



# MARGARET MARY HEALTH

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2020 AND 2019**

*CPAs / ADVISORS*



# MARGARET MARY HEALTH

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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, 2020 and 2019, 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 audit of the 2020 consolidated 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 consolidated 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 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.

Board of Directors  
Margaret Mary Health  
Batesville, Indiana

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

### Opinion

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

### Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial information as listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows 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 information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2021 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  
May 27, 2021

# MARGARET MARY HEALTH

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 AND 2019

<b>ASSETS</b>		
	2020	2019
<b>Current assets</b>		
Cash	\$ 6,757,981	\$ 2,927,988
Patient accounts receivable, net	16,990,507	20,229,810
Inventories and other current assets	3,561,445	3,284,243
Current portion of assets whose use is limited	2,020,681	1,956,329
Total current assets	29,330,614	28,398,370
<b>Assets whose use is limited</b>		
Board designated for capital improvements	101,026,620	79,553,654
Board designated for retirement plans	1,225,000	1,380,100
Held by Foundation	3,700,235	2,958,553
Donor restricted	1,361,847	1,322,505
Held by trustee for debt service	124,167	121,667
	107,437,869	85,336,479
Less current portion	(2,020,681)	(1,956,329)
Assets whose use is limited - noncurrent	105,417,188	83,380,150
<b>Property and equipment, net</b>	56,197,154	61,951,196
<b>Other assets</b>	523,010	273,010
Total assets	\$ 191,467,966	\$ 174,002,726
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 8,009,234	\$ 10,432,995
Accrued wages and related liabilities	10,039,496	6,861,428
Refundable advances	2,600,000	-0-
Estimated third-party settlements	1,657,095	2,455,642
Other current liabilities	11,568,229	-0-
Line of credit	-0-	4,000,000
Current portion of long-term debt	2,020,681	1,956,329
Total current liabilities	35,894,735	25,706,394
<b>Other long-term liabilities</b>	1,222,241	1,042,429
<b>Derivative liability</b>	1,620,952	1,380,683
<b>Long-term debt, less current portion</b>	16,916,989	18,920,367
Total liabilities	55,654,917	47,049,873
<b>Net assets</b>		
Without donor restrictions		
Undesignated	32,199,582	44,696,594
Board designated	102,251,620	80,933,754
Total without donor restrictions	134,451,202	125,630,348
With donor restrictions	1,361,847	1,322,505
Total net assets	135,813,049	126,952,853
Total liabilities and net assets	\$ 191,467,966	\$ 174,002,726

See accompanying notes to consolidated financial statements.

## MARGARET MARY HEALTH

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

	2020	2019
<b>Revenues</b>		
Patient service revenue	\$ 109,028,932	\$ 104,940,411
Other revenue	7,827,828	1,039,970
Total revenues	116,856,760	105,980,381
<b>Expenses</b>		
Salaries and wages	48,567,966	47,647,284
Employee benefits	13,059,038	15,079,330
Physician fees	6,552,415	5,897,927
Medical and surgical supplies	17,586,548	16,021,147
Purchased services	12,426,097	11,711,681
Utilities	1,373,963	1,430,757
Insurance	690,598	639,933
Depreciation	8,267,350	8,452,808
Interest	871,711	976,402
Other	7,355,480	7,904,468
Total expenses	116,751,166	115,761,737
Operating income (loss)	105,594	(9,781,356)
<b>Nonoperating revenues (expenses)</b>		
Contributions	319,972	482,626
Gain on disposal of property and equipment	32,000	-0-
Investment return, net	8,384,039	13,738,229
Unrealized loss on derivative	(240,269)	(216,944)
Net assets released from restriction	219,518	104,593
Total nonoperating revenues (expenses)	8,715,260	14,108,504
Revenues over expenses	8,820,854	4,327,148
<b>Net assets with donor restrictions</b>		
Contributions	258,860	287,108
Net assets released from restriction	(219,518)	(104,593)
Change in net assets with donor restrictions	39,342	182,515
Change in net assets	8,860,196	4,509,663
<b>Net assets</b>		
Beginning of year	126,952,853	122,443,190
End of year	\$ 135,813,049	\$ 126,952,853

See accompanying notes to consolidated financial statements.

