MARGARET MARY HEALTH

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018

CPAS / ADVISORS

blue

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Margaret Mary Health
Batesville, Indiana

We have audited the accompanying consolidated financial statements of Margaret Mary Community Hospital, Inc. d/b/a Margaret Mary Health (the Hospital), 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, functional expenses, 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. 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 Hospital’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 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 consolidated financial statements.

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

Board of Directors
Margaret Mary Health
Batesville, Indiana

Opinion

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

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective January 1, 2019, the Hospital adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) 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 supplementary information identified pages 27 through 30 is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary 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 supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
March 30, 2020

MARGARET MARY HEALTH

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Current assets		
Cash	$ 2,927,988	$ 1,566,114
Patient accounts receivable, net of allowance for uncollectible accounts of $7,634,000 in 2018	20,229,810	22,501,852
Inventories and other current assets	3,284,243	3,569,205
Current portion of assets whose use is limited	1,956,329	1,888,111
Total current assets	28,398,370	29,525,282
Assets whose use is limited		
Board designated for capital improvements	79,826,664	69,915,340
Board designated for retirement plans	1,380,100	1,380,000
Held by Foundation	2,958,553	2,230,216
Donor restricted	1,322,505	1,139,990
Held by trustee for debt service	121,667	118,750
	85,609,489	74,784,296
Less current portion	1,956,329	1,888,111
Assets whose use is limited - noncurrent	83,653,160	72,896,185
Property and equipment, net	61,951,196	63,862,612
Total assets	$ 174,002,726	$ 166,284,079

LIABILITIES AND NET ASSETS

	2019	2018
Current liabilities		
Accounts payable	$ 10,432,995	$ 8,008,461
Accrued wages and related liabilities	6,861,428	6,706,584
Estimated third-party settlements	2,455,642	2,175,808
Line of credit	4,000,000	2,250,000
Current portion of long-term debt	1,956,329	1,888,111
Total current liabilities	25,706,394	21,028,964
Other long-term liabilities	1,042,429	788,792
Derivative liability	1,380,683	1,163,739
Long-term debt, less current portion	18,920,367	20,859,394
Total liabilities	47,049,873	43,840,889
Net assets		
Without donor restrictions		
Undesignated	44,423,584	50,007,860
Board designated	81,206,764	71,295,340
Total without donor restrictions	125,630,348	121,303,200
With donor restrictions	1,322,505	1,139,990
Total net assets	126,952,853	122,443,190
Total liabilities and net assets	$ 174,002,726	$ 166,284,079

See accompanying notes to consolidated financial statements.

MARGARET MARY HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Revenue, gains and other support		
Net patient service revenue		$ 107,752,242
Less provision for bad debts		8,085,181
Net patient service revenue	$ 104,940,411	99,667,061
Other revenue	1,039,970	1,397,789
Total revenue, gains and other support	105,980,381	101,064,850
Expenses		
Salaries and wages	47,647,284	47,208,195
Employee benefits	15,079,330	12,584,983
Physician fees	5,897,927	4,063,793
Medical and surgical supplies	16,021,147	15,653,622
Other supplies	744,372	820,596
Purchased services	11,711,681	9,847,561
Equipment rentals	182,066	181,530
Food	453,114	518,909
Utilities	1,430,757	1,409,933
Insurance	639,933	695,904
Depreciation	8,452,808	7,983,703
Interest	976,402	1,024,967
Other	6,524,916	5,337,905
Total expenses	115,761,737	107,331,601
Operating loss	(9,781,356)	(6,266,751)
Nonoperating gain (loss)		
Contributions	482,626	521,489
Gain on disposal of property and equipment	-0-	17,099
Donation of land	-0-	(134,075)
Investment return, net	13,738,229	3,794,813
Unrealized gain (loss) on derivative	(216,944)	399,170
Net assets released from restriction	104,593	88,447
Total nonoperating gain (loss)	14,108,504	4,686,943
Revenue over (under) expenses	4,327,148	(1,579,808)
Other changes		
Unrealized loss on investments	-0-	(7,465,187)
Change in net assets without donor restrictions	4,327,148	(9,044,995)
Net assets with donor restrictions		
Contributions, gifts and bequests	287,108	137,596
Net assets released from restriction	(104,593)	(88,447)
Change in net assets with donor restrictions	182,515	49,149
Change in net assets	4,509,663	(8,995,846)
Net assets		
Beginning of year	122,443,190	131,439,036
End of year	$ 126,952,853	$ 122,443,190

See accompanying notes to consolidated financial statements.

MARGARET MARY HEALTH

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019				2018			
	Health Care Services	General and Administrative	Fundraising	Total	Health Care Services	General and Administrative	Fundraising	Total
Expenses								
Salaries and wages	$ 36,782,716	$ 10,682,752	$ 181,816	$ 47,647,284	$ 36,742,798	$ 10,286,785	$ 178,612	$ 47,208,195
Employee benefits	11,640,930	3,380,859	57,541	15,079,330	9,795,067	2,742,301	47,615	12,584,983
Physician fees	5,897,927	-0-	-0-	5,897,927	4,063,793	-0-	-0-	4,063,793
Medical and surgical supplies	15,993,946	27,201	-0-	16,021,147	15,642,412	11,210	-0-	15,653,622
Other supplies	224,979	511,970	7,423	744,372	283,657	528,926	8,013	820,596
Purchased services	4,064,495	7,635,373	11,813	11,711,681	3,849,409	5,989,016	9,136	9,847,561
Equipment rentals	179,668	2,398	-0-	182,066	181,530	-0-	-0-	181,530
Food	349,521	102,095	1,498	453,114	404,979	112,094	1,836	518,909
Utilities	1,103,652	322,375	4,730	1,430,757	1,100,374	304,571	4,988	1,409,933
Insurance	585,163	53,978	792	639,933	645,937	49,162	805	695,904
Depreciation	6,520,297	1,904,566	27,945	8,452,808	6,230,834	1,724,623	28,246	7,983,703
Interest	753,173	220,001	3,228	976,402	799,929	221,411	3,626	1,024,967
Other	5,199,408	1,239,585	85,923	6,524,916	4,025,591	1,215,454	96,860	5,337,905
Total expenses	$ 89,295,875	$ 26,083,153	$ 382,709	$ 115,761,737	$ 83,766,310	$ 23,185,553	$ 379,737	$ 107,331,601

See accompanying notes to consolidated financial statements.

