



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, 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.

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

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of December 31, 2019 and 2018, 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.

CHANGE IN ACCOUNTING PRINCIPLES

As discussed in Note 3 to the consolidated financial statements, effective January 1, 2019, the System adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and FASB ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Our opinion is not modified with respect to these matters.

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) information 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 and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2020 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 23, 2020

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018

ASSETS		
	2019	2018
Current assets		
Cash and cash equivalents	\$ 83,215,144	\$ 71,169,772
Patient accounts receivable, net	53,121,998	55,567,042
Inventories	5,966,243	5,773,542
Prepaid expenses and other current assets	15,269,718	18,621,601
Total current assets	157,573,103	151,131,957
Investments limited as to use		
Funds held by trustee	10,694,840	7,127,367
Board designated	117,046,394	67,545,798
Total investments limited as to use	127,741,234	74,673,165
Property and equipment		
Land and improvements	38,269,946	37,940,298
Buildings and fixed equipment	380,439,203	376,979,879
Movable equipment	185,386,285	178,859,240
	604,095,434	593,779,417
Less allowances for depreciation	347,918,262	323,714,223
	256,177,172	270,065,194
Construction in progress	366,455	486,164
Total property and equipment, net	256,543,627	270,551,358
Other assets		
Due from Union Health Foundation, Inc.	4,849,697	3,650,489
Intangible assets, net and other	4,011,409	3,616,958
Investment in joint ventures	7,506,822	6,253,946
	16,367,928	13,521,393
Total assets	\$ 558,225,892	\$ 509,877,873

See accompanying notes to consolidated financial statements.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018

LIABILITIES AND NET ASSETS

	2019	2018
Current liabilities		
Accounts payable and other current liabilities	\$ 31,806,639	\$ 32,710,278
Salaries, wages and related liabilities	36,560,122	34,949,425
Estimated third party settlements	1,240,396	1,577,262
Current portion of long-term debt	10,080,732	9,289,113
Total current liabilities	<u>79,687,889</u>	<u>78,526,078</u>
Long-term liabilities		
Long-term debt, less current portion	253,141,939	262,724,862
Other long-term liabilities	39,471	85,985
Total long-term liabilities	<u>253,181,410</u>	<u>262,810,847</u>
Total liabilities	332,869,299	341,336,925
Net assets		
Without donor restrictions	218,602,273	163,173,698
Noncontrolling interests in UHT, LLC	544,684	510,306
Total net assets without donor restrictions	<u>219,146,957</u>	<u>163,684,004</u>
With donor restrictions	6,209,636	4,856,944
Total net assets	<u>225,356,593</u>	<u>168,540,948</u>
Total liabilities and net assets	<u>\$ 558,225,892</u>	<u>\$ 509,877,873</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, 2019 AND 2018

	2019	2018
Operating revenue		
Patient service revenue, net of contractual allowances and discounts including financial assistance provisions of \$16,728,292 in 2018		\$ 552,927,027
Less provision for bad debts		39,090,678
Net patient service revenue	\$ 554,814,290	513,836,349
Other revenue	23,189,623	23,747,855
Total operating revenue	578,003,913	537,584,204
Operating expenses		
Physician, mid-level, and other provider salaries and wages	58,817,346	54,445,224
Other salaries and wages	135,401,915	113,289,777
Employee benefits	38,847,847	31,578,198
Medical supplies and drugs	95,534,776	92,093,272
Physician services	20,141,349	20,908,226
Contract services	84,802,481	97,750,260
Rent and leases	10,330,132	10,227,420
Utilities, supplies, and other	37,128,329	34,511,414
Hospital assessment fee	20,017,624	21,906,132
Depreciation and amortization	27,305,120	26,347,834
Interest	12,521,485	12,939,582
Total operating expenses	540,848,404	515,997,339
Income from operations	37,155,509	21,586,865
Non-operating gains		
Investment return, net	14,120,512	2,227,046
Other	5,929,912	5,945,228
Total non-operating gains	20,050,424	8,172,274
Excess of revenue over expenses	57,205,933	29,759,139
Other changes in net assets without donor restrictions		
Distribution to non-controlling interests	(1,742,980)	(1,450,729)
Net unrealized loss on investments	-0-	(4,324,417)
Net assets released for property and equipment	-0-	5,090
Change in net assets without donor restrictions	55,462,953	23,989,083
Net assets with donor restrictions		
Other changes in receivable from Union Health Foundation, Inc.	1,352,692	785,883
Net assets released for property and equipment	-0-	(5,090)
Change in net assets with donor restrictions	1,352,692	780,793
Change in net assets	56,815,645	24,769,876
Net assets		
Beginning of year	168,540,948	143,771,072
End of year	\$ 225,356,593	\$ 168,540,948

