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July 1, 2020

Board of Trustees
Witham Health Services
2605 North Lebanon Street
Lebanon, IN 46052

We have reviewed the audit report of Witham Health Services which was opined on by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2019 to December 31, 2019. Per the *Report of Independent Auditors*, the financial statements included in the report present fairly the financial condition of the Witham Health Services as of December 31, 2019, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts.

The audit report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner



Small Hospital. Big Medicine.

CONSOLIDATED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019

CPAs / ADVISORS



WITHAM HEALTH SERVICES

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Witham Health Services
Lebanon, Indiana

We have audited the accompanying consolidated financial statements of Witham Health Services (the Hospital), a component unit of Boone County, and its affiliates as of and for the year ended December 31, 2019, and the related notes to the consolidated financial statements, which collectively comprise the Hospital's basic consolidated financial statements as listed in the accompanying table of contents.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit 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 opinions.

Board of Trustees
Witham Health Services
Lebanon, Indiana

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of December 31, 2019, and the results of its operations, changes in its net position, and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Hospital's 2018 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated May 29, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Blue & Co., LLC

Indianapolis, Indiana
May 27, 2020

REQUIRED SUPPLEMENTARY INFORMATION

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

This section of Witham Health Services' (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during the year ended December 31, 2019 with comparative amounts for December 31, 2018 and 2017. This MD&A does include a discussion and analysis of the activities and results of the Blended Component Units, Medical Office Properties, LLC and Central Indiana Health Association, Inc. and the Discrete Component Unit, Witham Health Services Foundation, Inc. (the Foundation). Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- The Hospital's net position increased approximately \$25,194,000 in 2019 compared to \$22,543,000 in 2018.
- The Hospital reported operating income of approximately \$17,285,000 for 2019, representing a decrease of \$5,681,000 in comparison to 2018 results. Operating income for 2018 of \$22,966,000 was \$3,498,000 less than 2017.
- Total revenues increased by approximately \$19,823,000 in 2019 compared to 2018. In 2018, total revenue decreased \$697,000 over 2017.
- Long-term care services generated approximately \$314,915,000 and \$313,842,000 in gross patient service revenue during 2019 and 2018, respectively. In 2017, long-term care services generated approximately \$334,045,000 in gross patient service revenue.

USING THIS ANNUAL REPORT

The Hospital's consolidated financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These consolidated financial statements and related notes provide information about the consolidated activities and the financial position of the Hospital.

The consolidated balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities).

All of the current year's revenue earned and expenses incurred are accounted for in the consolidated statement of revenues, expenses and changes in net position.

Finally, the consolidated statement of cash flows' purpose is to provide information about the Hospital's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and what was the change in cash balance during the year.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

THE CONSOLIDATED BALANCE SHEET AND CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The consolidated balance sheet and the consolidated statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. Think of the Hospital's net position, the difference between assets and liabilities, as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Consolidated Balance Sheets

	2019	2018	2019-2018 Change	2017	2018-2017 Change
Assets					
Current assets	\$ 173,618,361	\$ 173,587,741	\$ 30,620	\$ 183,941,101	\$ (10,353,360)
Assets whose use is limited	15,466,950	15,440,492	26,458	6,423,761	9,016,731
Capital assets, net	151,673,620	133,639,566	18,034,054	108,932,216	24,707,350
Other assets	5,175,856	5,141,476	34,380	4,923,569	217,907
Total assets	345,934,787	327,809,275	18,125,512	304,220,647	23,588,628
Deferred outflows	1,043,956	1,148,352	(104,396)	1,252,748	(104,396)
Total assets and deferred outflows	<u>\$ 346,978,743</u>	<u>\$ 328,957,627</u>	<u>\$ 18,021,116</u>	<u>\$ 305,473,395</u>	<u>\$ 23,484,232</u>
Liabilities					
Current liabilities	\$ 65,698,945	\$ 67,570,811	\$ (1,871,866)	\$ 62,576,153	\$ 4,994,658
Long-term debt	37,483,923	42,462,116	(4,978,193)	46,286,434	(3,824,318)
Other liabilities	2,723,335	3,046,000	(322,665)	3,275,000	(229,000)
Total liabilities	105,906,203	113,078,927	(7,172,724)	112,137,587	941,340
Net position					
Net investment in capital assets	109,211,503	86,308,132	22,903,371	57,899,239	28,408,893
Restricted					
Trustee held for debt service and capital	16,731,584	16,422,908	308,676	7,039,004	9,383,904
Expendable for donor restriction	925,031	778,584	146,447	744,746	33,838
Total restricted	17,656,615	17,201,492	455,123	7,783,750	9,417,742
Unrestricted					
Designated for capital improvements	-0-	-0-	-0-	52,011	(52,011)
Other internal designations	3,176,335	3,499,000	(322,665)	3,700,000	(201,000)
Undesignated	111,028,087	108,870,076	2,158,011	123,900,808	(15,030,732)
Total unrestricted	114,204,422	112,369,076	1,835,346	127,652,819	(15,283,743)
Total net position	241,072,540	215,878,700	25,193,840	193,335,808	22,542,892
Total liabilities and net position	<u>\$ 346,978,743</u>	<u>\$ 328,957,627</u>	<u>\$ 18,021,116</u>	<u>\$ 305,473,395</u>	<u>\$ 23,484,232</u>