MARGARET MARY HEALTH

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

	2019	2018
Operating activities		
Change in net assets	$ 4,509,663	$ (8,995,846)
Adjustments to reconcile change in net assets		
to net cash flows from operating activities		
Depreciation	8,452,808	7,983,703
Amortization of debt issue costs	17,302	17,302
Provision for bad debts	-0-	8,085,181
Realized and unrealized (gain) loss on investments, net	(10,456,579)	6,618,754
Gain on disposal of property and equipment	-0-	(17,099)
Donation of land	-0-	134,075
Unrealized (gain) loss on derivative	216,944	(399,170)
Restricted contributions, gifts and bequests	(287,108)	(137,596)
Change in operating assets and liabilities		
Patient accounts receivable	2,272,042	(16,007,556)
Inventories and other current assets	284,962	(235,122)
Accounts payable	1,405,038	5,050,233
Accrued wages and related liabilities	154,844	442,459
Estimated third-party settlements	279,834	(1,062,030)
Other long-term liabilities	253,637	47,249
Net cash flows from operating activities	7,103,387	1,524,537
Investing activities		
Proceeds from sale of investments	81,481,022	6,591,174
Purchases of investments	(81,849,636)	(2,112,302)
Proceeds from disposal of property and equipment	-0-	15,608
Additions to property and equipment	(5,521,896)	(8,578,427)
Net cash flows from investing activities	(5,890,510)	(4,083,947)
Financing activities		
Payments on long-term debt	(1,888,111)	(1,825,989)
Payments on line of credit	(850,000)	(250,000)
Proceeds from line of credit	2,600,000	2,500,000
Restricted contributions, gifts and bequests	287,108	137,596
Net cash flows from financing activities	148,997	561,607
Net change in cash	1,361,874	(1,997,803)
Cash		
Beginning of year	1,566,114	3,563,917
End of year	$ 2,927,988	$ 1,566,114
Noncash investing, capital and related financing activities		
Property and equipment included in liabilities	$ 1,019,496	$ 150,170
Supplemental disclosure of cash flows information		
Cash paid for interest	$ 984,060	$ 1,028,842

See accompanying notes to consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Margaret Mary Health (the Hospital) in the preparation of its consolidated financial statements are summarized below:

Organization

The Hospital, located in Batesville, Indiana, is a not-for-profit acute care hospital providing inpatient, outpatient, and other ancillary services to the residents of Ripley and surrounding counties. Admitting physicians are primarily practitioners in the local area. The Hospital is the sole corporate member of Margaret Mary Health Foundation, Inc. (the Foundation). The Foundation supports the efforts and activities of the Hospital in the furtherance of the Hospital's charitable purposes and benefits the community served by the Hospital.

Principles of Consolidation

The accompanying consolidated financial statements include accounts of the Hospital and the Foundation. Because the Hospital is the sole corporate member of the Foundation, the financial position, results of operations and cash flows of the Foundation are included with the Hospital for financial reporting purposes. All material intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of 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 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. Actual results could differ from those estimates.

Cash

The Hospital maintains its cash in bank deposits accounts which, at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. Cash consists primarily of money market and checking accounts and excludes amounts held by the Hospital's fund managers and included in assets whose use is limited.

Patient Accounts Receivable

Patient accounts receivable are recorded at net realizable value based on certain assumptions determined by each payor. For third-party payors including Medicare, Medicaid, Blue Cross and others, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay accounts receivable, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience without regard to aging category. These estimates are adjusted for estimated conversions of patient responsibility portions, expected recoveries and any anticipated changes in trends.

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

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

Patient Service Revenue

Patient care service revenue is reported 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 payors), 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 the 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 receiving inpatient acute care services or patients receiving services in outpatient centers or in their homes (home care). 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 healthcare 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 Financial Accounting Standards Board's Accounting Standards Codification 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, or 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.

Agreements with third-party payors provide for payments at amounts less than established charges. 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 Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is classified as Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. 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.

Medicaid and Hospital Assessment Fee and Healthy Indiana Plan Programs

- The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

- The Hospital participates in the Hospital Assessment Fee (HAF) Program which was approved by Centers for Medicare & Medicaid Services. The purpose of HAF is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Beginning July 1, 2017, hospitals also started funding the Healthy Indiana Plan (HIP), the State's Medicaid expansion program. The payments related to HIP mirror the Medicaid payments under HAF, but the funding includes physician, state administration, and certain non-hospital expenditures. During 2019 and 2018, the Hospital recognized HAF and HIP program expense of approximately $4,240,000 and $2,976,000, respectively, which resulted in Medicaid rate increases. The HAF and HIP program expense is included in other expenses in the consolidated statements of operations and changes in net assets. The Medicaid rate increases under HAF and HIP are included in patient service revenue in the consolidated statements of operations and changes in net assets.

Other Payment Arrangements

- The Hospital also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge and discounts from established rates.

The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The year-end cost reports filed with the Medicare and Medicaid programs through December 31, 2017 have been audited by these programs and any resulting differences are reflected in the consolidated financial statements. During 2019 and 2018, the Hospital recognized an increase of approximately $200,000 and $1,000,000, respectively, to net patient service revenue due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

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

Settlements with third-party payors for retroactive revenue 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.