See accompanying notes to consolidated financial statements.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Operating activities		
Change in net assets	\$ 56,815,645	\$ 24,769,876
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	24,795,305	24,320,222
Amortization of intangible asset	2,509,815	2,027,612
Amortization of bond issuance costs	298,309	307,285
Provision for bad debts	-0-	39,090,678
Distribution to non-controlling interests	1,742,980	1,450,729
Loss on property disposals	87,223	82,447
Net realized and unrealized (gain) loss on investments	(11,398,696)	3,770,301
Changes in operating assets and liabilities		
Patient accounts receivable	2,445,044	(27,132,108)
Other current and noncurrent assets	(2,197,168)	(4,572,055)
Accounts payable and other current liabilities	(903,639)	(10,350,295)
Salaries, wages and related liabilities	1,610,697	4,399,679
Other long-term liabilities	(46,514)	(208,251)
Estimated third-party payor settlements	(336,866)	(565,640)
Net cash flows from operating activities	75,422,135	57,390,480
Investing activities		
Purchases of property and equipment	(10,898,326)	(10,965,607)
Proceeds from sale of property and equipment	23,529	12,387
Purchase of investments	(55,046,302)	(26,227,198)
Proceeds from sale of investments	13,376,929	11,879,117
Net cash flows from investing activities	(52,544,170)	(25,301,301)
Financing activities		
Payments on long-term debt	(13,100,857)	(10,586,209)
Proceeds from long-term debt	4,011,244	22,283
Distribution to non-controlling interests	(1,742,980)	(1,450,729)
Net cash flows from financing activities	(10,832,593)	(12,014,655)
Change in cash and cash equivalents	12,045,372	20,074,524
Cash and cash equivalents		
Beginning of year	71,169,772	51,095,248
End of year	\$ 83,215,144	\$ 71,169,772
Noncash investing activities		
Capital acquisitions included in accounts payable	\$ -0-	\$ 30,175
Supplemental cash flow information		
Cash paid for interest	\$ 12,223,176	\$ 12,632,297

See accompanying notes to consolidated financial statements.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 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.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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).

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.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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. 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The 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.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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, 2019 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. In 2018, net unrealized losses on investments on other-than-trading securities were excluded from the excess of revenue over expenses unless the net unrealized loss on investment security was considered other than-temporary.

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.

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

Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of the 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.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 2019 and 2018, the System purchased targeted service lines for approximately \$3,690,000 and \$-0-, respectively. As of December 31, 2019 and 2018, intangible assets approximated \$3,917,000 and \$2,737,000, respectively, and recorded within intangible assets, net and other on the consolidated balance sheets. The System expects future amortization as follows:

Year Ending December 31,	
2020	\$ 2,062,500
2021	1,854,375
	<u>\$ 3,916,875</u>

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.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. 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 until June 30, 2019. Starting July 1, 2019, 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.

The Act also requires the System to pay a surcharge to the State Patient's Compensation Fund (Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the System's claim experience, an accrual for estimated malpractice claims costs was approximately \$1,497,000 as of December 31, 2019 and 2018. It is reasonably possible that this estimate could change materially in the near term.

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.

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.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 \$4,850,000 and \$3,650,000 of funds held by the Foundation for the benefit of the System at December 31, 2019 and 2018, 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 \$1,360,000 and \$1,207,000 as of December 31, 2019 and 2018, 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 \$325,000 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 \$300,000 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 \$13,798,000 and \$10,392,000, respectively. Total health insurance expense for UAPC was approximately \$3,910,000 and \$2,709,000 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.

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.

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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, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying 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 2018. 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

In 2019, the System's performance indicator, excess of revenues over expenses, includes all changes in net assets without donor restrictions, investment returns restricted by donors, changes in pension plan funded status, distributions to non-controlling owners, and contributions of property and equipment. Additionally in 2018, net unrealized gain (loss) and temporary gains (losses) on investments were excluded from the performance indicator.

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 are available to be issued.

Reclassifications

Certain amounts from the 2018 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.

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 are available to be issued which is April 23, 2020. See Note 17 for further disclosure.

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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, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their balance sheet the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's balance sheet.

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

3. CHANGE IN ACCOUNTING PRINCIPLES

ASU 2014-09

On January 1, 2019, the System adopted the new revenue recognition accounting standard issued by the FASB and codified in the FASB ASC 2014-09 as topic 606 (ASC 606). The revenue recognition standard in ASC 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. The standard also requires expanded disclosures (Note 4) regarding the System's revenue recognition policies and significant judgments employed in the determination of revenue.

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

Additionally, upon adoption of ASC 606, the allowance for doubtful accounts of approximately \$30,500,000 as of January 1, 2019 was reclassified as a component of net patient accounts receivable. Other than these changes, the adoption of ASC 606 did not have a material impact on the 2019 consolidated financial statements, and the System does not expect it to have a material impact on its results of operations on a prospective basis. As part of the adoption of ASC 606, the System elected two of the available practical expedients provided for in the standard. First, the System does not adjust the transaction price for any financing components as those were deemed insignificant. Additionally, the System expenses all incremental customer contract acquisition costs as incurred, because such costs are not material and would be amortized over a period less than one year.

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ASU 2018-08

Effective January 1, 2019, the System adopted FASB ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). ASU 2018-08 clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. Additionally, the amendments in this ASU require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return on assets transferred or a right of release of a promisor's obligation to transfer assets. Finally, ASU 2018-08 amends the "simultaneous release accounting policy" to allow a not-for-profit entity to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. The adoption of ASU 2018-08 did not have a material impact on the 2019 consolidated financial statements.