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

Total assets and deferred outflows in 2019 increased approximately \$18,021,000 over 2018 primarily due to activity in long-term care services and capital assets. Investments, patient accounts receivable, other assets, capital assets, and deferred outflows increased in total by \$16,961,000 over 2018, while cash and assets whose use is limited increased by \$1,060,000 over 2018.

Total liabilities decreased approximately \$7,173,000 over 2018 mainly due to principal payments on long-term debt and a decrease in accounts payable.

Total assets and deferred outflows in 2018 increased approximately \$23,484,000 over 2017 primarily due to activity in long-term care services and capital assets. Investments, patient accounts receivable, other assets, capital assets, and deferred outflows increased in total by \$13,360,000 over 2017, while cash and assets whose use is limited increased by \$10,124,000 over 2017.

Total liabilities increased approximately \$941,000 over 2017 mainly due to an increase in accounts payable partially offset by principal payments on long-term debt.

Consolidated Statements of Revenues, Expenses and Changes in Net Position

	2019	2018	2019-2018 Change	2017	2018-2017 Change
Revenues					
Net patient service revenue	\$ 449,788,680	\$ 429,571,204	\$ 20,217,476	\$ 427,735,198	\$ 1,836,006
Other operating revenue	5,354,398	5,749,156	(394,758)	8,282,270	(2,533,114)
Total revenues	455,143,078	435,320,360	19,822,718	436,017,468	(697,108)
Expenses					
Salaries and benefits	87,413,985	77,364,237	10,049,748	67,219,597	10,144,640
Supplies	88,818,987	85,915,777	2,903,210	85,924,804	(9,027)
Depreciation	9,068,269	8,381,015	687,254	7,943,272	437,743
Other operating expenses	252,557,297	240,693,527	11,863,770	248,466,374	(7,772,847)
Total expenses	437,858,538	412,354,556	25,503,982	409,554,047	2,800,509
Operating income	17,284,540	22,965,804	(5,681,264)	26,463,421	(3,497,617)
Nonoperating revenue (expense), net	7,909,300	(422,912)	8,332,212	2,940,774	(3,363,686)
Change in net position	25,193,840	22,542,892	2,650,948	29,404,195	(6,861,303)
Net position					
Beginning of year	215,878,700	193,335,808	22,542,892	163,931,613	29,404,195
End of year	\$ 241,072,540	\$ 215,878,700	\$ 25,193,840	\$ 193,335,808	\$ 22,542,892

The main component of the overall change in the Hospital's net position is operating income. In 2018, the Hospital reported operating income of approximately \$22,966,000 compared to 2019 of \$17,285,000, which is a decrease of \$5,681,000 from 2018. The main reason relates to increases in health insurance (\$4,400,000) and HAF and HIP programs expenses (\$3,600,000) in 2019.

Nonoperating revenue (expense) consists primarily of investment return, interest expense and Foundation revenue and expenses. The nonoperating items changed from a net expense of approximately \$423,000 in 2018 to a net revenue of \$7,909,000 in 2019. The increase of \$8,332,000 is primarily due to an increase in investment return in 2019 compared to 2018.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

Operating income in 2018 was approximately \$3,498,000 less than 2017. The primary reason for the change in operating income was a decrease in operating revenue of approximately \$697,000 compared to an increase in operating expense of approximately \$2,801,000.

CONSOLIDATED STATEMENT OF CASH FLOWS

The final required statement is the consolidated statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing and investing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

	2019	2018	2019-2018 Change	2017	2018-2017 Change
Cash flows from					
Operating	\$ 44,052,355	\$ 54,232,813	\$ (10,180,458)	\$ 49,918,793	\$ 4,314,020
Capital and related financing	(31,880,472)	(33,571,564)	1,691,092	(23,224,658)	(10,346,906)
Investing	(11,341,637)	(11,798,929)	457,292	(15,009,744)	3,210,815
Change in cash and cash equivalents	<u>\$ 830,246</u>	<u>\$ 8,862,320</u>	<u>\$ (8,032,074)</u>	<u>\$ 11,684,391</u>	<u>\$ (2,822,071)</u>

Operating activities generated cash and cash equivalents of approximately \$44,052,000 in 2019. Capital and related financing activities used cash of approximately \$31,880,000 in 2019. Two significant components of capital and related financing activities include cash used to purchase capital assets of approximately \$26,656,000 and cash paid for principal and interest of approximately \$5,224,000 in 2019. Investing activities reduced cash by approximately \$11,342,000 in 2019 mainly due to classification changes between investments and cash equivalents.