## MARGARET MARY HEALTH

### CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020				2019			
	Health Care Services	General and Administrative	Fundraising	Total	Health Care Services	General and Administrative	Fundraising	Total
<b>Expenses</b>								
Salaries and wages	\$ 36,188,232	\$ 12,198,197	\$ 181,537	\$ 48,567,966	\$ 36,782,716	\$ 10,682,752	\$ 181,816	\$ 47,647,284
Employee benefits	9,730,354	3,279,872	48,812	13,059,038	11,640,929	3,380,860	57,541	15,079,330
Physician fees	6,552,415	-0-	-0-	6,552,415	5,897,927	-0-	-0-	5,897,927
Medical and surgical supplies	17,194,706	391,819	23	17,586,548	15,993,946	27,201	-0-	16,021,147
Purchased services	5,043,148	7,337,951	44,998	12,426,097	4,064,495	7,635,373	11,813	11,711,681
Utilities	1,050,704	317,773	5,487	1,373,963	1,112,201	313,947	4,608	1,430,757
Insurance	625,312	64,178	1,108	690,598	586,596	52,565	772	639,933
Depreciation	6,322,251	1,912,083	33,017	8,267,350	6,570,805	1,854,779	27,225	8,452,808
Interest	666,619	201,610	3,481	871,711	759,008	214,249	3,145	976,402
Other	5,908,822	1,298,862	147,796	7,355,480	6,578,960	1,239,585	85,923	7,904,468
Total expenses	<u>\$ 89,282,563</u>	<u>\$ 27,002,345</u>	<u>\$ 466,259</u>	<u>\$ 116,751,166</u>	<u>\$ 89,987,583</u>	<u>\$ 25,401,311</u>	<u>\$ 372,843</u>	<u>\$ 115,761,737</u>

See accompanying notes to consolidated financial statements.

## MARGARET MARY HEALTH

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

	2020	2019
<b>Operating activities</b>		
Change in net assets	\$ 8,860,196	\$ 4,509,663
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	8,267,350	8,452,808
Amortization of debt issue costs	17,302	17,302
Realized and unrealized gain on investments	(5,377,544)	(10,456,579)
Gain on disposal of property and equipment	(32,000)	-0-
Unrealized loss on derivative	240,269	216,944
Restricted contributions	(258,860)	(287,108)
Change in operating assets and liabilities		
Patient accounts receivable	3,239,303	2,272,042
Inventories and other current assets	(277,202)	284,962
Other assets	(250,000)	(194,311)
Accounts payable	(1,522,697)	1,555,208
Accrued wages and related liabilities	3,178,068	154,844
Refundable advances	2,600,000	-0-
Estimated third-party settlements	(798,547)	279,834
Other current liabilities	11,568,229	-0-
Other long-term liabilities	179,812	253,637
Net cash flows from operating activities	29,633,679	7,059,246
<b>Investing activities</b>		
Proceeds from sale of investments	91,823,162	81,481,022
Purchases of investments	(108,547,008)	(81,655,325)
Proceeds from disposal of property and equipment	32,000	-0-
Additions to property and equipment	(3,414,372)	(5,672,066)
Net cash flows from investing activities	(20,106,218)	(5,846,369)
<b>Financing activities</b>		
Payments on long-term debt	(1,956,328)	(1,888,111)
Payments on line of credit	(4,000,000)	(850,000)
Proceeds from line of credit	-0-	2,600,000
Restricted contributions	258,860	287,108
Net cash flows from financing activities	(5,697,468)	148,997
Net change in cash	3,829,993	1,361,874
<b>Cash</b>		
Beginning of year	2,927,988	1,566,114
End of year	\$ 6,757,981	\$ 2,927,988
<b>Noncash investing, capital and related financing activities</b>		
Property and equipment included in liabilities	\$ 118,432	\$ 1,019,496
<b>Supplemental disclosure of cash flows information</b>		
Cash paid for interest	\$ 888,852	\$ 984,060

See accompanying notes to consolidated financial statements.