ASU 2016-01

On January 1, 2019, the System adopted FASB ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01) which affects all entities that hold financial assets or owe financial liabilities. The guidance in ASU 2016-01 supersedes the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and requires equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through the excess of revenue over expenses. The amendments also require enhanced disclosures about those investments. This new ASU did not have a material effect on the System's financial position, results of operations, or disclosures in the notes to the consolidated financial statements. The primary impact on the System is that changes in the fair value of equity investments classified will be recognized within the performance indicator, excess of revenue over expenses, rather than below it as it was previously presented.

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4. 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 2019 and 2018, 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, 2019, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through December 31, 2015.

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.

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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 2019 and 2018 is as follows:

	2019	2018
Medicare	\$ 227,473,859	\$ 200,396,176
Medicaid	83,222,144	61,660,362
Managed care and commercial insurance	238,570,145	241,503,084
Self-pay and other	5,548,142	10,276,727
	\$ 554,814,290	\$ 513,836,349

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

	2019	2018
Inpatient services	\$ 549,529,046	\$ 506,447,541
Outpatient services	1,073,747,126	992,290,657
Physician practice services	133,449,360	128,040,613
	1,756,725,532	1,626,778,811
Less financial assistance	23,091,873	16,728,292
Less contractual adjustments	1,139,128,139	1,057,123,492
	1,162,220,012	1,073,851,784
	594,505,520	552,927,027
Less implied price concessions	39,691,230	-0-
Less provision for bad debts	-0-	39,090,678
	\$ 554,814,290	\$ 513,836,349

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For the years ended December 31, 2019 and 2018, 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 2019 and 2018 follows:

	Receivables		Revenue	
	2019	2018	2019	2018
Medicare	37%	31%	41%	39%
Medicaid	18%	19%	15%	12%
Managed care and commercial insurance	31%	36%	43%	47%
Self-pay and other	14%	14%	1%	2%
	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.
- **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.

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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 2019 and 2018, measured at established rates, was approximately \$23,092,000 and \$16,728,000, respectively. The increase 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 2019 or 2018. 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.

Of the System's total expenses reported during 2019 and 2018, an estimated \$7,219,000 and \$5,306,000, 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.

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The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Beginning July 1, 2017, hospitals also started funding HIP, the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program but the funding includes physician, state administration, and certain non-hospital expenditures. During 2019 and 2018, the System recognized HAF and HIP program expense of approximately \$20,018,000 and \$21,906,000, 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.

5. 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, 2019 and 2018:

	2019	2018
Common stocks	\$ 19,947,348	\$ 8,720,823
Mutual funds	54,761,519	25,508,549
US Government obligations	16,150,234	10,161,701
Corporate obligations	5,134,035	4,499,832
Commingled funds	27,960,947	18,793,877
Money market deposit accounts	3,787,151	6,988,383
	<u>\$ 127,741,234</u>	<u>\$ 74,673,165</u>

Investment return, net consists of the following:

	2019	2018
Interest and dividends	\$ 2,721,816	\$ 1,672,930
Realized gains	527,762	554,116
Unrealized gains	10,870,934	-0-
	<u>\$ 14,120,512</u>	<u>\$ 2,227,046</u>

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6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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, 2019 and 2018.

- *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.

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- *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.

Assets measured at fair value on a recurring basis as of December 31, 2019 and 2018 are as follows:

	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	<u>19,947,348</u>	<u>19,947,348</u>	-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	<u>54,761,519</u>	<u>54,761,519</u>	-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	<u>5,134,035</u>	<u>-0-</u>	<u>5,134,035</u>	<u>-0-</u>
	95,993,136	<u>\$ 90,859,101</u>	<u>\$ 5,134,035</u>	<u>\$ -0-</u>
Money market deposit accounts	3,787,151			
Commingled funds *	27,960,947			
Total investments limited as to use	<u>\$ 127,741,234</u>			

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

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	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Investments limited as to use				
Common stocks				
Communications	\$ 275,480	\$ 275,480	\$ -0-	\$ -0-
Consumer	1,304,494	1,304,494	-0-	-0-
Energy	1,205,351	1,205,351	-0-	-0-
Financial	1,566,347	1,566,347	-0-	-0-
Healthcare	1,326,892	1,326,892	-0-	-0-
Industrials	1,059,871	1,059,871	-0-	-0-
Information technology	1,242,461	1,242,461	-0-	-0-
Materials	739,927	739,927	-0-	-0-
Total common stocks	<u>8,720,823</u>	<u>8,720,823</u>	-0-	-0-
Mutual funds				
Fixed income funds	5,803,903	5,803,903	-0-	-0-
Large cap funds	13,757,111	13,757,111	-0-	-0-
International funds	5,892,050	5,892,050	-0-	-0-
Index funds	55,485	55,485	-0-	-0-
Total mutual funds	<u>25,508,549</u>	<u>25,508,549</u>	-0-	-0-
US Government obligations	10,161,701	10,161,701	-0-	-0-
Corporate obligations				
Mid yield	4,499,832	-0-	4,499,832	-0-
Total corporate obligations	<u>4,499,832</u>	<u>-0-</u>	<u>4,499,832</u>	<u>-0-</u>
	48,890,905	<u>\$ 44,391,073</u>	<u>\$ 4,499,832</u>	<u>\$ -0-</u>
Money market deposit accounts	6,988,383			
Commingled funds *	<u>18,793,877</u>			
Total investments limited as to use	<u>\$ 74,673,165</u>			

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

The 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.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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, 2019 and 2018.