2018 generated cash and cash equivalents of approximately \$8,862,000. 2017 generated cash and cash equivalents of approximately \$11,684,000. The primary difference related to the change in capital and related financing activities of approximately \$10,347,000 mainly due to cash used to purchase capital assets.

SOURCES OF REVENUE

During 2019, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 63% of the Hospital's gross revenues in 2019, 62% in 2018 and 61% in 2017.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

Following is a table of major sources of gross patient revenues for 2019, 2018 and 2017:

	2019	2018	2017
Medicare	48%	47%	44%
Medicaid	15%	15%	17%
Commercial	32%	33%	34%
Self Pay	5%	5%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

CAPITAL ASSETS

At December 31, 2019, the Hospital had approximately \$151,674,000 invested in capital assets, net of accumulated depreciation, as detailed below.

	2019	2018	2019-2018 Change	2017	2018-2017 Change
Land and improvements	\$ 17,368,889	\$ 17,250,327	\$ 118,562	\$ 16,454,664	\$ 795,663
Buildings and improvements	99,943,054	97,035,002	2,908,052	96,545,930	489,072
Equipment	91,560,306	76,954,051	14,606,255	68,067,412	8,886,639
Construction in progress	38,310,413	29,163,673	9,146,740	6,268,350	22,895,323
Total property and equipment	247,182,662	220,403,053	26,779,609	187,336,356	33,066,697
Less accumulated depreciation	95,509,042	86,763,487	8,745,555	78,404,140	8,359,347
Capital assets, net	<u>\$ 151,673,620</u>	<u>\$ 133,639,566</u>	<u>\$ 18,034,054</u>	<u>\$ 108,932,216</u>	<u>\$ 24,707,350</u>

Net capital assets increased by approximately \$18,034,000 in 2019 compared to 2018 as current year additions outpaced depreciation expense. The change between 2018 and 2017 was approximately \$24,707,000 as 2018 additions outpaced depreciation expense. More detailed information about the Hospital's capital assets is presented in the notes to the consolidated financial statements.

DEBT

The Hospital's debt consists of revenue bonds and loans payable. There were no new borrowings or significant changes in long-term debt during 2019 and 2018. During 2017, the Hospital refunded its 2010 revenue bonds within 2017 revenue bonds. More detailed information about the Hospital's long-term debt is presented in the notes to the consolidated financial statements.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

ECONOMIC OUTLOOK

Subsequent to year end, 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 operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of health care personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines.

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure as a result of COVID-19, changes in payor mix, and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The significant factor affecting the Hospital is finding the balance in maintaining and controlling labor costs in the face of declining volumes and pressures on pricing for its services in this increasingly competitive environment.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Hospital Controller's Office, at PO Box 1200, Lebanon, IN, 46052.

WITHAM HEALTH SERVICES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	2019			2018	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
ASSETS AND DEFERRED OUTFLOWS					
Current assets					
Cash and cash equivalents	\$ 59,819,511	\$ 3,480,491	\$ -0-	\$ 63,300,002	\$ 62,372,416
Investments	66,068,930	2,083,216	-0-	68,152,146	66,698,903
Patient accounts receivable, less allowance for uncollectible accounts of \$7,555,000 in 2019 and \$9,070,000 in 2018	25,574,527	-0-	-0-	25,574,527	22,864,855
Other receivables	7,445,133	-0-	-0-	7,445,133	12,507,958
Inventory and other current assets	3,719,590	60,963	-0-	3,780,553	3,883,609
Current portion of assets whose use is limited	5,366,000	-0-	-0-	5,366,000	5,260,000
Total current assets	167,993,691	5,624,670	-0-	173,618,361	173,587,741
Assets whose use is limited					
Held by trustee for debt service and capital	16,731,584	-0-	-0-	16,731,584	16,422,908
Other board designated	3,176,335	-0-	-0-	3,176,335	3,499,000
Donor restricted	-0-	925,031	-0-	925,031	778,584
Total assets whose use is limited	19,907,919	925,031	-0-	20,832,950	20,700,492
Less current portion	5,366,000	-0-	-0-	5,366,000	5,260,000
Noncurrent assets whose use is limited	14,541,919	925,031	-0-	15,466,950	15,440,492
Capital assets					
Land and improvements	17,368,889	-0-	-0-	17,368,889	17,250,327
Depreciable capital assets	191,503,360	-0-	-0-	191,503,360	173,989,053
Construction in progress	38,310,413	-0-	-0-	38,310,413	29,163,673
	247,182,662	-0-	-0-	247,182,662	220,403,053
Less accumulated depreciation	95,509,042	-0-	-0-	95,509,042	86,763,487
Capital assets, net	151,673,620	-0-	-0-	151,673,620	133,639,566
Other assets					
Investment in affiliates and other	2,782,976	-0-	-0-	2,782,976	2,875,632
Other	2,897,880	-0-	(505,000)	2,392,880	2,265,844
Total other assets	5,680,856	-0-	(505,000)	5,175,856	5,141,476
Total assets	339,890,086	6,549,701	(505,000)	345,934,787	327,809,275
Deferred outflows	1,043,956	-0-	-0-	1,043,956	1,148,352
Total assets and deferred outflows	\$ 340,934,042	\$ 6,549,701	\$ (505,000)	\$ 346,978,743	\$ 328,957,627

