



**FINANCIAL STATEMENTS**

**JUNE 30, 2020 AND 2019**

*CPAs / ADVISORS*



**MARION GENERAL HOSPITAL, INC.**

TABLE OF CONTENTS  
JUNE 30, 2020 AND 2019

---

	Page
<b>Report of Independent Auditors</b> .....	1
<b>Financial Statements</b>	
Balance Sheets .....	3
Statements of Operations and Changes in Net Assets .....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7
<b>Reporting Under <i>Government Auditing Standards</i></b>	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed In Accordance with <i>Government Auditing Standards</i> .....	34

---



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

## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of Marion General Hospital, Inc. (the Hospital), which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit of the 2020 financial statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The 2019 financial statements were not audited under *Government Auditing Standards* and were audited in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2020 and 2019, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2020, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

**Blue & Co., LLC**

Indianapolis, Indiana  
October 7, 2020

**MARION GENERAL HOSPITAL, INC.**BALANCE SHEETS  
JUNE 30, 2020 AND 2019

---

	2020	2019
<b>Current assets</b>		
Cash	\$ 36,658,197	\$ 8,144,406
Account receivable		
Patient services	22,703,824	23,581,628
Physician services	2,091,085	3,166,527
Other	1,543,770	458,828
Inventories	2,264,928	2,052,978
Current portion of notes receivable	872,264	926,265
Prepaid expenses	2,400,003	3,064,771
Total current assets	68,534,071	41,395,403
<b>Assets limited as to use</b>		
Board designated funds	259,954,742	253,893,430
Trustee held	85	1,393,016
Total assets limited as to use	259,954,827	255,286,446
<b>Property and equipment, net</b>	78,011,201	82,804,360
<b>Other assets</b>		
Investment in joint ventures	1,531,804	1,446,459
Notes receivable, net	1,973,080	2,139,032
Operating lease right-of-use assets	5,028,665	-0-
Goodwill and other intangible assets, net	3,085,557	3,489,859
Other	3,144,208	2,640,330
Total other assets	14,763,314	9,715,680
Total assets	<u>\$ 421,263,413</u>	<u>\$ 389,201,889</u>

---

See accompanying notes to financial statements.

**MARION GENERAL HOSPITAL, INC.**BALANCE SHEETS  
JUNE 30, 2020 AND 2019**LIABILITIES AND NET ASSETS**

	<u>2020</u>	<u>2019</u>
<b>Current liabilities</b>		
Accounts payable	\$ 5,105,279	\$ 5,196,908
Accrued liabilities		
Salaries and related liabilities	8,460,370	6,172,852
Interest	717,486	761,940
Other	274,719	304,220
Estimated third-party settlements	16,235,680	671,595
Refundable advances	6,066,794	-0-
Current portion of long-term debt	2,175,000	2,110,000
Current portion of operating lease liabilities	1,535,432	-0-
Total current liabilities	<u>40,570,760</u>	<u>15,217,515</u>
<b>Long-term liabilities</b>		
Long-term debt, less current portion	56,557,526	58,701,377
Operating lease liabilities, less current portion	3,517,028	-0-
Pension liability	20,117,900	21,208,153
Other long-term liabilities	1,208,860	1,274,025
Total long-term liabilities	<u>81,401,314</u>	<u>81,183,555</u>
 Total liabilities	 121,972,074	 96,401,070
<b>Net assets</b>		
Undesignated	39,336,597	38,907,389
Designated	259,954,742	253,893,430
Total net assets without donor restrictions	<u>299,291,339</u>	<u>292,800,819</u>
Total liabilities and net assets	<u>\$ 421,263,413</u>	<u>\$ 389,201,889</u>

See accompanying notes to financial statements.

## MARION GENERAL HOSPITAL, INC.

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

	2020	Restated 2019
<b>Revenues</b>		
Patient service revenue	\$ 183,662,720	\$ 180,002,046
Other revenue	6,748,960	1,879,953
Net assets released from restrictions	-0-	10,155
Total revenues	190,411,680	181,892,154
<b>Expenses</b>		
Salaries and wages	73,494,676	65,842,280
Employee benefits	16,428,391	16,178,980
Physician services	7,420,586	8,141,401
Professional services	11,069,353	11,748,293
Medical supplies	12,751,348	12,246,591
Drugs and IV solutions	12,294,842	10,070,849
Food	925,839	921,353
Purchased services	12,934,100	14,878,247
Rent	2,367,021	2,231,223
Plant and equipment maintenance	5,184,870	5,486,994
Utilities	2,305,164	2,196,607
Nonmedical supplies	2,604,778	2,291,232
Leased property	1,403,597	1,305,467
Other	2,084,751	1,638,831
Insurance	1,815,340	1,783,059
HAF and HIP programs	12,060,945	11,709,760
Interest	1,882,229	2,027,695
Depreciation and amortization	11,093,170	11,139,021
Total expenses	190,121,000	181,837,883
Operating income	290,680	54,271
<b>Nonoperating</b>		
Investment return and other, net	7,084,920	12,127,646
Net periodic pension cost	(2,872,653)	(3,060,335)
Contributions, gifts, and bequests	24,667	1,113,818
Excess of revenues over expenses	4,527,614	10,235,400
<b>Other changes</b>		
Pension related changes other than net periodic pension cost	1,962,906	(162,181)
Change in net assets without donor restrictions	6,490,520	10,073,219
<b>Change in net assets with donor restrictions</b>		
Net assets released from restrictions	-0-	(10,155)
Change in net assets	6,490,520	10,063,064
<b>Net assets</b>		
Beginning of year	292,800,819	282,737,755
End of year	\$ 299,291,339	\$ 292,800,819

See accompanying notes to financial statements.