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 other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represents 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.

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 based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

The Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Length of the patient's service or episode of care
- Geography of the service location
- Method of reimbursement (fee for service or capitation)
- Hospital's line of business that provided the service (for example, hospital inpatient, hospital outpatient, and so on)

For 2019 and 2018, the Hospital recognized revenue of approximately $104,940,000 and $99,667,000, respectively, from goods and services that transfer to the customer over time and no revenue from goods and services that transfer to the customer at a point in time. A summary of patient service revenue for 2019 and 2018 follows:

	2019	2018
Patient service revenue		
Inpatient	$ 28,129,827	$ 28,846,316
Outpatient	218,517,789	187,523,534
Total patient service revenue	246,647,616	216,369,850
Less provisions for		
Contractual adjustments	132,677,270	107,531,195
Charity care	2,189,079	1,086,413
	134,866,349	108,617,608
Patient service revenue adjusted	111,781,267	107,752,242
Less implied price concessions	6,840,856	-0-
Less provision for bad debts	-0-	8,085,181
Net patient service revenue	$ 104,940,411	$ 99,667,061

A summary of patient service revenue by payor type and service line for 2019 and 2018 follows:

	2019	2018
Payor type		
Medicare	$ 47,569,488	$ 43,883,407
Medicaid	7,114,960	10,106,240
Blue Cross	20,138,065	19,704,178
Other third-party payors	27,483,894	23,401,826
Self pay	2,634,004	2,571,410
	$ 104,940,411	$ 99,667,061
Service line		
Hospital - inpatient	$ 11,288,398	$ 12,684,860
Hospital - outpatient	79,681,213	74,823,207
Physician services	13,970,800	12,158,994
	$ 104,940,411	$ 99,667,061

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. Of the Hospital's total expenses reported, an estimated $1,027,000 and $539,000 arose from providing services to charity patients during 2019 and 2018, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses to gross patient service revenue. The Hospital did not change its charity care and uninsured discount policies in 2019 and 2018.

Inventories and Other Current Assets

Inventories, consisting of mainly medical supplies and pharmaceuticals, are valued at the lower of cost or net realizable value with cost being determined on an average cost method. Inventories and other current assets are comprised of the following as of December 31, 2019 and 2018:

	2019	2018
Other receivables	$ 235,114	$ 374,171
Inventories	1,480,031	1,355,219
Prepaid expenses	1,569,098	1,839,815
	$ 3,284,243	$ 3,569,205

Property and Equipment and Provision for Depreciation

Property and equipment are recorded at historical cost except for donations, which are recorded at fair market value at the date of the donation. Property and equipment include expenditures for additions and repairs that substantially increase the useful lives of existing property and equipment. Maintenance, repairs and minor renewals are expensed as incurred.

The property and equipment of the Hospital are being depreciated over their estimated useful lives using the straight-line method. The ranges of useful lives used in computing depreciation are as follows:

Description	Range of Useful Lives
Land improvements	12-24 years
Buildings and improvements	10-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as without restrictions support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as with restrictions support. Absent explicit donor restrictions about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. During 2019 and 2018, there were no gifts of long-lived assets with restrictions.

Assets Whose Use is Limited

Assets whose use is limited includes cash and marketable securities. Marketable securities include mutual funds and common stocks. Such securities are stated at fair market value. Assets held by a trustee include cash for debt service payments and/or capital improvements in compliance with the Indiana Health Facility Financing Authority bond issues described in the long-term debt note.

These investments are recorded at fair value in the consolidated balance sheets. Donated securities are recorded at fair market value at the date of the donation. Therefore, 2019 investment return, net includes interest, dividends, realized gains and losses, and unrealized gains and losses on investments as part of revenue over (under) expenses. In 2018, unrealized gains and losses on other-than-trading were excluded from revenue over (under) expenses unless the unrealized loss on investment security was considered other-than-temporary.

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 revenue over (under) 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 Hospital 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 Hospital'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.

<u>Other Long-Term Liabilities</u>

Other long-term liabilities consist primarily of deferred compensation agreements and other non-current obligations. The corresponding assets related to the deferred compensation agreements are included in the noncurrent portion of assets whose use is limited.

<u>Net Assets</u>

Net assets, support, revenues, gains, and losses are classified based on the existence or absence of donor restrictions. Accordingly, the net assets of the Hospital are classified and reported as follows:

Net Assets without Donor Restrictions

Net assets that are currently available for operating purposes under the direction of the board or designated by the board for specific use. Net assets of approximately $81,207,000 and $71,295,000 as of December 31, 2019 and 2018, respectively, were designated primarily for capital improvements and retirement plan funding.

Net Assets with Donor Restrictions

Net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations or specific purposes. Net assets with donor restrictions were available for the following purposes as of December 31, 2019 and 2018:

	2019	2018
Subject to expenditure for specified purpose		
Health and wellness	$ 274,210	$ 227,208
Education	40,644	38,805
Hospice	194,697	179,452
Oncology	241,730	212,500
Think Pink	5,232	5,232
Other	118,406	29,207
	874,919	692,404
Funds of perpetual duration		
Various family funds	447,586	447,586
	$ 1,322,505	$ 1,139,990

All contributions are considered to be available for undesignated use unless specifically restricted by the donor. When a restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restriction. Contributions that are received and whose restrictions are satisfied within the same reporting period are reported as without donor restrictions.

Net assets released from restriction related to the satisfaction of donor restrictions and totaled approximately $105,000 and $88,000 for 2019 and 2018, respectively, and relate primarily to health and wellness, hospice and oncology.

Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator, revenue over (under) expenses. In 2019, changes in net assets without donor restriction that were excluded from the performance indicator included contributions of long-lived assets. In 2018, unrealized gain and loss on investments other than trading securities were also excluded from the performance indicator.