# MARGARET MARY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### 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 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.

## MARGARET MARY HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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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 accounts receivable and the allowance of uncollectible accounts as of January 1, 2019 were approximately \$30,136,000 and \$7,634,000, respectively.

#### 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.

## MARGARET MARY HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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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 2020 and 2019, the Hospital recognized HAF and HIP program expense of approximately \$3,620,000 and \$4,240,000, 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.

## MARGARET MARY HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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#### *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, 2018 have been audited by these programs and any resulting differences are reflected in the consolidated financial statements. During 2020 and 2019, the Hospital recognized an increase of approximately \$133,000 and \$200,000, respectively, to 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.

## MARGARET MARY HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The 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 2020 and 2019, the Hospital recognized revenue of approximately \$109,029,000 and \$104,940,000, 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 2020 and 2019 follows:

	2020	2019
Patient service revenue		
Inpatient	\$ 31,417,205	\$ 28,129,827
Outpatient	221,989,756	218,517,789
	<u>253,406,961</u>	<u>246,647,616</u>
Adjustments		
Contractual adjustments	(136,118,617)	(132,677,270)
Charity care	(1,568,500)	(2,189,079)
Implied price concessions	<u>(6,690,912)</u>	<u>(6,840,856)</u>
Total adjustments	<u>(144,378,029)</u>	<u>(141,707,205)</u>
Net patient service revenue	<u>\$ 109,028,932</u>	<u>\$ 104,940,411</u>

## MARGARET MARY HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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A summary of patient service revenue by payor type and service line for 2020 and 2019 follows:

	2020	2019
Payor type		
Medicare	\$ 38,238,957	\$ 33,467,045
Medicaid	6,978,725	4,843,668
Blue Cross	26,376,121	26,947,174
Other third-party payors	34,736,764	35,475,812
Self pay	2,698,365	4,206,712
	<u>\$ 109,028,932</u>	<u>\$ 104,940,411</u>
Service line		
Hospital - inpatient	\$ 18,288,208	\$ 15,898,910
Hospital - outpatient	81,551,330	79,946,583
Physician services	9,189,394	9,094,918
	<u>\$ 109,028,932</u>	<u>\$ 104,940,411</u>

#### 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 \$722,000 and \$1,027,000 arose from providing services to charity patients during 2020 and 2019, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses to gross patient service revenue. The Hospital did not change its charity care and uninsured discount policies in 2020 and 2019.

#### 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, 2020 and 2019:

	2020	2019
Other receivables	\$ 129,640	\$ 235,114
Inventories	1,279,922	1,480,031
Prepaid expenses	2,151,883	1,569,098
	<u>\$ 3,561,445</u>	<u>\$ 3,284,243</u>

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# MARGARET MARY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### Property, Equipment and 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:

<u>Description</u>	<u>Range of Useful Lives</u>
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 2020 and 2019, 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, investment return, net includes interest, dividends, realized gains and losses, and unrealized gains and losses on investments as part of revenues over expenses. 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 realized gain/loss in investment return and a new cost basis for the security is established.

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.

# MARGARET MARY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### Other Long-Term Liabilities

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.