# MARION GENERAL HOSPITAL, INC.

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

	2020	2019
<b>Operating activities</b>		
Change in net assets	\$ 6,490,520	\$ 10,063,064
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	11,093,170	11,139,021
Amortization of debt issuance costs and premium	31,149	32,421
Amortization of notes receivable	1,502,398	1,437,249
(Gain) loss on disposal of property and equipment	(34,258)	9,929
Contribution of property and equipment	-0-	(1,095,000)
Unrealized (gain) loss on investments	542,295	(5,820,630)
Realized loss on sale of investments	50,308	2,284,037
Gain on equity in joint ventures	(910,292)	(752,869)
Changes in operating assets and liabilities:		
Accounts receivable	1,953,246	(2,633,581)
Accrued interest, inventories, prepaid expenses, and other current assets	(632,124)	(944,391)
Other long-term assets	(5,617,887)	(490,789)
Pension liability	(1,090,253)	1,222,516
Accounts payable and accrued liabilities	6,805,322	(2,215,013)
Refundable advances	6,066,794	-0-
Estimated third-party settlements	15,564,085	(1,180,007)
Net cash flows from operating activities	41,814,473	11,055,957
<b>Investing activities</b>		
Additions to property and equipment	(5,606,847)	(5,013,728)
Proceeds from the sale of property and equipment	49,302	3,492
Proceeds from the sale or maturity of investments	64,686,920	68,106,742
Business acquisition	-0-	(1,700,000)
Purchases of investments	(69,370,387)	(72,899,394)
Dividends received from joint ventures	332,775	254,893
Advances on notes receivable	(1,446,373)	(1,246,794)
Payments received on notes receivable	163,928	248,860
Net cash flows from investing activities	(11,190,682)	(12,245,929)
<b>Financing activities</b>		
Repayments of long-term debt	(2,110,000)	(2,040,000)
Net change in cash	28,513,791	(3,229,972)
<b>Cash</b>		
Beginning of year	8,144,406	11,374,378
End of year	\$ 36,658,197	\$ 8,144,406
<b>Supplemental cash flows information</b>		
Interest paid, net of amounts capitalized of approximately \$45,000 and \$37,000 in 2020 and 2019, respectively	\$ 1,926,683	\$ 2,042,130
Contribution of property and equipment	\$ -0-	\$ 1,095,000
Property and equipment included in accounts payable	\$ 303,907	\$ 622,731
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,584,251	\$ -0-
Right-of-use assets obtained in exchange for lease obligations:		
Operating lease	\$ 6,612,916	\$ -0-

See accompanying notes to financial statements.



# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

#### Organization

Marion General Hospital, Inc. (the Hospital), a not-for-profit corporation, provides inpatient and outpatient services primarily to residents from Grant County and surrounding areas. The Hospital operates an acute care general hospital with 113 acute care beds, 20 nursery beds, and 18 inpatient acute rehabilitation beds. The Hospital was formed in 1902 and is located in Marion, Indiana.

#### Basis of Accounting

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

#### Use of Estimates

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

#### Cash

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

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

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

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients

---

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

in the Hospital receiving inpatient acute care services or patients receiving services in our outpatient centers or in their homes. The Hospital measures the performance obligation from admission into the Hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. The method of reimbursement for the Hospital is fee for service. The timing of revenue and recognition for health care services is transferred over time.

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

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

### Inventories

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

### Assets Limited as to Use

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

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

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

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

These estimated values may differ significantly from the values that would have been used had a ready market for the investments in the investment funds existed and the difference could be material. Private equity funds totaled approximately \$14,077,000 (5.4% of assets limited as to use) and \$16,713,000 (6.5% of assets limited to use) as of June 30, 2020 and 2019, respectively.

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

### Property, Equipment, and Depreciation

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

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

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

### Unamortized Debt Issuance Costs and Original Issue Discounts

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

---

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

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

### Notes Receivable

Notes receivable are comprised of loans and advances to certain physicians, tuition advances to various employees and prospective employees, and recruitment loan advances to various employees in amounts ranging from approximately \$240 to \$86,000. These notes receivable mature due through July 2047.

### Leases

The Hospital determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities on the balance sheet.

ROU assets represent the Hospital's right to use an underlying asset for the lease term and lease liabilities represent the Hospital's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Hospital's leases do not provide an implicit rate, the Hospital's uses an incremental borrowing rate based on the estimated rate of interest for collateralized borrowing at commencement date. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Hospital will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

### Business Combinations, Goodwill and Other Intangible Assets

The Hospital accounts for a business combination using the acquisition method of accounting, and accordingly, the net assets of the acquired entity are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets, if any. Effective July 1, 2019, the Hospital early adopted the FASB Accounting Standards Update (ASU) No. 2019-06, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958), Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. Under this ASU, the Hospital amortizes goodwill on a straight-line basis over a period not to exceed ten years, tests for impairment upon a triggering event, and elected to test for impairment at the entity level in the case of a triggering event. Other intangible assets are amortized on a straight-line basis over a period ranging from two to seven years.