Federal and State Income Taxes

The Hospital and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code. As such, the Hospital and Foundation are generally exempt from income taxes. However, both are required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and the Foundation and recognize a tax liability if the Hospital and Foundation 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 the Hospital and the Foundation, 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. The Hospital and Foundation are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Hospital and Foundation filed their federal and state income tax returns for periods through December 31, 2018. 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).

Functional Expense Allocation

Certain costs have been allocated among the health care services, general and administrative and fundraising categories based on the actual direct expenditures 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 food, utilities, insurance, depreciation 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.

Costs of Borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds, as well as interest earned on those funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets

Advertising Costs

The Hospital's policy is to expense advertising costs when they first take place. These expenses were approximately $683,000 and $760,000 in 2019 and 2018, respectively.

Volunteer Services

The Hospital receives donated services from a variety of unpaid volunteers. No amounts are recognized in the accompanying consolidated statements of operations and changes in net assets because the criteria for recognition of such services does not meet the guidelines under the Financial Accounting Standards Board Accounting Standards Codification. The estimated hours related to the donated services approximated 4,600 and 6,000 in 2019 and 2018, respectively.

Reclassification

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications did not affect previously reported net assets or change in net assets.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the Hospital'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.

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is March 30, 2020.

2. CHANGE ACCOUNTING PRINCIPLES

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09 and Topic 606

On January 1, 2019, the Hospital adopted the new revenue recognition accounting standard issued by the FASB and codified in the FASB ASC 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 1) regarding the Hospital's revenue recognition policies and significant judgments employed in the determination of revenue.

The Hospital applied the modified retrospective approach to all contracts when adopting ASC 606. As a result, upon the Hospital'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 Hospital prospectively recognizes those amounts in operating expenses on the consolidated statement 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 $7,634,000 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 Hospital 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 Hospital elected two of the available practical expedients provided for in the standard. First, the Hospital does not adjust the transaction price for any financing components as those were deemed insignificant. Additionally, the Hospital 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.

Net Patient Service Revenue under ASC 606:

Upon adoption of ASC 606, net patient service revenue is recorded at the transaction price estimated by the Hospital to reflect the total consideration due from patients and third-party payors in exchange for providing goods and services in patient care. These services are considered to be a single performance obligation and have a duration of less than one year. Revenues are recorded as these goods and services are provided. The transaction price, which involves significant estimates, is determined based on the Hospital's standard charges for the goods and services provided, with a reduction recorded for price concessions related to third-party contractual arrangements as well as patient discounts and other patient price concessions. During 2019, the impact of changes to the inputs used to determine the transaction prices was considered immaterial to the current period.

FASB ASU 2016-01

On January 1, 2019, the Hospital 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 require 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 within the performance indicator, revenues over (under) expenses. An entity's equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this guidance. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments.

The primary impact on the Hospital will be that changes in the fair value of equity investments will be recognized within the performance indicator, revenue over (under) expenses, rather than below the performance indicator where it was previously presented. For example, the 2019 unrealized gain on investments of approximately $3,800,000 is included in investment return, net within the performance indicator under this ASU. Whereas that amount would have been previously recorded in other changes in net assets outside the performance indicator prior to the implementation of this ASU.

3. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited consist of the following as of December 31:

	2019	2018
Cash	$ 1,792,731	$ 1,594,560
Mutual funds	82,178,085	71,921,617
Common stocks	1,638,673	1,268,119
	$ 85,609,489	$ 74,784,296

The following is a reconciliation of investment return for 2019 and 2018:

	2019	2018
Interest and dividend income	$ 3,281,650	$ 2,948,380
Realized gain on investments	6,656,885	846,433
Unrealized gain on investments	3,799,694	-0-
Investment return, net	$ 13,738,229	$ 3,794,813
Unrealized loss on investments	$ -0-	$ (7,465,187)

4. FAIR VALUE MEASUREMENTS

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2019 and 2018:

- *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 daily net asset value (NAV) and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.
- *Common stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.
- *Derivative (Interest rate swap agreement)*: Valued using pricing models that are derived principally from observable market data based on discounted cash flows and interest rate yield curves at quoted intervals for the full term of the swap. See the note disclosure "Derivatives Financial Instruments – Interest Rate Swaps" for additional information related to derivatives.

The following tables set forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Mutual funds				
Corporate bond	$ 132,854	$ 132,854	$ -0-	$ -0-
Diversified emerging markets	329,086	329,086	-0-	-0-
Foreign large blend	18,491,329	18,491,329	-0-	-0-
Foreign large growth	149,115	149,115	-0-	-0-
Foreign large value	145,180	145,180	-0-	-0-
Intermediate-term bond	15,292,420	15,292,420	-0-	-0-
Large blend	19,646,878	19,646,878	-0-	-0-
Large growth	419,271	419,271	-0-	-0-
Large value	8,498,139	8,498,139	-0-	-0-
Market neutral	5,225,873	5,225,873	-0-	-0-
Mid-cap blend	7,376,383	7,376,383	-0-	-0-
Short-term bond	5,911,113	5,911,113	-0-	-0-
World bond	117,831	117,831	-0-	-0-
Other	442,613	442,613	-0-	-0-
Total mutual funds	82,178,085	82,178,085	-0-	-0-
Common stocks				
Healthcare	1,638,673	1,638,673	-0-	-0-
	83,816,758	$ 83,816,758	$ -0-	$ -0-
Cash	1,792,731			
Total assets whose use is limited	$ 85,609,489			
Liabilities				
Derivative	$ 1,380,683	$ -0-	$ 1,380,683	$ -0-