See accompanying notes to consolidated financial statements.

WITHAM HEALTH SERVICES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	2019			2018	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
LIABILITIES AND NET POSITION					
Current liabilities					
Accounts payable	\$ 41,068,725	\$ -0-	\$ -0-	\$ 41,068,725	\$ 42,432,111
Accrued salaries and related liabilities	14,478,495	-0-	-0-	14,478,495	14,188,404
Accrued expenses and other current liabilities	3,708,530	505,001	(505,000)	3,708,531	5,018,390
Estimated third-party settlements	1,465,000	-0-	-0-	1,465,000	1,062,588
Current portion of long-term debt					
Loans payable	65,194	-0-	-0-	65,194	62,318
Revenue bonds payable	4,913,000	-0-	-0-	4,913,000	4,807,000
Total current liabilities	65,698,944	505,001	(505,000)	65,698,945	67,570,811
Long-term debt, net of current portion					
Loans payable	151,923	-0-	-0-	151,923	217,116
Revenue bonds payable	37,332,000	-0-	-0-	37,332,000	42,245,000
Total long-term debt	37,483,923	-0-	-0-	37,483,923	42,462,116
Other liabilities	2,723,335	-0-	-0-	2,723,335	3,046,000
Total liabilities	105,906,202	505,001	(505,000)	105,906,203	113,078,927
Net position					
Net investment in capital assets	109,211,503	-0-	-0-	109,211,503	86,308,132
Restricted					
Trustee held for debt service and capital	16,731,584	-0-	-0-	16,731,584	16,422,908
Expendable for donor restriction	-0-	925,031	-0-	925,031	778,584
Total restricted	16,731,584	925,031	-0-	17,656,615	17,201,492
Unrestricted					
Other internal designations	3,176,335	-0-	-0-	3,176,335	3,499,000
Undesignated	105,908,418	5,119,669	-0-	111,028,087	108,870,076
Total unrestricted	109,084,753	5,119,669	-0-	114,204,422	112,369,076
Total net position	235,027,840	6,044,700	-0-	241,072,540	215,878,700
Total liabilities and net position	\$ 340,934,042	\$ 6,549,701	\$ (505,000)	\$ 346,978,743	\$ 328,957,627

See accompanying notes to consolidated financial statements.

WITHAM HEALTH SERVICES

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	2019			2018	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Operating revenues					
Net patient service revenue	\$ 449,788,680	\$ -0-	\$ -0-	\$ 449,788,680	\$ 429,571,204
Other operating revenue	5,354,398	-0-	-0-	5,354,398	5,749,156
Total operating revenues	455,143,078	-0-	-0-	455,143,078	435,320,360
Operating expenses					
Salaries and wages	64,740,665	-0-	-0-	64,740,665	59,304,797
Employee benefits	22,673,320	-0-	-0-	22,673,320	18,059,440
Professional medical fees	6,918,566	-0-	-0-	6,918,566	7,121,405
Purchased services	174,913,171	-0-	-0-	174,913,171	174,017,623
Supplies	88,818,987	-0-	-0-	88,818,987	85,915,777
Repairs and maintenance	5,269,768	-0-	-0-	5,269,768	5,087,838
Equipment and facility rental	43,717,030	-0-	-0-	43,717,030	36,841,316
Utilities	8,960,350	-0-	-0-	8,960,350	8,720,873
Depreciation	9,068,269	-0-	-0-	9,068,269	8,381,015
Insurance	2,179,663	-0-	-0-	2,179,663	1,723,155
HAF and HIP programs	6,439,643	-0-	-0-	6,439,643	2,882,122
Other expenses	4,159,106	-0-	-0-	4,159,106	4,299,195
Total operating expenses	437,858,538	-0-	-0-	437,858,538	412,354,556
Operating income	17,284,540	-0-	-0-	17,284,540	22,965,804
Nonoperating revenue (expense)					
Investment return	7,168,957	478,610	-0-	7,647,567	(609,765)
Interest expense	(302,096)	-0-	-0-	(302,096)	(879,702)
Foundation revenue	-0-	477,513	-0-	477,513	388,111
Foundation expense	-0-	(714,765)	520,000	(194,765)	(186,869)
Gain on investment in affiliates	228,787	-0-	-0-	228,787	850,824
Other nonoperating revenue (expense)	572,294	-0-	(520,000)	52,294	14,489
Total nonoperating revenue (expense), net	7,667,942	241,358	-0-	7,909,300	(422,912)
Change in net position	24,952,482	241,358	-0-	25,193,840	22,542,892
Net position					
Beginning of year	210,075,358	5,803,342	-0-	215,878,700	193,335,808
End of year	\$ 235,027,840	\$ 6,044,700	\$ -0-	\$ 241,072,540	\$ 215,878,700