Goodwill and other intangible assets, at cost, approximated \$3,490,000 as of June 30, 2020 and 2019 with accumulated amortization of \$814,000 and \$410,000, respectively. Amortization of goodwill is expected to be \$318,000 annually for the years ending June 30, 2021 through 2023, \$310,000 for the years ending June 30, 2024 and 2025 and \$1,102,000 thereafter.

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

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

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

### Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are available for operating purposes under the direction of the board of directors or designated by the board of directors for specific use. Net assets with donor restrictions are subject to donor stipulations for specific operating purposes or time restrictions including donor restrictions requiring the net assets to be held in perpetuity or for a specified term with investment return available for operations or specific purpose. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. There were no net assets with donor restrictions as of June 30, 2020 and 2019.

### Excess Revenues over Expenses

The statements of operations and changes in net assets include a performance indicator, excess revenues over expenses. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Transactions incidental to the provision of patient care services are reported as nonoperating. Changes in net assets without donor restrictions, which are excluded from the performance indicator, consistent with industry practice for 2020 and 2019, include pension related changes other than net periodic pension cost and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purposes of acquiring such assets).

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

### Contributions

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

### Estimated Malpractice Costs

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

### Income Taxes

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital, and has concluded that as of June 30, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Hospital filed its federal and state income tax returns for periods through June 30, 2019. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

### Reclassification

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation. The reclassifications had no effect on previously reported net assets or change in net assets.

---

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

### Going Concern Evaluation

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

### Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements were issued which was October 7, 2020.

## **2. CHANGE IN ACCOUNTING PRINCIPLES**

### ASU No. 2016-02

On July 1, 2019, the Hospital early adopted the FASB ASU No. 2016-02, *Leases (Topic 842)* (ASU 842). The lease standard in ASC 842 intended to improve financial reporting about leasing transactions by requiring entities to recognize on the 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 ASC 842) of twelve months or less are not required to be reflected on an entity's balance sheet. The Hospital applied the modified retrospective approach to all operating lease agreements when adopting ASC 842. ASC 842 was applied retrospectively to the beginning of the period of adoption through a cumulative-effective adjustment recognized as of July 1, 2019. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance. The adoption of ASC 842 had a material impact on the balance sheets, but did not have a material impact on the statement of operations. As of July 1, 2019, the Hospital's total assets and total liabilities increased by approximately \$6,613,000 as a result of ASC 842. The most significant impact was the recognition of ROU assets and operating lease liabilities for operating leases. The Hospital utilized the package of practical expedients allowing the Hospital to not reassess whether any expired or existing contracts contain a lease, the classification for any expired or existing leases or the initial direct costs for any existing leases. The Hospital has also elected to apply an exemption for short term leases whereby leases with initial lease terms of one year or less are not recorded on the balance sheet.

### ASU No. 2017-07

On July 1, 2019, the Hospital adopted the FASB ASU 2017-07 *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard requires entities to report the service cost component in the same line as other compensation costs arising from services rendered during the period and to report all other components of net periodic benefit cost outside of operating income (loss). The Hospital retrospectively restated the employee benefits expense and net periodic pension cost by removing the net periodic pension cost from employee benefits expense and separately reporting this outside of operating income (loss). There is no service cost included in employee benefits expense for 2020 and 2019. The Hospital used the practical expedient allowable under the standard which permits the Hospital to use amounts disclosed in the 2019 pension footnote for the prior period restatement.

---

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

The 2019 balance sheet, statement of cash flows and total change in net assets were not impacted by the ASU. The following table is a summary of the restatement for 2019:

	June 30, 2019		
	Previously Reported	Adjustment	Restated
Statement of operations and changes in net assets			
Employee benefits	\$ 19,239,315	\$ (3,060,335)	\$ 16,178,980
Total expenses	\$ 184,898,218	\$ (3,060,335)	\$ 181,837,883
Operating income (loss)	\$ (3,006,064)	\$ 3,060,335	\$ 54,271
Nonoperating			
Net periodic pension cost	\$ -0-	\$ (3,060,335)	\$ (3,060,335)

### ASU 2018-08

On July 1, 2019, the Hospital adopted the FASB ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. ASU 2018-08 clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. Additionally, the amendments in this ASU require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return on assets transferred or a right of release of a promisor's obligation to transfer assets. Finally, ASU 2018-08 amends the "simultaneous release accounting policy" to allow a not-for-profit entity to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. The adoption of ASU 2018-08 did not have a material impact on the 2020 financial statements.

### ASU 2018-13

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

### ASU 2019-06

On July 1, 2019, the Hospital adopted the FASB issued ASU 2019-06, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958), Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. The accounting alternatives in this ASU, will reduce for preparers the cost and complexity associated with the subsequent accounting for goodwill and the accounting for certain items that currently are considered to be identifiable intangible assets for not-for-profit entities. The Hospital should

---



# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

amortize goodwill on a straight-line basis over a period not to exceed ten years, test for impairment upon a triggering event, and have the option to elect to test for impairment at the entity level. This ASU also provides not-for-profit entities with an alternative to subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently from the other assets of a business and all noncompetition agreements acquired.