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Mutual funds				
Corporate bond	$ 2,560,329	$ 2,560,329	$ -0-	$ -0-
Diversified emerging markets	5,532,045	5,532,045	-0-	-0-
Foreign large blend	5,438,123	5,438,123	-0-	-0-
Foreign large growth	2,288,723	2,288,723	-0-	-0-
Foreign large value	2,405,314	2,405,314	-0-	-0-
High yield bond	2,252,038	2,252,038	-0-	-0-
Inflation-protected bond	2,284,934	2,284,934	-0-	-0-
Intermediate-term bond	4,263,900	4,263,900	-0-	-0-
Large blend	13,706,526	13,706,526	-0-	-0-
Large growth	6,931,168	6,931,168	-0-	-0-
Large value	6,562,207	6,562,207	-0-	-0-
Market neutral	5,721,267	5,721,267	-0-	-0-
Short-term bond	1,671,018	1,671,018	-0-	-0-
World bond	2,324,621	2,324,621	-0-	-0-
Other	7,979,404	7,979,404	-0-	-0-
Total mutual funds	71,921,617	71,921,617	-0-	-0-
Common stocks				
Healthcare	1,268,119	1,268,119	-0-	-0-
	73,189,736	$ 73,189,736	$ -0-	$ -0-
Cash	1,594,560			
Total assets whose use is limited	$ 74,784,296			
Liabilities				
Derivative	$ 1,163,739	$ -0-	$ 1,163,739	$ -0-

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

Realized gains and losses are reported in the consolidated statements of operations and changes in net assets as a component of investment return. Net realized gains of approximately $6,657,000 and $846,000 were recorded for 2019 and 2018, respectively.

Differences between market value and cost of investments are classified as unrealized gains or losses. Unrealized gains or losses are included in change in net assets for the period attributable to the change in unrealized gains relating to assets held as of December 31, 2019 and 2018 and are reported in the consolidated statements of operations and changes in net assets in investment return in 2019 and other changes in net assets in 2018. The Hospital recognized an unrealized gain of approximately $3,800,000 during 2019 and an unrealized loss of approximately $7,465,000 during 2018.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	2019	2018
Land and improvements	$ 6,070,728	$ 2,691,627
Buildings and improvements	80,236,081	79,896,265
Fixed equipment	5,245,768	5,245,768
Movable and minor equipment	60,069,349	57,200,492
	151,621,926	145,034,152
Less accumulated depreciation	89,751,287	81,298,480
	61,870,639	63,735,672
Construction in progress	80,557	126,940
	$ 61,951,196	$ 63,862,612

Depreciation expense for 2019 and 2018 was approximately $8,453,000 and $7,984,000 respectively. As of December 31, 2019, the Hospital had no significant outstanding commitments related to property and equipment.

6. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

Objectives and Strategies for Using Derivatives

The Hospital makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, forward interest rate swaps (which are designated as cash flow hedges) are used to manage the risk associated with interest rates on variable-rate borrowings and to lower its overall borrowing costs.

As of December 31, 2019, the Hospital had outstanding an interest rate swap agreement with a financial institution, having a notional amount of $11,105,000. The agreement effectively changes the Hospital's interest rate exposure on its Variable Rate Demand Revenue Bonds Series 2004A-1 due 2029 to a fixed 3.48%. The interest rate swap agreement matures at the time the related long-term debt matures. The Hospital is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreement. However, the Hospital does not anticipate nonperformance by the counterparties.

The derivative is not designated as a hedging instrument, and is marked-to-market on the consolidated balance sheet at fair value. The related gains and losses are included in revenue over (under) expenses, the performance indicator, for the reporting period. Cash flows from interest rate swap contracts are classified as an operating activity on the consolidated statements of cash flows.

The asset derivatives are reported in the consolidated balance sheets as other assets and liability derivatives are reported as derivative liabilities. As of December 31, 2019 and 2018, the fair values of derivatives recorded in the consolidated balance sheets are as follows:

	2019	2018
Derivative liability	$ 1,380,683	$ 1,163,739

During 2019 and 2018, the amount of gain or loss recognized in the consolidated statements of operations and changes in net assets and reported as a component of nonoperating gain (loss) is as follows:

	2019	2018
Unrealized gain (loss) on derivative	$ (216,944)	$ 399,170

Additional information regarding fair value measurements of the interest rate swap agreements is disclosed in Fair Value Measurements note.

7. LONG-TERM DEBT

The following is the summary of long-term debt as of December 31:

	2019	2018
Indiana Finance Authority Health Facility Variable Rate Demand Revenue Bonds Series 2004A-1; dated March 1, 2004, due 2029	$ 11,105,000	$ 12,020,000
Indiana Finance Authority Health Facility Revenue Bonds Series 2010; dated December 1, 2010, due 2035	9,958,456	10,931,567
	21,063,456	22,951,567
Less unamortized debt issue costs	186,760	204,062
Less current portion	1,956,329	1,888,111
	$ 18,920,367	$ 20,859,394

In 2004, the Hospital borrowed from the Indiana Finance Authority (the Authority) $22,000,000 for the addition and improvement of the Hospital facilities. The Authority, created under Indiana Code 5-1-16, provides funds to eligible health facilities for financing capital expenditures.

In 2009, the Hospital, the Authority and Branch Banking and Trust Company, Inc. (BB&T) entered into a Bond Purchase Agreement whereby BB&T purchased from the Authority all of the Series 2004A Bonds in a private placement. The interest rate on the Series 2004A Bonds is 68% of one month LIBOR plus .95% with no floor. The rate as of December 31, 2019 and 2018 was 2.15% and 2.65%, respectively. BB&T agreed to hold the Series 2004A Bonds through the maturity date in 2029.