### Net Assets

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 \$102,252,000 and \$80,934,000 as of December 31, 2020 and 2019, 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose		
Health and wellness	\$ 295,119	\$ 274,210
Education	40,391	40,644
Hospice	212,627	194,697
Oncology	253,961	241,730
Other	112,163	123,638
	<u>914,261</u>	<u>874,919</u>
Funds of perpetual duration		
Various family funds	447,586	447,586
	<u>\$ 1,361,847</u>	<u>\$ 1,322,505</u>

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 \$220,000 and \$105,000 for 2020 and 2019, respectively, and relate primarily to health and wellness, hospice and oncology.

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# MARGARET MARY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator, revenues over expenses. Changes in net assets without donor restriction that are excluded from the performance indicator include contributions of long-lived assets.

### 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 consolidated 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 revenues (expenses) in the accompanying consolidated 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.

### 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, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The 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, 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).

# MARGARET MARY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### 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 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 \$614,000 and \$683,000 in 2020 and 2019, 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 1,800 and 4,600 in 2020 and 2019, respectively.

### Reclassification

Certain amounts in the 2019 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 evaluated whether there were conditions or events that raised 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 were available to be issued.

### Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were available to be issued which was May 27, 2021.

# MARGARET MARY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). This ASU, which the Hospital is not required to adopt until its year ending December 31, 2022, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their balance sheet the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's balance sheet.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU is intended to increase transparency around contributed nonfinancial assets (also known as "gifts-in-kind") received by not-for-profit (NFP) organizations, including information on how those assets are used and how they are valued. This ASU requires that a NFP organization present contributed nonfinancial assets as a separate line item in its statement of operations and changes in net assets, apart from contributions of cash or other financial assets. Additionally, this ASU includes expanded disclosure requirements. The Hospital will be required to adopt this standard during its ending December 31, 2022.

The Hospital is presently evaluating the effects that these ASUs will have on its future consolidated financial statements, including related disclosures.

## **2. ASSETS WHOSE USE IS LIMITED**

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

	2020	2019
Cash	\$ 1,367,988	\$ 1,519,721
Money market mutual fund	5,016,170	-0-
Mutual funds	99,626,653	82,178,085
Common stocks	1,427,058	1,638,673
	<u>\$ 107,437,869</u>	<u>\$ 85,336,479</u>

The following is a reconciliation of investment return for 2020 and 2019:

	2020	2019
Interest and dividend income	\$ 3,006,495	\$ 3,281,650
Realized gain (loss) on investments	(246,653)	6,656,885
Unrealized gain on investments	5,624,197	3,799,694
Investment return, net	<u>\$ 8,384,039</u>	<u>\$ 13,738,229</u>

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# MARGARET MARY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### 3. FAIR VALUE MEASUREMENTS

On January 1, 2020, the Hospital 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.

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, 2020 and 2019:

- *Money market mutual funds*: Valued based at the subscription and redemption activity at a \$1 stable NAV. However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities.
- *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.

# MARGARET MARY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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, 2020 and 2019:

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Assets whose use is limited				
Money market mutual fund	\$ 5,016,170	\$ -0-	\$ 5,016,170	\$ -0-
Mutual funds				
Foreign large blend	12,743,045	12,743,045	-0-	-0-
Intermediate-term bond	9,211,091	9,211,091	-0-	-0-
Large blend	19,479,250	19,479,250	-0-	-0-
Large growth	9,563,370	9,563,370	-0-	-0-
Large value	9,655,076	9,655,076	-0-	-0-
Multialternative	5,556,276	5,556,276	-0-	-0-
Short-term bond	15,389,383	15,389,383	-0-	-0-
Other	18,029,162	18,029,162	-0-	-0-
Total mutual funds	99,626,653	99,626,653	-0-	-0-
Common stocks				
Healthcare	1,427,058	1,427,058	-0-	-0-
	106,069,881	\$ 101,053,711	\$ 5,016,170	\$ -0-
Cash	1,367,988			
Total assets whose use is limited	\$ 107,437,869			
<b>Liabilities</b>				
Derivative	\$ 1,620,952	\$ -0-	\$ 1,620,952	\$ -0-
	December 31, 2019			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Assets whose use is limited				
Mutual funds				
Foreign large blend	\$ 18,491,329	\$ 18,491,329	\$ -0-	\$ -0-
Intermediate-term bond	15,292,420	15,292,420	-0-	-0-
Large blend	19,646,878	19,646,878	-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-
Other	1,735,950	1,735,950	-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	1,519,721			
Total assets whose use is limited	\$ 85,336,479			
<b>Liabilities</b>				
Derivative	\$ 1,380,683	\$ -0-	\$ 1,380,683	\$ -0-