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

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2020 or 2019. As of June 30, 2020, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through June 30, 2018.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For 2020 and 2019, adjustments were recognized due to changes in the Hospital's estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. Subsequent changes that are significant and determined to be the result of an adverse change in the patient's ability to pay, determined on a portfolio basis, are recorded as bad debt expense.

---

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients. Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized. The following table provides details of these factors. The composition of patient service revenue by primary payor for 2020 and 2019 is as follows:

	2020	2019
Medicare	\$ 60,696,608	\$ 64,130,233
Medicaid	25,301,986	27,114,534
Blue Cross	59,636,177	51,972,872
Commercial	34,784,166	34,874,366
Self-pay, welfare, and contract	3,243,783	1,910,041
	<u>\$ 183,662,720</u>	<u>\$ 180,002,046</u>

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

	2020	2019
Patient service revenue		
Inpatient services	\$ 101,114,468	\$ 111,103,056
Outpatient services	360,593,396	355,795,119
Physician practice services	63,265,875	53,940,637
Financial assistance	(16,111,898)	(16,168,792)
	508,861,841	504,670,020
Contractual allowances	(312,367,497)	(311,364,814)
	196,494,344	193,305,206
Implicit price concessions	(12,831,624)	(13,303,160)
Patient service revenue	<u>\$ 183,662,720</u>	<u>\$ 180,002,046</u>

---

## MARION GENERAL HOSPITAL, INC.

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

The Hospital grants credit without collateral to its patients, most of whom are local residents and are generally insured under third-party payor agreements. The mix of receivables as of June 30 2020 and 2019 and revenue for the years then ended from patients and third-party payors follows:

	Receivables		Revenue	
	2020	2019	2020	2019
Medicare	37%	33%	33%	36%
Medicaid	12%	15%	14%	15%
Blue Cross	15%	10%	32%	29%
Commercial	14%	17%	19%	19%
Self-pay, welfare, and contract	22%	25%	2%	1%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

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

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

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

### Financial Assistance, Community Benefit and Assistance to the Uninsured

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

Financial assistance provided during 2020 and 2019, measured at established rates, was approximately \$16,112,000 and \$16,169,000, respectively. Medicaid expansion, combined with other health care reform initiatives, increased insurance coverage for patients who were previously uninsured. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The Hospital receives reimbursements from certain governmental payors to assist in the funding of financial assistance.

Of the Hospital's total expenses reported during 2020 and 2019, an estimated \$6,020,000 and \$5,826,000, respectively, arose from providing services to charity patients. The estimated costs of providing financial assistance services are based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses to gross patient service revenue.

The Hospital has a policy for uninsured patients with discounted rates similar to contractual payors. Uninsured self-pay discounts provided to patients were approximately \$7,962,000 and \$9,104,000 in 2020 and 2019, respectively. This policy did not change during 2020 or 2019.

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

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

---

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Hospitals also fund HIP, the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program but the funding includes physician, state administration, and certain non-hospital expenditures. During 2020 and 2019, the Hospital recognized HAF and HIP program expense of approximately \$12,061,000 and \$11,710,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP program expense is included in the statements of operations and changes in net assets as an operating expense. The Medicaid rate increases under the HAF Program are included in patient service revenue in the statements of operations and changes in net assets.

During 2020 and 2019, the Hospital did not record any revenue related to Medicaid DSH payments.

### 4. ASSETS LIMITED AS TO USE

Assets limited as to use include assets set aside by the Board of Directors primarily for capital improvements and funds held by trustee subject to indenture agreements. Assets limited as to use that are required for certain obligations classified as current liabilities are reported in current assets. A description and the carrying value of the assets limited as to use by the Board of Directors is as follows as of June 30, 2020 and 2019:

	2020	2019
Cash	\$ 3,071,733	\$ 550,444
Mutual funds	200,120,797	206,400,822
Private equity funds	14,076,505	16,713,202
Fixed income securities	42,685,707	\$ 30,228,962
Total board designated funds	259,954,742	253,893,430
Cash held by trustee	85	1,393,016
Total assets limited as to use	<u>\$ 259,954,827</u>	<u>\$ 255,286,446</u>

The cash held by trustee relates to the Indiana Financing Authority, Hospital revenue bonds, Series 2012A, Interest fund.

Investment return is comprised of the following for 2020 and 2019:

	2020	2019
Other nonoperating gains (losses)		
Investment return		
Interest and dividends	\$ 6,767,231	\$ 7,838,184
Net realized loss on investments	(50,308)	(2,284,037)
Unrealized gain (loss) on investments	(542,295)	5,820,630
Other gain		
Gain on equity in joint ventures	910,292	752,869
	<u>\$ 7,084,920</u>	<u>\$ 12,127,646</u>

---

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

### 5. FAIR VALUE MEASUREMENTS

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2020 and 2019:

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

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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