See accompanying notes to consolidated financial statements.

WITHAM HEALTH SERVICES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	2019			2018	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Operating activities					
Cash received from patient services	\$ 458,261,475	\$ -0-	\$ -0-	\$ 458,261,475	\$ 447,762,445
Cash paid for salaries, wages and benefits	(87,123,894)	-0-	-0-	(87,123,894)	(76,238,961)
Cash paid to vendors and suppliers	(332,944,349)	-0-	-0-	(332,944,349)	(323,049,312)
Other receipts, net	5,354,398	504,725	-0-	5,859,123	5,758,641
Net cash flows from operating activities	43,547,630	504,725	-0-	44,052,355	54,232,813
Capital and related financing activities					
Acquisition and construction of capital assets	(26,656,622)	-0-	-0-	(26,656,622)	(29,281,542)
Cash paid for interest on long-term debt	(354,533)	-0-	-0-	(354,533)	(588,479)
Principal payments on long-term debt	(4,869,317)	-0-	-0-	(4,869,317)	(3,701,543)
Net cash flows from capital and related financing activities	(31,880,472)	-0-	-0-	(31,880,472)	(33,571,564)
Investing activities					
Investment return	7,168,957	478,610	-0-	7,647,567	(609,765)
Purchase of investments	(24,013,954)	(659,149)	-0-	(24,673,103)	(15,370,904)
Proceeds from sale of investments	5,438,566	16,546	-0-	5,455,112	3,330,916
Cash from investments in affiliates, net	228,787	-0-	-0-	228,787	850,824
Net cash flows from investing activities	(11,177,644)	(163,993)	-0-	(11,341,637)	(11,798,929)
Net change in cash and cash equivalents	489,514	340,732	-0-	830,246	8,862,320
Cash and cash equivalents					
Beginning of year	79,614,797	4,064,790	-0-	83,679,587	74,817,267
End of year	<u>\$ 80,104,311</u>	<u>\$ 4,405,522</u>	<u>\$ -0-</u>	<u>\$ 84,509,833</u>	<u>\$ 83,679,587</u>
Reconciliation of cash and cash equivalents to the consolidated balance sheets					
Cash and cash equivalents					
Included in current assets	\$ 59,819,511	\$ 3,480,491	\$ -0-	\$ 63,300,002	\$ 62,372,416
In investments	376,881	-0-	-0-	376,881	606,679
In assets whose use is limited - held by trustee	16,731,584	-0-	-0-	16,731,584	16,422,908
In assets whose use is limited - designated	3,176,335	-0-	-0-	3,176,335	3,499,000
In assets whose use is limited - donor restricted	-0-	925,031	-0-	925,031	778,584
Total cash and cash equivalents	<u>\$ 80,104,311</u>	<u>\$ 4,405,522</u>	<u>\$ -0-</u>	<u>\$ 84,509,833</u>	<u>\$ 83,679,587</u>

See accompanying notes to consolidated financial statements.

WITHAM HEALTH SERVICES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	2019			2018	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Reconciliation of operating income to net cash flows from operating activities					
Operating income	\$ 17,284,540	\$ -0-	\$ -0-	\$ 17,284,540	\$ 22,965,804
Adjustment to reconcile operating income to net cash flows from operating activities					
Depreciation	9,068,269	-0-	-0-	9,068,269	8,381,015
Provision for bad debts	10,780,055	-0-	-0-	10,780,055	10,198,513
Changes in operating assets and liabilities					
Patient accounts receivable	3,729,971	-0-	-0-	3,729,971	11,037,708
Other receivables	5,062,825	-0-	-0-	5,062,825	1,544,722
Inventory and other current assets	97,196	5,860	-0-	103,056	(648,471)
Accounts payable	(1,859,005)	-0-	-0-	(1,859,005)	(1,523,455)
Accrued salaries and related liabilities	290,091	-0-	-0-	290,091	1,125,276
Accrued expenses and other current liabilities	(1,308,724)	498,865	-0-	(809,859)	1,314,559
Estimated third-party settlements	402,412	-0-	-0-	402,412	(162,858)
Net cash flows from operating activities	<u>\$ 43,547,630</u>	<u>\$ 504,725</u>	<u>\$ -0-</u>	<u>\$ 44,052,355</u>	<u>\$ 54,232,813</u>
Noncash capital and related financing activities					
Capital asset acquisitions in accounts payable	\$ 495,619	\$ -0-	\$ -0-	\$ 495,619	\$ 4,118,361