# MARGARET MARY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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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 losses of approximately \$247,000 were recorded for 2020, and net realized gains of \$6,657,000 were recorded for 2019. 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, 2020 and 2019 and are reported in the consolidated statements of operations and changes in net assets in investment return. The Hospital recognized an unrealized gains of \$5,624,000 and \$3,800,000 during 2020 and 2019, respectively.

#### 4. PROPERTY AND EQUIPMENT, NET

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

	2020	2019
Land and improvements	\$ 6,077,267	\$ 6,070,728
Buildings and improvements	80,302,549	80,236,081
Fixed equipment	5,245,768	5,245,768
Movable and minor equipment	62,195,733	60,069,349
	153,821,317	151,621,926
Accumulated depreciation	(98,008,204)	(89,751,287)
	55,813,113	61,870,639
Construction in progress	384,041	80,557
	<u>\$ 56,197,154</u>	<u>\$ 61,951,196</u>

Depreciation expense for 2020 and 2019 was approximately \$8,267,000 and \$8,453,000 respectively. As of December 31, 2020, the Hospital had no significant outstanding commitments related to property and equipment.

#### 5. 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.

# MARGARET MARY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

As of December 31, 2020, the Hospital had outstanding an interest rate swap agreement with a financial institution, having a notional amount of \$10,155,000. 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 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, 2020 and 2019, the fair values of derivatives recorded in the consolidated balance sheets are as follows:

	2020	2019
Derivative liability	\$ 1,620,952	\$ 1,380,683

During 2020 and 2019, 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:

	2020	2019
Unrealized loss on derivative	\$ (240,269)	\$ (216,944)

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

### 6. LONG-TERM DEBT

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

	2020	2019
Indiana Finance Authority Health Facility Variable Rate Demand Revenue Bonds Series 2004A-1; dated March 1, 2004, due 2029	\$ 10,155,000	\$ 11,105,000
Indiana Finance Authority Health Facility Revenue Bonds Series 2010; dated December 1, 2010, due 2035	8,952,127	9,958,456
	19,107,127	21,063,456
Unamortized debt issue costs	(169,457)	(186,760)
Current portion	(2,020,681)	(1,956,329)
	<u>\$ 16,916,989</u>	<u>\$ 18,920,367</u>

## MARGARET MARY HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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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, 2020 and 2019 was 1.05% and 2.15%, 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, 2020 are as follows:

Year Ending December 31,	
2021	\$ 2,020,681
2022	2,091,206
2023	2,157,943
2024	2,235,935
2025	2,315,223
Thereafter	8,286,139
	<u>\$ 19,107,127</u>

#### 7. LINES OF CREDIT

The Hospital established two lines of credit up of \$5,000,000 each through a local financial institution. The interest rate on the lines of credit is one month LIBOR plus 1.25%, rounded to the nearest 0.125% (1.39% and 3.01% as of December 31, 2020 and 2019, respectively). The lines of credit are unsecured and mature in June 2021 and September 2026. The outstanding balance was \$-0- and \$4,000,000 as of December 31, 2020 and 2019, respectively.