	June 30, 2020			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Assets limited as to use				
Mutual funds				
Fixed income	\$ 56,080,218	\$ 56,080,218	\$ -0-	\$ -0-
Global bond	22,192,184	22,192,184	-0-	-0-
International	47,932,243	47,932,243	-0-	-0-
Large cap	62,789,046	62,789,046	-0-	-0-
Small cap	6,800,402	6,800,402	-0-	-0-
Natural resources	4,326,704	4,326,704	-0-	-0-
Total mutual funds	200,120,797	\$ 200,120,797	\$ -0-	\$ -0-
Debt securities				
Government bonds	6,784,247	-0-	6,784,247	-0-
Mortgage-backed securities	2,799,230	-0-	2,799,230	-0-
Municipal bonds	3,831,714	-0-	3,831,714	-0-
Corporate bonds	25,172,801	-0-	25,172,801	-0-
Asset-backed securities	2,398,341	-0-	2,398,341	-0-
Other	1,699,374	-0-	1,699,374	-0-
Total fixed income securities	42,685,707	-0-	42,685,707	-0-
		<u>\$ 200,120,797</u>	<u>\$ 42,685,707</u>	<u>\$ -0-</u>
Private equity funds (a)	14,076,505			
Cash	3,071,818			
	<u>\$ 259,954,827</u>			
	June 30, 2019			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Assets limited as to use				
Mutual funds				
Fixed income	\$ 70,213,116	\$ 70,213,116	\$ -0-	\$ -0-
Global bond	16,302,668	16,302,668	-0-	-0-
International	47,888,992	47,888,992	-0-	-0-
Large cap	57,808,135	57,808,135	-0-	-0-
Small cap	9,177,020	9,177,020	-0-	-0-
Natural resources	5,010,891	5,010,891	-0-	-0-
Total mutual funds	206,400,822	\$ 206,400,822	\$ -0-	\$ -0-
Debt securities				
US Treasuries	9,904,779	-0-	9,904,779	-0-
Mortgage-backed securities	3,342,323	-0-	3,342,323	-0-
Municipal bonds	2,393,655	-0-	2,393,655	-0-
Corporate bonds	12,294,054	-0-	12,294,054	-0-
Asset-backed securities	2,294,151	-0-	2,294,151	-0-
Total fixed income securities	30,228,962	-0-	30,228,962	-0-
		<u>\$ 206,400,822</u>	<u>\$ 30,228,962</u>	<u>\$ -0-</u>
Private equity funds (a)	16,713,202			
Cash	1,943,460			
	<u>\$ 255,286,446</u>			

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

## MARION GENERAL HOSPITAL, INC.

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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

#### Fair Value of Investments in Entities that Use NAV

The following table summarizes investments measured at fair value based on NAV per share as of June 30, 2020 and 2019.

Investment	Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	2020	2019			
Saville Row Hedged Equity	<u>\$ 14,076,505</u>	<u>\$ 16,713,202</u>	None	January 1, April 1, July 1, & October 1	55-70 days

## 6. PROPERTY AND EQUIPMENT

Property, equipment, and their estimated useful lives are as follows as of June 30, 2020 and 2019:

	2020	2019	Range of estimated useful lives
Land	\$ 5,191,829	\$ 5,191,829	
Land improvements	3,353,531	3,353,531	10-20 years
Buildings	68,855,462	67,803,411	5-40 years
Medical office buildings	18,730,730	18,191,537	5-40 years
Building service equipment	55,073,046	53,657,684	5-25 years
Leasehold improvements	3,756,061	3,551,213	15-20 years
Fixed equipment	3,509,530	3,509,530	10-20 years
Major movable equipment	72,943,656	70,915,959	2-20 years
Vehicles	1,059,245	1,030,564	4 years
	<u>232,473,090</u>	<u>227,205,258</u>	
Accumulated depreciation	(154,909,526)	(145,192,062)	
Construction in progress	447,637	791,164	
	<u>\$ 78,011,201</u>	<u>\$ 82,804,360</u>	

The Hospital capitalizes interest cost as a component cost of significant construction and renovation projects. Interest cost capitalized was approximately \$45,000 and \$37,000 in 2020 and 2019, respectively. Investment income earned on unexpended debt proceeds administered by a trustee for specific projects is offset against the amount of interest cost capitalized. Such amounts were not significant to the financial statements as a whole during 2020 and 2019.



# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

Subsequent to June 30, 2020, the Hospital entered into agreements to acquire property of approximately \$9,000,000. The Hospital intends on financing the transaction through the issuance of long-term debt. The Hospital has termination rights on the agreements, contingent on inspections of the underlying property. As of the date the financial statements were issued, the transactions had not been finalized.

### 7. INVESTMENT IN JOINT VENTURES

The Hospital has an equity interest in a joint venture to operate a cancer care center (Progressive Cancer Center, LLC) in Marion, Indiana. As of June 30, 2020 and 2019, Hospital's ownership in Progressive Cancer Center, LLC is approximately 52% and 51%, respectively. The Hospital accounts for the investment under the equity method of accounting, as the governance structure is such that the Hospital cannot exercise control. The Hospital recognized a gain of approximately \$418,000 and \$221,000 related to its investment in Progressive Cancer Center, LLC for 2020 and 2019, respectively. The Hospital received dividend distributions during 2020 and 2019 of \$333,000 and \$255,000 respectively. The gain is included in investment income, net in the statements of operations and changes in net assets.