Investment	Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	2019	2018			
Commingled funds	\$ 27,960,947	\$ 18,793,877	None	Daily	Daily

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

7. LONG-TERM DEBT AND LEASES

The following is a summary of long-term debt as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
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 \$256,544,000 as of December 31, 2019.	\$ 242,493,940	\$ 250,008,431
Loan payable in monthly principal and interests installments of approximately \$40,000 commencing in fiscal 2010 through fiscal 2026. Fixed term with variable interest rate set monthly (payable monthly). Loan was paid in full in 2019.	-0-	2,832,000
Loans payable for purchases of medical group service lines in June 2015, October 2017, and January 2019 due April 2019, September 2021, and December 2021, respectively, with monthly installments of approximately \$102,000, \$69,000, and \$103,000 respectively, and fixed interest rates of 3.25%, 4.25%, and 5.50%, respectively. The loans are unsecured.	4,037,848	2,854,543
Capital leases and other	<u>20,244,111</u>	<u>20,170,538</u>
Total long-term debt	266,775,899	275,865,512
Less current portion	10,080,732	9,289,113
Less unamortized debt issue costs	3,553,228	3,851,537
	<u>\$ 253,141,939</u>	<u>\$ 262,724,862</u>

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

Year Ending December 31,	
2020	\$ 10,080,732
2021	10,196,218
2022	8,516,163
2023	8,753,037
2024	8,941,627
Thereafter	<u>220,288,122</u>
	<u>\$ 266,775,899</u>

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, 2019 and 2018 totaled approximately \$2,510,000 and \$1,971,000, 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, 2019 and 2018.

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 \$19,600,000 respectively, and \$3,300,000 and \$2,900,000, respectively, at December 31, 2019 and 2018. These leases expire at varying dates through 2063.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

The following is a schedule by year of future minimum lease payments under capital leases as of December 31, 2019, that have initial or remaining lease terms in excess of one year.

Year Ending December 31,	
2020	\$ 2,138,650
2021	2,111,114
2022	2,113,801
2023	2,066,294
2024	1,960,660
Thereafter	74,150,061
	<u>84,540,580</u>
Less imputed interest	64,296,469
	<u>\$ 20,244,111</u>

The System has operating leases for medical equipment and office space. Total rent and lease expense for the years ended December 31, 2019 and 2018 was approximately \$10,330,000 and \$10,230,000, respectively. Future minimum lease payments under noncancelable operating leases as of December 31, 2019 that have initial or remaining lease terms in excess of one year are as follows:

Year Ending December 31,	
2020	\$ 4,419,599
2021	3,863,875
2022	2,291,283
2023	1,412,655
2024	223,039
Thereafter	23,907
	<u>\$ 12,234,358</u>

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specific purpose		
Capital items	\$ 1,359,939	\$ 1,206,455
Funds held by Foundation for program expenditures	4,849,697	3,650,489
Total net assets with donor restrictions	<u>\$ 6,209,636</u>	<u>\$ 4,856,944</u>

9. NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions		
Undesignated	\$ 101,555,879	\$ 95,627,900
Board-designated primarily for future capital needs	117,046,394	67,545,798
Total net assets without donor restrictions	<u>\$ 218,602,273</u>	<u>\$ 163,173,698</u>

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 need, or to fund future capital needs.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

10. 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, 2017	\$ 139,165,226	\$ 529,695	\$ 139,694,921
Excess of revenue over expenses	28,291,077	1,468,062	29,759,139
Other changes in net assets without donor restrictions	<u>(4,282,605)</u>	<u>(1,487,451)</u>	<u>(5,770,056)</u>
Change in net assets without donor restrictions	<u>24,008,472</u>	<u>(19,389)</u>	<u>23,989,083</u>
Balance December 31, 2018	\$ 163,173,698	\$ 510,306	\$ 163,684,004
Excess of revenue over expenses	55,560,476	1,645,457	57,205,933
Other changes in net assets without donor restrictions	<u>(131,901)</u>	<u>(1,611,079)</u>	<u>(1,742,980)</u>
Change in net assets without donor restrictions	<u>55,428,575</u>	<u>34,378</u>	<u>55,462,953</u>
Balance December 31, 2019	<u><u>\$ 218,602,273</u></u>	<u><u>\$ 544,684</u></u>	<u><u>\$ 219,146,957</u></u>

11. 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 \$12,761,000 and \$23,525,000 for the years ended December 31, 2019 and 2018, 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. At December 31, 2019, a net payable is owed from the System to AP&S Clinic in the amount of approximately \$1,330,000. At December 31, 2018 a net receivable is owed from the AP&S Clinic to the System in the amount of approximately \$120,000. Balances as of 2019 and 2018 are reflected in accounts payable and other current liabilities in the consolidated balance sheets.