# MARGARET MARY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### **8. LIQUIDITY AND AVAILABILITY OF RESOURCES**

As of December 31, 2020, the Hospital had approximately \$23,879,000 of financial assets available within one year of the consolidated balance sheet date to meet cash needs for general expenditure consisting of cash of \$6,758,000, patient accounts receivable of \$16,991,000 and other receivables (included in other current assets) of \$130,000. 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 \$29,044,000. 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, 2020, the Hospital had approximately \$101,027,000 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 \$5,000,000 available on its line of credit as of December 31, 2020.

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.

### **9. 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 2% in 2020 and 3% in 2019. 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 \$1,198,000 and \$1,757,000 for 2020 and 2019, respectively.

# MARGARET MARY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### 10. 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, 2020 and 2019 and for the years then ended were::

	Receivables		Revenues	
	2020	2019	2020	2019
Medicare	35%	42%	35%	32%
Medicaid	22%	16%	6%	4%
Blue Cross	12%	16%	24%	26%
Other third-party payors	20%	22%	32%	34%
Self pay	11%	4%	3%	4%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

### 11. 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 2020 and 2019 totaled approximately \$7,841,000 and \$9,297,000, 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.

### 12. 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.

## MARGARET MARY HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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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 February 2022. There was no outstanding balance on the letter of credit as of December 31, 2020 and 2019.

### **13. 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 state and local awards expended during the entities' annual reporting period. The Hospital did not expend any State or local awards during 2020 and 2019. Federal expenditures are included in the schedule of federal awards issued under separate cover.

### **14. 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, shortages of health care personnel, shortages of clinical supplies, and loss of, or reduction to, revenue. 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 consolidated financial statements were available to be issued.

## MARGARET MARY HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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During 2020, Provider Relief Fund (PRF) grants authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to health care providers impacted by the outbreak of the COVID-19 pandemic under Catalog of Federal Domestic Assistance (CFDA) #93.498. Revenues from PRF grants can be recognized to the extent of expenses incurred specific to responding to the COVID-19 pandemic. Eligible expenses must not be reimbursed from another source and not obligated to be reimbursed from another source. PRF grants that are not fully expended on eligible expenses can then be applied to lost revenues as defined by the guidance issued by the grantor. The Hospital received PRF grants of approximately \$9,812,000 during 2020. PRF funds are subject to recoupment by the grantor in the event that the conditions for recognition are not satisfied. As of December 31, 2020, approximately \$2,600,000 was recorded as refundable advances within the consolidated statements of operations and changes in net assets. Also, during 2020, the Hospital recognized \$7,212,000 of PRF grants as revenue, recorded in public support within the consolidated statements of operations and changes in net assets.

The CARES Act also allows health care providers to request advanced or accelerated payments for Medicare services. The Hospital received approximately \$11,568,000 of accelerated and advanced Medicare payments under this CARES Act provision through the date the consolidated financial statements were issued. Settlement of these funds is expected to begin in the second quarter of 2021. These funds are included on the consolidated balance sheets in other current liabilities as of December 31, 2020.