The following is the unaudited condensed financial information of Progressive Cancer Care, LLC as of and for the years ended June 30, 2020 and 2019:

	2020	2019
Total assets	\$ 3,855,015	\$ 3,791,026
Total liabilities	\$ 926,695	\$ 943,890
Total equity	\$ 2,928,320	\$ 2,847,136
Total revenue	\$ 2,505,997	\$ 2,083,299
Net income	\$ 820,548	\$ 433,801

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

### 8. LONG-TERM DEBT

Long-term debt consists of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Indiana Finance Authority		
Hospital revenue bonds, Series 2015A		
Variable rate securities, payable through June 2041, variable rate interest of 0.85% at June 30, 2020	\$ 27,580,000	\$ 29,005,000
Hospital revenue bonds, Series 2012A		
Serial bonds payable through July 1, 2029, interest from 2.000% to 5.000%	14,765,000	15,450,000
Term bonds with final redemption on July 1, 2032, interest at 4.375%	8,820,000	8,820,000
Term bonds with final redemption on July 1, 2036, interest at 5.000%	7,900,000	7,900,000
	<u>59,065,000</u>	<u>61,175,000</u>
Unamortized premium	177,181	195,580
Current portion	(2,175,000)	(2,110,000)
Unamortized debt issue costs	(509,655)	(559,203)
	<u>\$ 56,557,526</u>	<u>\$ 58,701,377</u>

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

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

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

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

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

The Hospital granted a security interest in its gross revenue (as defined under the master trust indenture) as collateral for the Series 2015A and 2012A bonds. In addition to various financial covenants, the Hospital covenants that it will not permit any lien or security interest on the Hospital's property and equipment other than certain permitted encumbrances. The Hospital believes it was in compliance with the financial covenants as of June 30, 2020 and 2019.

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

Year Ending June 30,	
2021	\$ 2,175,000
2022	2,240,000
2023	2,305,000
2024	2,385,000
2025	2,460,000
Thereafter	47,500,000
	<u>\$ 59,065,000</u>

### 9. OPERATING LEASES – RIGHT OF USE (ROU) ASSETS AND RELATED LIABILITIES

The Hospital has various operating leases for buildings and equipment. The leases have remaining lease terms ranging from one year to five years. The components of operating lease ROU assets and liabilities as of June 30, 2020 and related expense for the year ended are as follows:

Operating leases	
Operating lease ROU assets	<u>\$ 5,028,665</u>
Current portion of operating lease liabilities	\$ 1,535,431
Operating lease liabilities, less current portion	<u>3,517,028</u>
Total operating lease liabilities	<u>\$ 5,052,459</u>
Operating lease cost	<u>\$ 1,778,146</u>

---

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

The weighted average remaining lease term for the operating leases was 3.72% as of June 30, 2020. The weighted average discount rate for 2020 was 2.74%.

The subsequent maturities of the lease liabilities are as follows:

Year Ending June 30,	
2021	\$ 1,654,001
2022	1,519,547
2023	975,243
2024	651,178
2025	<u>510,076</u>
Total payments	5,310,045
Imputed interest	<u>(257,586)</u>
	<u>\$ 5,052,459</u>

Rent expense under noncancelable leases amounted to approximately \$1,286,000 for 2019.

### 10. PENSION PLANS

#### Defined Benefit Plan

The Hospital has a noncontributory defined benefit pension plan (Pension Plan) covering substantially all employees of the Hospital hired before July 1, 2005. The funding policy is to contribute annually at least the minimum contribution required to comply with the Employee Retirement and Security Act (ERISA) regulations. Effective December 31, 2009, the Pension Plan was amended to calculate frozen benefits accrued under all prior benefit formulas as of December 31, 2009 (based on monthly plan compensation and service prior to December 31, 2009) and to add a new benefit formula for service after December 31, 2009 equal to 0.5% of monthly plan compensation per year of service earned after December 31, 2009.

Effective December 31, 2010, the Pension Plan was frozen and amended to cease all further benefit accruals under the Plan for participants with 5 or more years of vesting service as of December 31, 2006. Accruals for participants with less than 5 years of vesting service as of December 31, 2006 were frozen as of December 31, 2006. Additionally, there was no service cost for 2020 or 2019 in light of these changes to the Pension Plan.

## MARION GENERAL HOSPITAL, INC.

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

The following tables set forth the Pension Plan change in benefit obligation, change in plan assets, and weighted average assumptions as of June 30, 2020 and 2019 (Measurement Date):

	<u>2020</u>	<u>2019</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 93,627,846	\$ 91,684,624
Interest cost	2,862,842	3,533,742
Actuarial (gain)/loss	7,589,605	6,040,507
Benefit payments	<u>(5,015,385)</u>	<u>(7,631,027)</u>
Projected benefit obligation, end of year	99,064,908	93,627,846
Changes in plan assets		
Fair value of plan assets, beginning of year	72,419,693	71,698,987
Actual return on plan assets	9,542,700	6,351,733
Employer contributions	2,000,000	2,000,000
Benefit payments	<u>(5,015,385)</u>	<u>(7,631,027)</u>
Fair value of plan assets, end of year	<u>78,947,008</u>	<u>72,419,693</u>
Unfunded status		
Unfunded status of the plan, end of year	<u>\$ (20,117,900)</u>	<u>\$ (21,208,153)</u>
Amounts recorded in the balance sheet consist of		
Pension liability	<u>\$ (20,117,900)</u>	<u>\$ (21,208,153)</u>

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

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

The Hospital's overall expected long-term rate of return on assets is 4.31% for determining net periodic pension cost and benefit obligation cost for 2020. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The expected amortization of actuarial loss for the year ending June 30, 2021 is approximately \$2,730,000.