UAPC paid approximately \$3,037,000 and \$3,023,000 during 2019 and 2018, 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, 2019 and 2018 totaled approximately \$1,900,000. This capital lease is included within capital leases and other in Note 7.

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.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

The Corporation provided management and other services for the Foundation and other related organizations for the years ended December 31, 2019 and 2018. These amounts are immaterial to the consolidated financial statements as a whole.

The Corporation received approximately \$362,000 and \$282,000 in contributions from the Foundation for the years ended December 31, 2019 and 2018, respectively. 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, 2019 and 2018 and are included in contract services in the consolidated statements of operations and changes in net assets. At December 31, 2019 and 2018, the Corporation had a payable to OSG in the amount of \$50,000 and \$80,000, 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 \$6,573,000 and \$6,377,000 for the years ended December 31, 2019 and 2018, respectively, and are included in contract services in the consolidated statements of operations and changes in net assets. At December 31, 2019 and 2018, the System had a receivable from ASMS II in the approximate amount of \$341,000 and \$104,000 reflected in prepaid expenses and other current assets in the consolidated balance sheets, respectively.

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 \$28,857,000 and \$27,229,000 for the years ended December 31, 2019 and 2018, respectively, and are included in contract services in the consolidated statements of operations and changes in net assets. At December 31, 2019 and 2018, the Corporation had a payable to CVM in the approximate amounts of \$4,202,000 and \$6,095,000, respectively, reflected in accounts payable and other current liabilities in the consolidated balance sheets.

12. 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, 2019. The Corporation's investment in THRRRG amounts to approximately \$4,580,000 and \$3,850,000 as of December 31, 2019 and 2018, respectively.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

As stated in Note 11, 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 \$1,680,000 and \$1,876,000 as of December 31, 2019 and 2018, 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 11, are considered to have immaterial effects as noted herein.

13. 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, 2019 and 2018. The related contributions for the plan approximated \$4,085,000 and \$3,359,000 for the years ended December 31, 2019 and 2018, respectively. UAPC also has a 401(k) discretionary defined contribution plan for which contributions approximated \$1,772,000 and \$2,029,000 during the years ended December 31, 2019 and 2018, respectively.

14. 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.

At December 31, 2019, the System has outstanding commitments related to property and equipment of approximately \$1,969,000.

15. 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>2019</u>	<u>2018</u>
Financial assets		
Cash and cash equivalents	\$ 83,215,144	\$ 71,169,772
Patient accounts receivable	53,121,998	55,567,042
Other accounts receivable due within one year	3,862,316	7,146,453
Total financial assets	<u>\$ 140,199,458</u>	<u>\$ 133,883,267</u>

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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.

16. 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, 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. Expenses related to providing these services for the years ended December 31, 2019 and 2018 were as follows:

	2019		
	Healthcare	Administrative	Total
	Services	& General	
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	-0-	1,576,361	12,521,485
	<u>\$ 476,361,691</u>	<u>\$ 53,541,589</u>	<u>\$ 540,848,404</u>
	2018		
	Healthcare	Administrative	Total
	Services	& General	
Physician, mid-level, and other provider salaries and wages	\$ 47,533,002	\$ 6,912,222	\$ 54,445,224
Other salaries and wages	98,906,805	14,382,972	113,289,777
Employee benefits	27,569,113	4,009,085	31,578,198
Medical supplies and drugs	92,093,272	-0-	92,093,272
Physician services	18,253,773	2,654,453	20,908,226
Contract services	85,340,144	12,410,116	97,750,260
Rent and leases	8,928,974	1,298,446	10,227,420
Utilities, supplies, and other	30,129,936	4,381,478	34,511,414
Hospital assessment fee	21,906,132	-0-	21,906,132
Depreciation and amortization	23,002,782	3,345,052	26,347,834
Interest	-0-	12,939,582	12,939,582
	<u>\$ 453,663,933</u>	<u>\$ 62,333,406</u>	<u>\$ 515,997,339</u>

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

17. SUBSEQUENT EVENT

On March 11, 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.

SUPPLEMENTARY INFORMATION

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-	-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 BALANCE SHEETS DECEMBER 31, 2018