See accompanying notes to consolidated financial statements.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Witham Health Services (the Hospital) is a county owned facility operating under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient, outpatient health care and long-term care services. The Board of County Commissioners of Boone County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Boone County.

In 2000, the Board of County Commissioners of Boone County, upon written request of the Hospital Board of Trustees, created the Boone County Hospital Association (the Association). The Association was created pursuant to the provisions of IC 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

For financial reporting purposes, the Hospital's reporting entity consists of the primary government and component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government.

The consolidated financial statements include certain prior year summarized comparative information in total but not by discrete component unit. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Hospital's consolidated financial statements as of December 31, 2018 and for the year ended, from which the summarized information was derived.

Blended Component Units

Blended component units, although legally separate entities are in substance part of the government's operations and exist solely to provide services for the government; data from these units is consolidated with data of the primary government. The Hospital appoints a voting majority of the Medical Office Properties, LLC (MOP, LLC) and Central Indiana Health Association, Inc. (CIHA) boards and is able to impose its will and a financial benefit/burden relationship exists between the Hospital and MOP, LLC and CIHA. Although they are legally separate from the Hospital, MOP, LLC and CIHA are reported as if they were part of the Hospital because the boards are substantively the same and they provide services entirely or almost entirely to the Hospital. The Hospital is 100% owner of MOP, LLC and is the sole corporate member of CIHA. Thus, there is no non-controlling interest that is required to be disclosed.

The Association is a blended component unit consolidated within the Hospital's activities for financial reporting purposes. All significant transactions between the Hospital, MOP, LLC and CIHA and the Association have been eliminated for financial reporting purposes.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Discrete Component Units

Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the consolidated financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Witham Health Services Foundation, Inc. (the Foundation) is considered a discrete component unit for reporting purposes. All significant transactions between the Hospital and the Foundation have been eliminated for financial reporting purposes.

Long-Term Care Services

The Hospital owns the operations of various long-term care facilities through arrangements with multiple managers (the managers) of the long-term care facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

The Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the managers. Concurrently, the Hospital entered into agreements with the managers to manage the above leased facilities. As part of the agreements, the Hospital pays the managers a management fee to manage the facilities on behalf of the Hospital in accordance with the terms of the agreements. The agreements expire at various times through March 2027. All parties involved can terminate the agreements without cause with 90 days written notice.

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.

Measurement Focus and Basis of Accounting

The consolidated financial statements are reported using the economic resources measurement focus and on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing related to cash flows.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include all demand deposits and investments in highly liquid debt instruments with an original maturity date of three months when purchased.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Investments

Nonparticipating certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at contract value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or a United States Government Agency. Debt securities are reported at fair value. Mutual funds are reported at fair value based on the fund's market price. Other investments are generally reported at fair value. Investment income, including changes in the fair value of investments, is reported as non-operating income in the consolidated statements of revenues, expenses and changes in net position.

Patient Accounts Receivable and Net Patient Service Revenue

The Hospital provides services to patients who reside primarily in the local geographic region. Patient accounts receivable and patient service revenues are recorded when patient services are performed and are reported based on gross charges, net of certain deductions from those charges. 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 reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping. The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue.

At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2017.

Amounts for unresolved cost reports for 2019 and 2018 are reflected in estimated third-party settlements on the consolidated balance sheets. The Hospital recognized a decrease of approximately \$402,000 during 2019 and an increase of approximately \$163,000 during 2018 in net patient service revenue in the consolidated statements of revenues, expenses and changes in net position, due to differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

Charity Care and Assistance to the Uninsured

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net practice revenue. The charity care charges foregone during 2019 and 2018 were approximately \$3,128,000 and \$2,710,000, respectively. The Hospital did not change its charity care policy during 2019.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Of the Hospital's total expenses reported, an estimated \$1,005,000 and \$850,000 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, which includes interest expense and excludes Hospital Assessment Fee Program expense, to gross patient service revenue.

The Hospital has a policy with discounted rates similar to contractual payors for uninsured patients. Uninsured self-pay discounts provided to patients were approximately \$6,158,000 and \$2,616,000 for 2019 and 2018, respectively.

Other Receivables

Other receivables consist mainly of amounts due for reimbursement for long-term care services and are classified as current as they are expected to be received during 2020.