In 2010, the Hospital borrowed $16,625,235 from the Authority the Health Facility Revenue Bonds, Series 2010 to provide for future capital projects. The Series 2010 Bonds bear interest at rates as determined by daily, weekly, flexible, semiannual or long modes. The Hospital, the Authority and Key Government Finance, Inc. (Key) entered into a Bond Purchase Agreement whereby Key purchased from the Authority all of the Series 2010 Bonds in a private placement. The interest rate on the Series 2010 Bonds is under the long mode with a fixed interest rate of 3.36%. The long mode period runs through 2028. Additionally, Key agreed to hold the Series 2010 Bonds through 2028 compared to the Series 2010 Bond maturity date in 2035. At the end of the long mode period in 2028, the Series 2010 Bonds could be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another long mode period with Key. If the Series 2010 Bonds cannot be remarketed at the end of the long mode period in 2028, the Hospital would be subject to payment of the remaining principal balance at that time.

Both the Series 2004A and 2010 Bonds are covered under a Master Trust Indenture and are secured by an interest in the gross revenues of the Hospital.

Annual maturities of long-term debt for the years succeeding December 31, 2019 are as follows:

Year Ending December 31,	
2020	$ 1,956,329
2021	2,020,681
2022	2,091,206
2023	2,157,943
2024	2,235,935
Thereafter	10,601,362
	$ 21,063,456

8. LINE OF CREDIT

The Hospital established a line of credit up to $5,000,000 through a local financial institution. The interest rate on the line of credit is one month LIBOR plus 1.25%, rounded to the nearest 0.125% (3.01% and 3.75% as of December 31, 2019 and 2018, respectively). The line of credit is unsecured and matures in September 2020. The outstanding balance was $4,000,000 and $2,250,000 as of December 31, 2019 and 2018, respectively.

9. LIQUIDITY AND AVAILABILITY OF RESOURCES

As of December 31, 2019, the Hospital had approximately $23,393,000 of financial assets available within one year of the consolidated balance sheet date to meet cash needs for general expenditure consisting of cash of $2,928,000, patient accounts receivable of $20,230,000 and other receivables (included in other current assets) of $235,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated balance sheet date. Patient accounts receivable and other receivables are subject to implied time restrictions, but are expected to be collected within one year. The Hospital has a goal to maintain financial assets to meet 90 days of normal operating expenses, which are, on average, approximately $27,887,000. The Hospital's policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Hospital invests cash in excess of daily requirements in various investments, including mutual funds and common stocks.

As of December 31, 2019, the Hospital had approximately $79,827,000 in long-term investments that were without donor restriction but designated by the board for capital improvements. While there is no intent to liquidate these investments, they are available to the Hospital with board approval. Furthermore, the Hospital had $1,000,000 available on its line of credit as of December 31, 2019.

As of December 31, 2018, the Hospital had approximately $24,442,000 of financial assets available within one year of the consolidated balance sheet date to meet cash needs for general expenditure consisting of cash of $1,566,000, patient accounts receivable of $22,502,000 and other receivables (included in other current assets) of $374,000. Long-term investments, without donor restriction, designated for capital improvements of $69,915,000 were available as of December 31, 2018, if needed, in addition to $250,000 available on the line of credit.

10. RETIREMENT PLANS

The Hospital has a defined contribution pension plan, which covers all eligible employees. Hospital contributions are based on the earnings of qualified employees. Contribution percentages are at the discretion of the Hospital and were 3% for 2019 and 2018. The Hospital also offers a 403(b) tax deferred annuity retirement plan for the benefit of its eligible employees. The 403(b) plan allows for discretionary Hospital matching contributions based on employee deferrals to the plan. The maximum matching contribution is up to $1,500 per employee. The Hospital also has a 457(b) deferred compensation plan that provides for non-elective employer deferrals covering certain eligible participants. Total pension expense under all retirement plans was approximately $1,757,000 and $1,436,000 for 2019 and 2018, respectively.

11. CONCENTRATIONS OF CREDIT RISK

The Hospital is located in Batesville, Indiana and grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Accounts receivable and revenues from self-pay and third-party payors as of December 31, 2019 and 2018 and for the years then ended were::

	Receivables		Revenues	
	2019	2018	2019	2018
Medicare	42%	37%	45%	44%
Medicaid	16%	19%	7%	10%
Blue Cross	16%	10%	19%	20%
Other third-party payors	22%	18%	26%	23%
Self pay	4%	16%	3%	3%
	100%	100%	100%	100%

12. COMMITMENTS AND CONTINGENCIES

Self-Funded Health Plan

The Hospital is committed to pay for employees' health care costs. A third-party administrator has been retained to process and present all benefit claims to the Hospital for payment. Under a stop loss agreement, the Hospital is responsible for the funding of all claims and related administrative costs up to $300,000 per individual per policy year. There is no aggregate limit for the Plan under the stop loss agreement. Group health insurance expense for 2019 and 2018 totaled approximately $9,297,000 and $7,137,000, respectively.

Litigation

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

13. RISK MANAGEMENT

Malpractice Coverage

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

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of $1,650,000 for an occurrence of malpractice until June 30, 2019, and $1,800,000 thereafter. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least $400,000 per occurrence ($8,000,000 in the annual aggregate) until June 30, 2019. Starting July 1, 2019, 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. 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 Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Workers' Compensation

The Hospital has a $250,000 letter of credit available with a local financial institution to cover unfunded workers' compensation claims. The letter of credit expires in April 2021. There was no outstanding balance on the letter of credit as of December 31, 2019 and 2018.

14. FEDERAL, STATE AND LOCAL AWARDS

Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Government Sources, issued by the Indiana State Board of Accounts, requires Indiana not-for-profit entities to disclose Federal, state and local awards expended during the entities' annual reporting period. During 2019 and 2018, and the Hospital expended the following awards:

	2019	2018
Federal		
Dept of Health & Human Services through		
Indiana State Dept of Health		
Maternal and Child Health Services Block Grant to the States - Catalog of Federal Domestic Assistance (CFDA) 93.994	$ 25,728	$ 7,055
Hospital Preparedness - CFDA 93.074	-0-	3,000
Small Rural Hospital Improvement Grant - CFDA 93.301	-0-	9,000
Opioid State Targeted Response - CFDA 93.788	24,408	25,293
	$ 50,136	$ 44,348

The Hospital did not expend any State or local awards during 2019 and 2018.

15. RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2016, FASB issued ASU No. 2016-02, *Leases* (Topic 842). This new standard, which the Hospital is not required to adopt until its year ending December 31, 2020, 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 Hospital is presently evaluating the effects that this ASU will have on its future consolidated financial statements, including related disclosures.

16. SUBSEQUENT EVENTS

Subsequent to December 31, 2019, 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 Hospital's results is dependent on the breadth and duration of the pandemic and could be affected by other factors the Hospital is not currently able to predict. These impacts may include, but are not limited to, additional costs for responding to COVID-19, potential shortages of healthcare personnel, potential shortages of clinical supplies, loss of, or reduction to, revenue, and investment portfolio declines. Management believes the Hospital is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at this time.

SUPPLEMENTARY INFORMATION

MARGARET MARY HEALTH

CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2019

ASSETS	Hospital	Foundation	Eliminations	Total
Current assets				
Cash	$ 2,613,602	$ 314,386	$ -0-	$ 2,927,988
Patient accounts receivable	20,229,810	-0-	-0-	20,229,810
Inventories and other current assets	3,399,321	61,000	(176,078)	3,284,243
Current portion of assets whose use is limited	1,956,329	-0-	-0-	1,956,329
Total current assets	28,199,062	375,386	(176,078)	28,398,370
Assets whose use is limited				
Board designated for capital improvements	79,826,664	-0-	-0-	79,826,664
Board designated for retirement plan	1,380,100	-0-	-0-	1,380,100
Held by Foundation	-0-	2,958,553	-0-	2,958,553
Donor restricted	142,625	1,179,880	-0-	1,322,505
Held by trustee for debt service	121,667	-0-	-0-	121,667
	81,471,056	4,138,433	-0-	85,609,489
Less current portion	1,956,329	-0-	-0-	1,956,329
Assets whose use is limited - noncurrent	79,514,727	4,138,433	-0-	83,653,160
Property and equipment, net	61,951,196	-0-	-0-	61,951,196
Total assets	$ 169,664,985	$ 4,513,819	$ (176,078)	$ 174,002,726
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$ 10,432,995	$ 176,078	$ (176,078)	$ 10,432,995
Accrued wages and related liabilities	6,861,428	-0-	-0-	6,861,428
Estimated third-party settlements	2,455,642	-0-	-0-	2,455,642
Line of credit	4,000,000	-0-	-0-	4,000,000
Current portion of long-term debt	1,956,329	-0-	-0-	1,956,329
Total current liabilities	25,706,394	176,078	(176,078)	25,706,394
Other long-term liabilities	1,042,429	-0-	-0-	1,042,429
Derivative liability	1,380,683	-0-	-0-	1,380,683
Long-term debt, less current portion	18,920,367	-0-	-0-	18,920,367
Total liabilities	47,049,873	176,078	(176,078)	47,049,873
Net assets				
Without donor restrictions				
Undesignated	41,265,723	3,157,861	-0-	44,423,584
Board designated	81,206,764	-0-	-0-	81,206,764
Total without donor restrictions	122,472,487	3,157,861	-0-	125,630,348
With donor restrictions	142,625	1,179,880	-0-	1,322,505
Total net assets	122,615,112	4,337,741	-0-	126,952,853
Total liabilities and net assets	$ 169,664,985	$ 4,513,819	$ (176,078)	$ 174,002,726

MARGARET MARY HEALTH

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

	Hospital	Foundation	Eliminations	Total
Revenue, gains and other support				
Patient service revenue	$ 104,940,411	$ -0-	$ -0-	$ 104,940,411
Other revenue	1,039,970	-0-	-0-	1,039,970
Total revenue, gains and other support	105,980,381	-0-	-0-	105,980,381
Expenses				
Salaries and wages	47,647,284	-0-	-0-	47,647,284
Employee benefits	15,079,330	-0-	-0-	15,079,330
Physician fees	5,897,927	-0-	-0-	5,897,927
Medical and surgical supplies	16,021,147	-0-	-0-	16,021,147
Other supplies	744,372	-0-	-0-	744,372
Purchased services	11,711,681	-0-	-0-	11,711,681
Equipment rentals	182,066	-0-	-0-	182,066
Food	453,114	-0-	-0-	453,114
Utilities	1,430,757	-0-	-0-	1,430,757
Insurance	639,933	-0-	-0-	639,933
Depreciation	8,452,808	-0-	-0-	8,452,808
Interest	976,402	-0-	-0-	976,402
Other	6,524,916	-0-	-0-	6,524,916
Total expenses	115,761,737	-0-	-0-	115,761,737
Operating loss	(9,781,356)	-0-	-0-	(9,781,356)
Nonoperating gain (loss)				
Contributions	386,840	283,712	(187,926)	482,626
Program expenses	-0-	(187,926)	187,926	-0-
In-kind revenue	-0-	286,975	(286,975)	-0-
In-kind expense	-0-	(286,975)	286,975	-0-
Investment return, net	13,090,250	647,979	-0-	13,738,229
Unrealized loss on derivative	(216,944)	-0-	-0-	(216,944)
Net assets released from restriction	61,635	42,958	-0-	104,593
Total nonoperating gain (loss)	13,321,781	786,723	-0-	14,108,504
Revenue over (under) expenses	3,540,425	786,723	-0-	4,327,148
Net assets with donor restrictions				
Contributions, gifts and bequests	147,770	139,338	-0-	287,108
Net assets released from restriction	(61,635)	(42,958)	-0-	(104,593)
Change in net assets with donor restrictions	86,135	96,380	-0-	182,515
Change in net assets	3,626,560	883,103	-0-	4,509,663
Net assets				
Beginning of year	118,988,552	3,454,638	-0-	122,443,190
End of year	$ 122,615,112	$ 4,337,741	$ -0-	$ 126,952,853

See report of independent auditors on pages 1 and 2.