	Union Hospital, Inc. and Subsidiaries	Union Associated Physician's Clinic	Eliminations	Union Health System
Assets				
Current assets				
Cash and cash equivalents	\$ 66,865,536	\$ 4,304,236	\$ -0-	\$ 71,169,772
Patient accounts receivable, net	49,139,252	6,427,790	-0-	55,567,042
Inventories	5,295,361	478,181	-0-	5,773,542
Due from related parties	-0-	329,082	(329,082)	-0-
Prepaid expenses and other current assets	14,164,722	5,291,595	(834,716)	18,621,601
Total current assets	<u>135,464,871</u>	<u>16,830,884</u>	<u>(1,163,798)</u>	<u>151,131,957</u>
Investments limited as to use				
Funds held by trustee	7,127,367	-0-	-0-	7,127,367
Board designated and	67,545,798	-0-	-0-	67,545,798
Total investments limited as to use	<u>74,673,165</u>	<u>-0-</u>	<u>-0-</u>	<u>74,673,165</u>
Property and equipment				
Land and improvements	37,940,298	-0-	-0-	37,940,298
Buildings and fixed equipment	357,423,327	19,556,552	-0-	376,979,879
Movable equipment	170,031,678	8,827,562	-0-	178,859,240
	<u>565,395,303</u>	<u>28,384,114</u>	<u>-0-</u>	<u>593,779,417</u>
Less allowances for depreciation	316,809,124	6,905,099	-0-	323,714,223
	<u>248,586,179</u>	<u>21,479,015</u>	<u>-0-</u>	<u>270,065,194</u>
Construction in progress	486,164	-0-	-0-	486,164
Total property and equipment, net	<u>249,072,343</u>	<u>21,479,015</u>	<u>-0-</u>	<u>270,551,358</u>
Other assets				
Due from Union Health Foundation, Inc.	3,650,489	-0-	-0-	3,650,489
Intangible assets, net and other	3,486,829	130,129	-0-	3,616,958
Investment in joint ventures	3,849,891	2,404,055	-0-	6,253,946
	<u>10,987,209</u>	<u>2,534,184</u>	<u>-0-</u>	<u>13,521,393</u>
Total assets	<u>\$ 470,197,588</u>	<u>\$ 40,844,083</u>	<u>\$ (1,163,798)</u>	<u>\$ 509,877,873</u>

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UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2018

	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	\$ 31,567,357	\$ 1,142,921	\$ -0-	\$ 32,710,278
Salaries, wages and related liabilities	22,038,410	13,745,731	(834,716)	34,949,425
Estimated third party settlements	1,577,262	-0-	-0-	1,577,262
Current portion of long-term debt	9,262,906	26,207	-0-	9,289,113
Total current liabilities	<u>64,445,935</u>	<u>14,914,859</u>	<u>(834,716)</u>	<u>78,526,078</u>
Long-term liabilities				
Long-term debt, less current portion	243,408,104	19,316,758	-0-	262,724,862
Other long-term liabilities	415,067	-0-	(329,082)	85,985
Total long-term liabilities	<u>243,823,171</u>	<u>19,316,758</u>	<u>(329,082)</u>	<u>262,810,847</u>
Total liabilities	308,269,106	34,231,617	(1,163,798)	341,336,925
Net assets				
Without donor restrictions	156,561,232	6,612,466	-0-	163,173,698
Noncontrolling interests in UHT, LLC	510,306	-0-	-0-	510,306
Total net assets without donor restrictions	<u>157,071,538</u>	<u>6,612,466</u>	<u>-0-</u>	<u>163,684,004</u>
With donor restrictions	4,856,944	-0-	-0-	4,856,944
Total net assets	<u>161,928,482</u>	<u>6,612,466</u>	<u>-0-</u>	<u>168,540,948</u>
Total liabilities and net assets	<u>\$ 470,197,588</u>	<u>\$ 40,844,083</u>	<u>\$ (1,163,798)</u>	<u>\$ 509,877,873</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
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	519,956,754	69,646,925	(11,599,766)	578,003,913
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	444,271,200	108,176,970	(11,599,766)	540,848,404
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	774,449	5,155,463	-0-	5,929,912
Total non-operating gains (losses)	14,888,294	5,162,130	-0-	20,050,424
Excess of revenue over (under) expenses	\$ 90,573,848	\$ (33,367,915)	\$ -0-	\$ 57,205,933

See Report of Independent Auditors on Pages 1 - 3.

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	\$ (1,742,980)	\$ -0-	\$ -0-	\$ (1,742,980)
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	<u>63,413,081</u>	<u>(7,950,128)</u>	-0-	<u>55,462,953</u>
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	<u>1,352,692</u>	<u>-0-</u>	-0-	<u>1,352,692</u>
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	<u>\$ 226,694,255</u>	<u>\$ (1,337,662)</u>	<u>\$ -0-</u>	<u>\$ 225,356,593</u>

See Report of Independent Auditors on Pages 1 - 3.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2018