**SUPPLEMENTARY INFORMATION**

# MARGARET MARY HEALTH

## CONSOLIDATING BALANCE SHEET DECEMBER 31, 2020

<b>ASSETS</b>	Hospital	Foundation	Eliminations	Total
<b>Current assets</b>				
Cash	\$ 6,715,280	\$ 42,701	\$ -0-	\$ 6,757,981
Patient accounts receivable	16,990,507	-0-	-0-	16,990,507
Inventories and other current assets	3,531,235	56,800	(26,590)	3,561,445
Current portion of assets whose use is limited	2,020,681	-0-	-0-	2,020,681
Total current assets	29,257,703	99,501	(26,590)	29,330,614
<b>Assets whose use is limited</b>				
Board designated for capital improvements	101,026,620	-0-	-0-	101,026,620
Board designated for retirement plan	1,225,000	-0-	-0-	1,225,000
Held by Foundation	-0-	3,700,235	-0-	3,700,235
Donor restricted	123,569	1,238,278	-0-	1,361,847
Held by trustee for debt service	124,167	-0-	-0-	124,167
	102,499,356	4,938,513	-0-	107,437,869
Less current portion	(2,020,681)	-0-	-0-	(2,020,681)
Assets whose use is limited - noncurrent	100,478,675	4,938,513	-0-	105,417,188
<b>Property and equipment, net</b>	56,197,154	-0-	-0-	56,197,154
<b>Other assets</b>	523,010	-0-	-0-	523,010
Total assets	<u>\$ 186,456,542</u>	<u>\$ 5,038,014</u>	<u>\$ (26,590)</u>	<u>\$ 191,467,966</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 8,009,234	\$ 26,590	\$ (26,590)	\$ 8,009,234
Accrued wages and related liabilities	10,039,496	-0-	-0-	10,039,496
Refundable advances	2,600,000	-0-	-0-	2,600,000
Estimated third-party settlements	1,657,095	-0-	-0-	1,657,095
Other current liabilities	11,568,229	-0-	-0-	11,568,229
Current portion of long-term debt	2,020,681	-0-	-0-	2,020,681
Total current liabilities	35,894,735	26,590	(26,590)	35,894,735
<b>Other long-term liabilities</b>	1,222,241	-0-	-0-	1,222,241
<b>Derivative liability</b>	1,620,952	-0-	-0-	1,620,952
<b>Long-term debt, less current portion</b>	16,916,989	-0-	-0-	16,916,989
Total liabilities	55,654,917	26,590	(26,590)	55,654,917
<b>Net assets</b>				
Without donor restrictions				
Undesignated	28,426,436	3,773,146	-0-	32,199,582
Board designated	102,251,620	-0-	-0-	102,251,620
Total without donor restrictions	130,678,056	3,773,146	-0-	134,451,202
With donor restrictions	123,569	1,238,278	-0-	1,361,847
Total net assets	130,801,625	5,011,424	-0-	135,813,049
Total liabilities and net assets	<u>\$ 186,456,542</u>	<u>\$ 5,038,014</u>	<u>\$ (26,590)</u>	<u>\$ 191,467,966</u>

See report of independent auditors on pages 1 and 2.

## MARGARET MARY HEALTH

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

	Hospital	Foundation	Eliminations	Total
<b>Revenues</b>				
Patient service revenue	\$ 109,028,932	\$ -0-	\$ -0-	\$ 109,028,932
Other revenue	7,827,828	-0-	-0-	7,827,828
Total revenues	116,856,760	-0-	-0-	116,856,760
<b>Expenses</b>				
Salaries and wages	48,567,966	-0-	-0-	48,567,966
Employee benefits	13,059,038	-0-	-0-	13,059,038
Physician fees	6,552,415	-0-	-0-	6,552,415
Medical and surgical supplies	17,586,548	-0-	-0-	17,586,548
Purchased services	12,426,097	-0-	-0-	12,426,097
Utilities	1,373,963	-0-	-0-	1,373,963
Insurance	690,598	-0-	-0-	690,598
Depreciation	8,267,350	-0-	-0-	8,267,350
Interest	871,711	-0-	-0-	871,711
Other	7,355,480	-0-	-0-	7,355,480
Total expenses	116,751,166	-0-	-0-	116,751,166
Operating income	105,594	-0-	-0-	105,594
<b>Nonoperating revenues (expenses)</b>				
Contributions	248,907	215,567	(144,502)	319,972
Gain on disposal of property and equipment	32,000	-0-	-0-	32,000
Program expenses	-0-	(144,502)	144,502	-0-
In-kind revenue	-0-	378,354	(378,354)	-0-
In-kind expense	-0-	(378,354)	378,354	-0-
Investment return, net	7,943,481	440,558	-0-	8,384,039
Unrealized loss on derivative	(240,269)	-0-	-0-	(240,269)
Net assets released from restriction	115,856	103,662	-0-	219,518
Total nonoperating revenues (expenses)	8,099,975	615,285	-0-	8,715,260
Revenues over expenses	8,205,569	615,285	-0-	8,820,854
<b>Net assets with donor restrictions</b>				
Contributions	96,800	162,060	-0-	258,860
Net assets released from restriction	(115,856)	(103,662)	-0-	(219,518)
Change in net assets with donor restrictions	(19,056)	58,398	-0-	39,342
Change in net assets	8,186,513	673,683	-0-	8,860,196
<b>Net assets</b>				
Beginning of year	122,615,112	4,337,741	-0-	126,952,853
End of year	\$ 130,801,625	\$ 5,011,424	\$ -0-	\$ 135,813,049