**MARION GENERAL HOSPITAL, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

The following table sets forth the components of net periodic benefit cost for the 2020 and 2019 for the Pension Plan:

	2020	2019
Amounts not yet reflected in net periodic benefit cost and included in other changes in unrestricted net assets		
Actuarial loss	\$ 25,552,131	\$ 27,515,037
Components of net periodic benefit cost		
Interest cost	2,862,842	3,533,742
Expected return on plan assets	(3,046,124)	(3,550,293)
Amortization of loss	3,055,935	3,076,886
Net periodic benefit cost	\$ 2,872,653	\$ 3,060,335
Weighted-average actuarial assumptions to determine net periodic pension cost of June 30		
Discount rate	3.15%	3.97%
Expected long-term rate of return on assets	4.31%	5.07%
Weighted-average actuarial assumptions to determine benefit obligation cost of June 30		
Discount rate	2.27%	3.15%
Expected long-term rate of return on assets	4.31%	4.31%

The Pension Plan asset target allocation for 2020, as well as the allocation as of June 30, 2020 and 2019, by asset category are as follows:

	Target Allocation	Percentage of Plan assets	
Asset category	2021	2020	2019
Fixed income and cash equivalents	100%	100%	100%

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

**MARION GENERAL HOSPITAL, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

The following is a breakdown of assets held by the Plan as of June 30, 2020 and 2019:

	June 30, 2020			
	Total	Level 1	Level 2	Level 3
Mutual funds				
Bonds	\$ 3,602,372	\$ 3,602,372	\$ -0-	\$ -0-
Foreign	2,463,211	2,463,211	-0-	-0-
Total mutual funds	6,065,583	6,065,583	-0-	-0-
Debt securities				
Government obligations	21,712,502	-0-	21,712,502	-0-
Municipal obligations	4,273,490	-0-	4,273,490	-0-
Corporate obligations	34,716,723	-0-	34,716,723	-0-
Treasury obligations	8,434,663	-0-	8,434,663	-0-
Total fixed income obligations	69,137,378	-0-	69,137,378	-0-
	75,202,961	\$ 6,065,583	\$ 69,137,378	\$ -0-
Cash	3,744,047			
	<u>\$ 78,947,008</u>			
	June 30, 2019			
	Total	Level 1	Level 2	Level 3
Mutual funds				
Bonds	\$ 3,473,585	\$ 3,473,585	\$ -0-	\$ -0-
Foreign	3,273,425	3,273,425	-0-	-0-
Total mutual funds	6,747,010	6,747,010	-0-	-0-
Debt securities				
Government obligations	35,763,232	-0-	35,763,232	-0-
Municipal obligations	421,182	-0-	421,182	-0-
Corporate obligations	28,114,249	-0-	28,114,249	-0-
Total fixed income obligations	64,298,663	-0-	64,298,663	-0-
	71,045,673	\$ 6,747,010	\$ 64,298,663	\$ -0-
Cash	1,374,020			
	<u>\$ 72,419,693</u>			

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

The Hospital expects to contribute \$2,000,000 to the Pension Plan in 2021.

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

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

Year Ending June 30,	
2021	\$ 5,196,000
2022	5,319,000
2023	5,356,000
2024	5,419,000
2025	5,535,000
2026-2030	27,523,000
	<u>\$ 54,348,000</u>

### Defined Contribution Plan

The Hospital has a 403(b) Employer Contributory Plan (the Plan) which permits employees of the Hospital to contribute to the Plan, on a pretax basis, up to the applicable limitations under Section 402(g)(l) of the Internal Revenue Code. The contributions made by each employee are fully vested immediately and are not subject to forfeiture. The Hospital matches contributions of 50% of the employee's contribution up to 6% of qualifying wages for all benefit eligible employees. Additionally, the Hospital can elect to make discretionary contributions to the Plan. Contributions made by the Hospital for 2020 and 2019 approximated \$1,213,000 and \$1,149,000, respectively. Employees are fully vested immediately on the employer match and discretionary contributions.

### **11. MEDICAL OFFICE BUILDINGS**

The Hospital owns medical office buildings in Marion, Gas City, Fairmount, and Swayzee, Indiana, and leases the buildings to physicians, physician groups, and others under various operating leases, which expire through 2024. Lease rental income of approximately \$292,000 and \$301,000 is included in other revenue in the statements of operations and changes in net assets for 2020 and 2019, respectively.

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

Year Ending June 30,	
2021	\$ 243,000
2022	143,000
2023	127,000
2024	38,000
	<u>\$ 551,000</u>

---



# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

### 12. MALPRACTICE INSURANCE

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

The Hospital is a member of a Vermont insurance company, Tecumseh Health Reciprocal Risk Retention Group (THRRRG), as a means to comply with the Hospital's required portion of the insurance coverage pursuant to the Act, as well as its liability insurance. Membership in THRRRG includes several hospitals as of June 30, 2020. The Hospital's investment in THRRRG of approximately \$2,613,000 and \$2,120,000 is included in other assets as of June 30, 2020 and 2019, respectively. The Hospital recognized a gain of \$492,000 and \$532,000 in 2020 and 2019 related to THRRRG, respectively. The gain is included in investment income and other, net on the statements of operations and changes in net assets.