	Union Hospital, Inc. and Subsidiaries	Union Associated Physician's Clinic	Eliminations	Union Health System
Operating revenue				
Net patient service revenue	\$ 503,406,707	\$ 49,520,320	\$ -0-	\$ 552,927,027
Less provision for bad debts	37,655,511	1,435,167	-0-	39,090,678
Net patient service revenue net of provision for bad debts	465,751,196	48,085,153	-0-	513,836,349
Other revenue	14,267,322	12,732,328	(3,251,795)	23,747,855
Total operating revenue	480,018,518	60,817,481	(3,251,795)	537,584,204
Operating expenses				
Physician, mid-level, and other provider salaries and wages	19,378,465	35,066,759	-0-	54,445,224
Other salaries and wages	101,149,258	12,140,519	-0-	113,289,777
Employee benefits	24,392,987	7,185,211	-0-	31,578,198
Medical supplies and drugs	84,356,088	7,737,184	-0-	92,093,272
Physician services	20,908,226	-0-	-0-	20,908,226
Contract services	79,466,685	20,929,170	(2,645,595)	97,750,260
Rent and leases	7,728,724	3,097,571	(598,875)	10,227,420
Utilities, supplies, and other	29,275,157	5,243,582	(7,325)	34,511,414
Hospital assessment fee	21,906,132	-0-	-0-	21,906,132
Depreciation and amortization	24,407,859	1,939,975	-0-	26,347,834
Interest	10,834,431	2,105,151	-0-	12,939,582
Total operating expenses	423,804,012	95,445,122	(3,251,795)	515,997,339
Income (loss) from operations	56,214,506	(34,627,641)	-0-	21,586,865
Non-operating gains				
Investment return, net	2,218,157	8,889	-0-	2,227,046
Other	347,228	5,598,000	-0-	5,945,228
Total non-operating gains (losses)	2,565,385	5,606,889	-0-	8,172,274
Excess of revenue over (under) expenses	\$ 58,779,891	\$ (29,020,752)	\$ -0-	\$ 29,759,139

See Report of Independent Auditors on Pages 1 - 3.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2018

	Union Hospital, Inc. and Subsidiaries	Union Associated Physician's Clinic	Eliminations	Union Health System
Other changes in net assets without donor restrictions				
Distribution to noncontrolling interests	\$ (1,450,729)	\$ -0-	\$ -0-	\$ (1,450,729)
Net unrealized loss on investments	(4,324,417)	-0-	-0-	(4,324,417)
Transfers for property and equipment additions	5,090	-0-	-0-	5,090
Transfers between Union Hospital, Inc. and UAPC	(37,793,654)	37,793,654	-0-	-0-
Change in net assets without donor restrictions	<u>15,216,181</u>	<u>8,772,902</u>	<u>-0-</u>	<u>23,989,083</u>
Net assets with donor restrictions				
Other changes in receivable from Union Health Foundation, Inc.	785,883	-0-	-0-	785,883
Net assets released for property and equipment	(5,090)	-0-	-0-	(5,090)
Change in net assets with donor restrictions	<u>780,793</u>	<u>-0-</u>	<u>-0-</u>	<u>780,793</u>
Change in net assets	15,996,974	8,772,902	-0-	24,769,876
Net assets				
Beginning of year	145,931,508	(2,160,436)	-0-	143,771,072
End of year	<u>\$ 161,928,482</u>	<u>\$ 6,612,466</u>	<u>\$ -0-</u>	<u>\$ 168,540,948</u>

See Report of Independent Auditors on Pages 1 - 3.

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	494,775,101	24,649,894	519,424,995	1,333,245	1,931,216	10,985,580	(13,718,282)	519,956,754
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	425,575,169	21,310,228	446,885,397	1,176,889	2,299,691	7,627,505	(13,718,282)	444,271,200
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-	(1,560,529)	774,449
Total non-operating gains (losses)	16,385,573	3,220	16,388,793	60,030	-0-	-0-	(1,560,529)	14,888,294
Excess of revenue over (under) expenses	\$ 85,585,505	\$ 3,342,886	\$ 88,928,391	\$ 216,386	\$ (368,475)	\$ 3,358,075	\$ (1,560,529)	\$ 90,573,848

UNION HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS YEAR ENDED DECEMBER 31, 2018

	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	\$ 474,727,015	\$ 26,936,988	\$ 501,664,003	\$ -0-	\$ 1,742,704	\$ -0-	\$ -0-	\$ 503,406,707
Less provision for bad debts	34,284,784	3,370,727	37,655,511	-0-	-0-	-0-	-0-	37,655,511
Net patient service revenue net of provision for bad debts	440,442,231	23,566,261	464,008,492	-0-	1,742,704	-0-	-0-	465,751,196
Other revenue	15,194,328	362,863	15,557,191	1,142,200	-0-	10,106,153	(12,538,222)	14,267,322
Total operating revenue	455,636,559	23,929,124	479,565,683	1,142,200	1,742,704	10,106,153	(12,538,222)	480,018,518
Operating expenses								
Physician, mid-level, and other provider salaries and wages	14,072,087	85,803	14,157,890	436,660	-0-	4,783,915	-0-	19,378,465
Other salaries and wages	94,125,247	7,024,011	101,149,258	-0-	-0-	-0-	-0-	101,149,258
Employee benefits	21,928,710	1,505,081	23,433,791	88,238	-0-	870,958	-0-	24,392,987
Medical supplies and drugs	82,050,235	1,880,710	83,930,945	-0-	425,143	-0-	-0-	84,356,088
Physician services	18,757,960	2,150,266	20,908,226	-0-	-0-	-0-	-0-	20,908,226
Contract services	74,879,934	3,271,846	78,151,780	97,084	1,334,286	1,242,207	(1,358,672)	79,466,685
Rent and leases	7,246,058	476,767	7,722,825	19,660	4,196	-0-	(17,957)	7,728,724
Utilities, supplies, and other	36,542,468	2,581,822	39,124,290	517,700	582,758	212,002	(11,161,593)	29,275,157
Hospital assessment fee	20,582,792	1,323,340	21,906,132	-0-	-0-	-0-	-0-	21,906,132
Depreciation and amortization	23,239,077	1,162,530	24,401,607	2,401	3,851	-0-	-0-	24,407,859
Interest	10,832,702	703	10,833,405	-0-	-0-	1,026	-0-	10,834,431
Total operating expenses	404,257,270	21,462,879	425,720,149	1,161,743	2,350,234	7,110,108	(12,538,222)	423,804,012
Income (loss) from operations	51,379,289	2,466,245	53,845,534	(19,543)	(607,530)	2,996,045	-0-	56,214,506
Nonoperating gains (losses)								
Investment return, net	2,163,853	1,884	2,165,737	52,420	-0-	-0-	-0-	2,218,157
Other	1,301,734	(1,176)	1,300,558	-0-	-0-	-0-	(953,330)	347,228
Total nonoperating gains (losses)	3,465,587	708	3,466,295	52,420	-0-	-0-	(953,330)	2,565,385
Excess of revenue over (under) expenses	\$ 54,844,876	\$ 2,466,953	\$ 57,311,829	\$ 32,877	\$ (607,530)	\$ 2,996,045	\$ (953,330)	\$ 58,779,891