MARGARET MARY HEALTH

CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2018

ASSETS	Hospital	Foundation	Eliminations	Total
Current assets				
Cash	$ 1,496,199	$ 69,915	$ -0-	$ 1,566,114
Patient accounts receivable, net	22,501,852	-0-	-0-	22,501,852
Inventories and other current assets	3,502,205	71,007	(4,007)	3,569,205
Current portion of assets whose use is limited	1,888,111	-0-	-0-	1,888,111
Total current assets	29,388,367	140,922	(4,007)	29,525,282
Assets whose use is limited				
Board designated for capital improvements	69,915,340	-0-	-0-	69,915,340
Board designated for retirement plan	1,380,000	-0-	-0-	1,380,000
Held by Foundation	-0-	2,230,216	-0-	2,230,216
Donor restricted	56,490	1,083,500	-0-	1,139,990
Held by trustee for debt service	118,750	-0-	-0-	118,750
	71,470,580	3,313,716	-0-	74,784,296
Less current portion	1,888,111	-0-	-0-	1,888,111
Assets whose use is limited - noncurrent	69,582,469	3,313,716	-0-	72,896,185
Property and equipment, net	63,862,612	-0-	-0-	63,862,612
Total assets	$ 162,833,448	$ 3,454,638	$ (4,007)	$ 166,284,079
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$ 8,012,468	$ -0-	$ (4,007)	$ 8,008,461
Accrued wages and related liabilities	6,706,584	-0-	-0-	6,706,584
Estimated third-party settlements	2,175,808	-0-	-0-	2,175,808
Line of credit	2,250,000	-0-	-0-	2,250,000
Current portion of long-term debt	1,888,111	-0-	-0-	1,888,111
Total current liabilities	21,032,971	-0-	(4,007)	21,028,964
Other long-term liabilities	788,792	-0-	-0-	788,792
Derivative liability	1,163,739	-0-	-0-	1,163,739
Long-term debt, less current portion	20,859,394	-0-	-0-	20,859,394
Total liabilities	43,844,896	-0-	(4,007)	43,840,889
Net assets				
Without donor restrictions				
Undesignated	47,636,722	2,371,138	-0-	50,007,860
Board designated	71,295,340	-0-	-0-	71,295,340
Total without donor restrictions	118,932,062	2,371,138	-0-	121,303,200
With donor restrictions	56,490	1,083,500	-0-	1,139,990
Total net assets	118,988,552	3,454,638	-0-	122,443,190
Total liabilities and net assets	$ 162,833,448	$ 3,454,638	$ (4,007)	$ 166,284,079

MARGARET MARY HEALTH

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

	Hospital	Foundation	Eliminations	Total
Unrestricted revenue, gains and other support				
Net patient service revenue	$ 107,752,242	$ -0-	$ -0-	$ 107,752,242
Less provision for bad debts	8,085,181	-0-	-0-	8,085,181
Net patient service revenue net of provision for bad debts	99,667,061	-0-	-0-	99,667,061
Other revenue	1,397,789	-0-	-0-	1,397,789
Total revenue, gains and other support	101,064,850	-0-	-0-	101,064,850
Expenses				
Salaries and wages	47,208,195	-0-	-0-	47,208,195
Employee benefits	12,584,983	-0-	-0-	12,584,983
Physician fees	4,063,793	-0-	-0-	4,063,793
Medical and surgical supplies	15,653,622	-0-	-0-	15,653,622
Other supplies	820,596	-0-	-0-	820,596
Purchased services	9,847,561	-0-	-0-	9,847,561
Equipment rentals	181,530	-0-	-0-	181,530
Food	518,909	-0-	-0-	518,909
Utilities	1,409,933	-0-	-0-	1,409,933
Insurance	695,904	-0-	-0-	695,904
Depreciation	7,983,703	-0-	-0-	7,983,703
Interest	1,024,967	-0-	-0-	1,024,967
Other	5,337,905	-0-	-0-	5,337,905
Total expenses	107,331,601	-0-	-0-	107,331,601
Operating income	(6,266,751)	-0-	-0-	(6,266,751)
Nonoperating gain (loss)				
Contributions	461,900	235,708	(176,119)	521,489
Loss on disposal of property and equipment	17,099	-0-	-0-	17,099
Donation of land	(134,075)	-0-	-0-	(134,075)
Program expense	-0-	(176,119)	176,119	-0-
In-kind revenue	-0-	292,621	(292,621)	-0-
In-kind expense	-0-	(292,621)	292,621	-0-
Investment return, net	3,670,726	124,087	-0-	3,794,813
Unrealized gain on derivative	399,170	-0-	-0-	399,170
Net assets released from restriction	19,515	68,932	-0-	88,447
Total nonoperating gain	4,434,335	252,608	-0-	4,686,943
Revenue over expenses	(1,832,416)	252,608	-0-	(1,579,808)
Other changes				
Unrealized gain on investments	(7,135,078)	(330,109)	-0-	(7,465,187)
Change in net assets without donor restrictions	(8,967,494)	(77,501)	-0-	(9,044,995)
Net assets with donor restrictions				
Contributions, gifts and bequests	12,504	125,092	-0-	137,596
Net assets released from restriction	(19,515)	(68,932)	-0-	(88,447)
Change in net assets with donor restrictions	(7,011)	56,160	-0-	49,149
Change in net assets	(8,974,505)	(21,341)	-0-	(8,995,846)
Net assets				
Beginning of year	127,963,057	3,475,979	-0-	131,439,036
End of year	$ 118,988,552	$ 3,454,638	$ -0-	$ 122,443,190