92,785,135
Non-operating gains (losses)								
Investment return, net	19,020,302	375	19,020,677	34,863	-0-	-0-	-0-	19,055,540
Other	1,954,538	-0-	1,954,538	-0-	-0-	-0-	(1,190,759)	763,779
Total non-operating gains (losses)	<u>20,974,840</u>	<u>375</u>	<u>20,975,215</u>	<u>34,863</u>	<u>-0-</u>	<u>-0-</u>	<u>(1,190,759)</u>	<u>19,819,319</u>
Excess of revenue over (under) expenses	<u>\$ 102,385,147</u>	<u>\$ 8,714,186</u>	<u>\$ 111,099,333</u>	<u>\$ 235,563</u>	<u>\$ (417,117)</u>	<u>\$ 2,877,434</u>	<u>\$ (1,190,759)</u>	<u>\$ 112,604,454</u>

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UNION HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2019

	Union Hospital	Union Hospital Clinton	Total Union Hospital, Inc.	IPACS, Inc.	COH	UHT, LLC	Eliminations	Total Union Hospital, Inc. and Subsidiaries
Operating revenue								
Net patient service revenue	\$ 480,102,483	\$ 24,290,546	\$ 504,393,029	\$ -0-	\$ 1,931,216	\$ -0-	\$ -0-	\$ 506,324,245
Other revenue	14,672,618	359,348	15,031,966	1,333,245	-0-	10,985,580	(13,718,282)	13,632,509
Total operating revenue	<u>494,775,101</u>	<u>24,649,894</u>	<u>519,424,995</u>	<u>1,333,245</u>	<u>1,931,216</u>	<u>10,985,580</u>	<u>(13,718,282)</u>	<u>519,956,754</u>
Operating expenses								
Physician, mid-level, and other provider salaries and wages	15,223,471	109,507	15,332,978	710,884	-0-	5,181,738	-0-	21,225,600
Other salaries and wages	99,501,606	6,529,587	106,031,193	-0-	-0-	-0-	-0-	106,031,193
Employee benefits	26,680,559	1,509,441	28,190,000	98,739	-0-	943,934	-0-	29,232,673
Medical supplies and drugs	85,510,730	1,728,871	87,239,601	-0-	205,052	-0-	-0-	87,444,653
Physician services	17,646,967	2,494,382	20,141,349	-0-	-0-	-0-	-0-	20,141,349
Contract services	80,898,410	2,807,571	83,705,981	80,906	1,445,845	1,227,371	(1,469,825)	84,990,278
Rent and leases	7,274,305	476,149	7,750,454	20,193	4,410	-0-	(18,495)	7,756,562
Utilities, supplies, and other	40,011,480	2,789,176	42,800,656	264,961	641,225	272,784	(12,229,962)	31,749,664
Hospital assessment fee	18,268,397	1,749,227	20,017,624	-0-	-0-	-0-	-0-	20,017,624
Depreciation and amortization	24,185,059	1,115,966	25,301,025	1,206	3,159	-0-	-0-	25,305,390
Interest	10,374,185	351	10,374,536	-0-	-0-	1,678	-0-	10,376,214
Total operating expenses	<u>425,575,169</u>	<u>21,310,228</u>	<u>446,885,397</u>	<u>1,176,889</u>	<u>2,299,691</u>	<u>7,627,505</u>	<u>(13,718,282)</u>	<u>444,271,200</u>
Income (loss) from operations	69,199,932	3,339,666	72,539,598	156,356	(368,475)	3,358,075	-0-	75,685,554
Non-operating gains (losses)								
Investment return, net	14,052,775	1,040	14,053,815	60,030	-0-	-0-	-0-	14,113,845
Other	2,332,798	2,180	2,334,978	-0-	-0-	-0-	(1,692,430)	642,548
Total non-operating gains (losses)	<u>16,385,573</u>	<u>3,220</u>	<u>16,388,793</u>	<u>60,030</u>	<u>-0-</u>	<u>-0-</u>	<u>(1,692,430)</u>	<u>14,756,393</u>
Excess of revenue over (under) expenses	<u>\$ 85,585,505</u>	<u>\$ 3,342,886</u>	<u>\$ 88,928,391</u>	<u>\$ 216,386</u>	<u>\$ (368,475)</u>	<u>\$ 3,358,075</u>	<u>\$ (1,692,430)</u>	<u>\$ 90,441,947</u>

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UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF PROPERTY AND EQUIPMENT OF MORTGAGOR
YEAR ENDED DECEMBER 31, 2020

	Mortgagor	Other Activities	Union Health System
Land and improvements	\$ 35,056,143	\$ 4,054,117	\$ 39,110,260
Buildings and fixed equipment	412,749,068	6,142,596	418,891,664
Movable equipment	194,983,656	-0-	194,983,656
	<u>642,788,867</u>	<u>10,196,713</u>	<u>652,985,580</u>
Less allowances for depreciation	358,617,758	7,821,749	366,439,507
Construction in progress	1,152,140	-0-	1,152,140
Total property and equipment, net	<u>\$ 285,323,249</u>	<u>\$ 2,374,964</u>	<u>\$ 287,698,213</u>

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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 FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Union Health System, Inc.
Terre Haute, Indiana

Report on the Consolidated 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 and the Guideline for Examination of Entities Receiving Financial Assistance from Governmental Sources, issued by the Indiana State Board of Accounts, the consolidated financial statements of Union Health System, Inc. (the System), which comprise the consolidated balance sheet as of December 31, 2020 and the related consolidated statement of operations and changes in net assets, and consolidated statement of cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 22, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the System'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 System'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
Union Health System, Inc.
Terre Haute, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 System'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 consolidated 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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Blue & Co., LLC

Indianapolis, Indiana
April 22, 2021