See Report of Independent Auditors on Pages 1 - 3.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF PROPERTY AND EQUIPMENT OF MORTGAGOR
YEAR ENDED DECEMBER 31, 2019

	<u>Mortgagor</u>	<u>Other Activities</u>	<u>Union Health System</u>
Land and improvements	\$ 34,296,504	\$ 3,973,442	\$ 38,269,946
Buildings and fixed equipment	374,698,716	5,740,487	380,439,203
Movable equipment	<u>185,386,285</u>	<u>-0-</u>	<u>185,386,285</u>
	594,381,505	9,713,929	604,095,434
Less allowances for depreciation	340,871,853	7,046,409	347,918,262
Construction in progress	366,455	-0-	366,455
Total property and equipment, net	<u>\$ 253,876,107</u>	<u>\$ 2,667,520</u>	<u>\$ 256,543,627</u>

See Report of Independent Auditors on Pages 1 - 3.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2019

Grantor/Pass-through Grantor/Program	Grant ID #	CFDA Number	Federal Expenditures
Major program			
U.S. Department of Housing and Urban Development Mortgage Insurance - Hospitals Section 242 *	073-22274	14.128	\$ 242,493,940
Non-major programs			
U.S. Department of Health and Human Services			
Pass through Health Resources and Services Administration (HRSA)			
Bureau of Health Workforce			
Primary Care Training and Enhancement	TOBHP28564-04	93.884	139,199
Primary Care Training and Enhancement	TOBHP28564-05	93.884	59,902
Total for CFDA 93.884			<u>199,101</u>
Pass through HRSA Office of Advancement of Telehealth			
Substance Abuse Treatment Network Grant Program	H1WRH31447-02	93.211	129,704
Substance Abuse Treatment Network Grant Program	H1WRH31447-03	93.211	22,091
Evidence-Based Tele-emergency Network Grant Program	G01RH32154-01	93.211	96,519
Evidence-Based Tele-emergency Network Grant Program	G01RH27871-04	93.211	-0-
Total for CFDA 93.211			<u>248,314</u>
Pass through Indiana State University			
Indiana Area Health Education Centers Network	2U77HP23068-08-00	93.107	20,000
U.S. Department of Health and Human Services			
Healthy Start Communities That Care			
Healthy Start Initiative - Eliminating Racial/Ethnic Disparities	H49MC32727-01	93.926	292,580
Total non-major programs			<u>759,995</u>
Total federal expenditures			<u>\$ 243,253,935</u>

* The U.S. Department of Housing and Urban Development – Mortgage Insurance for Hospital’s loan program continues to have compliance requirements. The amount noted as federal expenditures represents the remaining outstanding loan balance at the end of the year.

There were no entities that received pass-through federal awards from the Union Health System, Inc. and Subsidiaries (the System) during the year ended December 31, 2019.

Note A - Basis of Presentation – The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of the System under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Because the SEFA presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the System.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2019

Note B - Summary of Significant Accounting Policies – Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The System has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.



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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, 2019 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 23, 2020.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 23, 2020



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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Union Health System, Inc.'s (the System) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2019. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the System's compliance.

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

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
April 23, 2020

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED DECEMBER 31, 2019

Summary of Auditor's Results

Consolidated Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes none reported

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes none reported

Federal Awards

Internal controls over major programs:

Material weakness(es) identified? yes none reported

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none noted

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported as defined by Uniform Guidance [2 CFR 200.516(a)]? yes no

Identification of major program:

CFDA Number

14.128

Name of Federal Program or Cluster

U.S. Department of Housing and Urban Development
Mortgage Insurance - Hospitals Section 242

Dollar threshold used to distinguish between type A and B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

Section II – Findings related to financial statements reported in accordance with Government Auditing Standards:

No matters reported

Section III – Findings and questioned costs relating to Federal awards:

No matters reported

Section IV – Summary schedule of prior audit findings:

No matters reported