Inventory and Other Current Assets

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory at year-end consists mainly of pharmaceuticals and medical supplies.

Other current assets consist of prepaid expenses and various other current items. These assets are classified as current as they are expected to be utilized during 2020.

Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes, investments held by trustees for debt service and capital improvements and assets that are donor restricted. These investments consist primarily of cash and cash equivalents, money market mutual funds, certificates of deposit, United States government securities and mutual funds. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenue (expense) in the consolidated statements of revenues, expenses and changes in net position.

Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed \$500 and which meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred. The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

The range of useful lives in computing depreciation is as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	5 to 20 years
Buildings and improvements	10 to 40 years
Fixed equipment	10 to 40 years
Major moveable equipment	3 to 15 years
Minor equipment	3 to 15 years

Deferred Outflows - Loss on Bond Refunding

Deferred outflows of resources represent a consumption of net position that applies to future periods and is recognized as an outflow of resources (expense/expenditure) over a period of time specific to the event which created the deferred outflow. During 2017, the Hospital recorded a loss on bond refunding of its Series 2010 Bonds of approximately \$1,253,000 which is amortized through 2029 as a component of interest expense.

Other Long-Term Liabilities

Other long-term liabilities consist of obligations and commitments related to community supported programs and activities. The commitments expire at various times through 2026.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted includes net position held by trustee for debt service requirements and capital or donor restrictions. Unrestricted net position includes designated for capital improvements and undesignated net position that does not meet the definition of invested in capital assets net of related debt or restricted.

Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Hospital's consolidated statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenue and expense. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions such as investment activities are reported as nonoperating revenue and expense.

Restricted Resources

The Hospital first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Grants and Contributions

From time to time, the reporting entity receives contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all requirements are met. Grants may be restricted for either specific operation purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest expense capitalized in 2019 and 2018 was approximately \$782,000 and \$355,000, respectively.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

The Association is a governmental instrumentality organized under IC 16-22-6 and is exempt from Federal income tax under Section 115 of the Internal Revenue. As such, the Association is generally exempt from income taxes and is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax.

The Foundation and CIHA are tax-exempt organizations under section 501(c)(3). As such, they are generally exempt from income taxes. However, they are required to file Federal Form 990 – Return of Organization from Income Tax.

MOP, LLC is organized as a limited liability company, whereby net taxable income is taxed directly to the members and not the entity. Thus, the consolidated financial statements do not include any provision for Federal or state income taxes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital (and its affiliates) and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various Federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and has concluded that as of 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 is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

These entities have 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).

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. The estimated amount of unused time off is reported as a liability in the consolidated financial statements.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settlements, if any, did not exceed coverage for any of the past three fiscal years.

Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. For claims on or after July 1, 1999 and before July 1, 2017 the Indiana Medical Malpractice Act (the Act) provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Indiana Patient Compensation Fund (the Fund). For claims on or after July 1, 2017 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 or \$12,000,000 in the annual aggregate based on hospital bed size) until June 30, 2019. On 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 or \$15,000,000 in the annual aggregate based on hospital bed size). The Act also requires the Hospital to pay a surcharge to the Fund. The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

The Hospital is a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund the Hospital's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage. In addition, the Hospital maintains a commercial umbrella/excess liability policy with a limit of \$1,000,000 each occurrence, \$1,000,000 fire legal liability, \$1,000,000 personal and advertising injury, and a \$3,000,000 total policy aggregate. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Hospital's cost for such claims for the year, and it has been charged to operations as a current expense.

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.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Litigation

The Hospital is exposed to litigation arising in the normal course of business. After consultation with legal counsel, management estimates that any matters will be resolved without material adverse effect on the Hospital's future financial position, results from operations or cash flows.

Advertising

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expense was approximately \$66,000 and \$88,000 for 2019 and 2018, respectively.

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to 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, 2020.

Recently Issued Accounting Standards

In January 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governmental entities. The focus of the criteria generally is on (1) whether a government entity is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. As a result, pension and other postemployment benefit plans (both defined contribution plans and defined benefit plans) should now be reported within the statement of fiduciary net position and statement of changes in fiduciary net position of the governmental entity. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 84, *Fiduciary Activities*, by one year. GASB Statement No. 84 will be effective for periods beginning after December 15, 2019.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 87, *Leases*, by 18 months. GASB Statement No. 87 will be effective for periods beginning after June 15, 2021.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

In March 2018, GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, by one year. GASB Statement No. 88 will be effective for periods beginning after June 15, 2019.

In June 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, by one year. GASB Statement No. 89 will be effective for periods beginning after December 15, 2020.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61*, which clarifies the financial reporting for majority owned equity interests in the financial statements of entities that hold such interests. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 90, *Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61*, by one year. GASB Statement No. 90 will be effective for periods beginning after December 15, 2019.