The Hospital has estimated the reserve for loss contingencies using actuarial valuations in determining the estimated reserve for loss contingencies, including the incurred but not reported claims. Management of the Hospital has estimated a reserve for loss contingencies of approximately \$638,000 and \$641,000, respectively, as of June 30, 2020 and 2019 to cover malpractice exposures.

### 13. COMMITMENTS AND CONTINGENCIES

#### Regulatory Investigations

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

#### Legal Matters

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

#### Self-Insured Health Plan

The Hospital has a self-insurance plan for its employees' health care benefits. A third-party claims administrator has been retained to process all benefit claims. The plan purchased individual excess risk insurance to cover individual health claims in excess of \$250,000. The plan does not have an aggregate stop loss. Total expense was approximately \$8,949,000 for 2020 and \$9,343,000 for 2019.

## MARION GENERAL HOSPITAL, INC.

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

#### 14. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the 2020 and 2019 balance sheet date, comprise the following:

	2020	2019
Cash	\$ 36,658,197	\$ 8,144,406
Accounts receivable (patient and physician)	24,794,909	26,748,155
Other receivables	1,543,770	458,828
Current portion of notes receivable	872,264	926,265
	\$ 63,869,140	\$ 36,277,654

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

As a part of the Hospital's liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Hospital periodically invests excess cash in investments. The Hospital has board designated investments of approximately \$259,955,000 and \$253,893,000 as of June 30, 2020 and 2019, respectively. Although the Hospital does not intend to spend from these board designated funds (other than amounts appropriated for general expenditure), these amounts could be made available, if necessary.

#### 15. FUNCTIONAL EXPENSES

The Hospital provides inpatient, outpatient, and other ancillary services to the residents within its geographical region. Expenses related to providing these services for June 30, 2020 and 2019 are as follows:

	2020			2019		
	Healthcare Services	Management & General	Total	Healthcare Services	Management & General	Total
<b>Expenses</b>						
Salaries and wages	\$ 66,271,336	\$ 7,223,340	\$ 73,494,676	\$ 60,452,819	\$ 5,389,461	\$ 65,842,280
Employee benefits	14,027,747	2,400,644	16,428,391	14,202,325	1,976,655	16,178,980
Physician services	7,420,586	-0-	7,420,586	8,141,401	-0-	8,141,401
Professional services	8,407,265	2,662,088	11,069,353	8,872,782	2,875,511	11,748,293
Medical supplies	12,751,348	-0-	12,751,348	12,246,591	-0-	12,246,591
Drugs	12,294,842	-0-	12,294,842	10,070,849	-0-	10,070,849
Purchased services	10,347,280	2,586,820	12,934,100	11,902,598	2,975,649	14,878,247
Plant and equipment maintenance	4,147,896	1,036,974	5,184,870	4,389,595	1,097,399	5,486,994
Other	23,486,638	2,080,797	25,567,435	22,153,999	1,923,533	24,077,532
Interest	1,788,118	94,111	1,882,229	1,923,614	104,081	2,027,695
Depreciation and amortization	9,076,081	2,017,089	11,093,170	9,099,514	2,039,507	11,139,021
Total expenses	\$ 170,019,137	\$ 20,101,863	\$ 190,121,000	\$ 163,456,087	\$ 18,381,796	\$ 181,837,883

# MARION GENERAL HOSPITAL, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

---

Certain costs such as salaries and wages, employee benefits and physician services have been allocated among health care services and management and general categories based on actual direct expenditures incurred by departments, locations, and cost centers, and cost allocations based upon time spent by the Hospital's personnel. Other expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include professional services, purchased services, plant and equipment maintenance, other expenses, depreciation and amortization, and interest, which are allocated based on the ratio of direct costs charged to the category to total direct costs. Although the methods used were appropriate, alternative methods may provide different results. Fundraising costs were not significant to the Hospital in 2020 and 2019.

### **16. COVID-19**

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

During 2020, Provider Relief Fund (PRF) grants authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic primarily under Catalog of Federal Domestic Assistance (CFDA) #93.498. Revenues from PRF grants can be recognized to the extent of expenses incurred specific to responding to the COVID-19 pandemic. Eligible expenses must not be reimbursed from another source and not obligated to be reimbursed from another source. PRF grants that are not fully expended on eligible expenses can then be applied to lost revenues as defined by the guidance issued by the grantor. However, the current grantor guidance available to define eligible expenses and, more specifically, lost revenues related to the pandemic is evolving as of the date the financial statements were issued.

The Hospital received PRF grants of approximately \$10,746,000 during 2020. PRF funds are subject to recoupment by the grantor in the event that the conditions for recognition are not satisfied. The Hospital recognized PRF grants of \$4,679,000 in 2020 related to eligible expenses incurred. As of June 30, 2020, \$6,067,000 was recorded as refundable advances on the balance sheets.

The CARES Act also allowed health care providers to request accelerated and advanced payments for Medicare services. The Hospital requested and received approximately \$16,194,000 of accelerated and advanced Medicare payments under this CARES Act provision through the date the financial statements were issued. This is included in estimated third-party settlements on the balance sheets.



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

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

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

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Marion General Hospital, Inc. (the Hospital), which comprise the balance sheet as of June 30, 2020, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 7, 2020.

Internal Control over Financial Reporting

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

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

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

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

### Compliance and Other Matters

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

### Purpose of this Report

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

**Blue & Co., LLC**

Indianapolis, Indiana  
October 7, 2020