See report of independent auditors on pages 1 and 2.

# MARGARET MARY HEALTH

## CONSOLIDATING BALANCE SHEET DECEMBER 31, 2019

<b>ASSETS</b>	Hospital	Foundation	Eliminations	Total
<b>Current assets</b>				
Cash	\$ 2,613,602	\$ 314,386	\$ -0-	\$ 2,927,988
Patient accounts receivable, net	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
<b>Assets whose use is limited</b>				
Board designated for capital improvements	79,553,654	-0-	-0-	79,553,654
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
	81,198,046	4,138,433	-0-	85,336,479
Less current portion	(1,956,329)	-0-	-0-	(1,956,329)
Assets whose use is limited - noncurrent	79,241,717	4,138,433	-0-	83,380,150
<b>Property and equipment, net</b>	61,951,196	-0-	-0-	61,951,196
<b>Other assets</b>	273,010	-0-	-0-	273,010
Total assets	<u>\$ 169,664,985</u>	<u>\$ 4,513,819</u>	<u>\$ (176,078)</u>	<u>\$ 174,002,726</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities</b>				
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
Refundable advances	-0-	-0-	-0-	-0-
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
<b>Other long-term liabilities</b>	1,042,429	-0-	-0-	1,042,429
<b>Derivative liability</b>	1,380,683	-0-	-0-	1,380,683
<b>Long-term debt, less current portion</b>	18,920,367	-0-	-0-	18,920,367
Total liabilities	47,049,873	176,078	(176,078)	47,049,873
<b>Net assets</b>				
Without donor restrictions				
Undesignated	41,538,733	3,157,861	-0-	44,696,594
Board designated	80,933,754	-0-	-0-	80,933,754
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	<u>\$ 169,664,985</u>	<u>\$ 4,513,819</u>	<u>\$ (176,078)</u>	<u>\$ 174,002,726</u>

See report of independent auditors on pages 1 and 2.



## MARGARET MARY HEALTH

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

	Hospital	Foundation	Eliminations	Total
<b>Revenues</b>				
Patient service revenue	\$ 104,940,411	\$ -0-	\$ -0-	\$ 104,940,411
Other revenue	1,039,970	-0-	-0-	1,039,970
Total revenues	105,980,381	-0-	-0-	105,980,381
<b>Expenses</b>				
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
Purchased services	11,711,681	-0-	-0-	11,711,681
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	7,904,468	-0-	-0-	7,904,468
Total expenses	115,761,737	-0-	-0-	115,761,737
Operating loss	(9,781,356)	-0-	-0-	(9,781,356)
<b>Nonoperating revenues (expenses)</b>				
Contributions	386,840	283,712	(187,926)	482,626
Program expense	-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 revenues (expenses)	13,321,781	786,723	-0-	14,108,504
Revenues over expenses	3,540,425	786,723	-0-	4,327,148
<b>Net assets with donor restrictions</b>				
Contributions	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
<b>Net assets</b>				
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.



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

Board of Directors  
Margaret Mary Health  
Batesville, Indiana

Report on the Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2020, and the related consolidated statements of operations, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 27, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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  
Margaret Mary Health  
Batesville, 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

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

**Blue & Co., LLC**

Indianapolis, Indiana  
May 27, 2021