The Hospital is presently evaluating the impact of these standards on its future consolidated financial statements, including related disclosures.

2. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Medicare

Medicare inpatient services are reimbursed based on a predetermined amount for each case based on the diagnosis associated with the patient (Prospective Payment Hospital). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment. The Hospital's classification of patients under the Prospective Payment Hospital and the appropriateness of patient admissions are subject to validation reviews by the Medicare peer review organization, which is under contract with the Hospital to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

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.

The Hospital participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of HAF is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF and HIP programs expense reported in the consolidated statements of operations and changes in net assets. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Beginning July 1, 2017, hospitals also started funding the Healthy Indiana Plan (HIP) Program, 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 programs expense of approximately \$6,440,000 and \$2,882,000, respectively, which resulted in increased Medicaid reimbursement. HAF and HIP assessments are included in the consolidated statements of operations and changes in net assets as operating expenses. The Medicaid rate increases under HAF and HIP are included in patient service revenue in the statements of operations and changes in net assets.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$2,759,000 and \$1,724,000 during 2019 and 2018, respectively. These programs are administered by the State of Indiana but rely on Federal funding.

Other Payors

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, discounts from established charges and prospectively determined daily rates.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

The following is a summary of net patient service revenue for 2019 and 2018:

	2019	2018
Inpatient routine services	\$ 26,891,548	\$ 25,057,074
Inpatient ancillary services	63,715,656	63,443,635
Outpatient ancillary services	393,567,320	358,105,450
Long-term care	314,915,292	313,841,840
Gross patient service revenue	799,089,816	760,447,999
Contractual allowances	329,234,412	315,352,617
Uninsured self pay discounts	6,158,359	2,615,509
Charity care	3,128,310	2,710,156
Provision for bad debts	10,780,055	10,198,513
Deductions from revenue	349,301,136	330,876,795
Net patient service revenue	\$ 449,788,680	\$ 429,571,204

3. INVESTMENTS

Investments are primarily recorded at fair value (money market deposits and certificates of deposit recorded at contract value) and consist of the following as of December 31:

	2019	2018
Cash and cash equivalents	\$ 376,881	\$ 606,679
Certificates of deposit	2,496,875	4,493,026
Mutual funds	62,221,869	55,532,047
US Government securities	3,056,521	6,067,151
	\$ 68,152,146	\$ 66,698,903

4. ASSETS WHOSE USE IS LIMITED

Held by trustee for debt service and capital – Amounts deposited with a trustee and limited to use in accordance with the requirements of a trust indenture and funds from long-term debt borrowings to be expended for debt service and capital.

Other internally designated – Amounts designated internally for various purposes.

Donor restricted – Amounts designated by donor restrictions.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited includes the following as of December 31:

	2019	2018
Held by trustee for debt service and capital		
Cash and cash equivalents	\$ 16,731,584	\$ 16,422,908
Other internally designated		
Cash and cash equivalents	3,176,335	3,499,000
Donor restricted		
Cash and cash equivalents	925,031	778,584
Total assets whose use is limited	<u>\$ 20,832,950</u>	<u>\$ 20,700,492</u>

5. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments are carried at fair value except for certificates of deposit and money market deposit funds which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

As of December 31, 2019 and 2018, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

December 31, 2019					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government securities	\$ 3,056,521	\$ 2,999,550	\$ -0-	\$ -0-	\$ 56,971
Certificates of deposit	2,496,875	1,436,762	1,060,113	-0-	-0-
Mutual funds	62,221,869	62,221,869	-0-	-0-	-0-
	<u>\$ 67,775,265</u>	<u>\$ 66,658,181</u>	<u>\$ 1,060,113</u>	<u>\$ -0-</u>	<u>\$ 56,971</u>
December 31, 2018					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government securities	\$ 6,067,151	\$ 2,961,930	\$ 2,959,575	\$ -0-	\$ 145,646
Certificates of deposit	4,493,026	3,081,619	1,411,407	-0-	-0-
Mutual funds	55,532,047	55,532,047	-0-	-0-	-0-
	<u>\$ 66,092,224</u>	<u>\$ 61,575,596</u>	<u>\$ 4,370,982</u>	<u>\$ -0-</u>	<u>\$ 145,646</u>

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by US Government or US Government Agency obligations.

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

Deposits and investments consist of the following as of December 31:

	2019	2018
Carrying amount		
Deposits	\$ 84,509,833	\$ 83,679,587
Investments	67,775,265	66,092,224
	<u>\$ 152,285,098</u>	<u>\$ 149,771,811</u>
Included in the balance sheets		
Cash and cash equivalents	\$ 63,300,002	\$ 62,372,416
Investments	68,152,146	66,698,903
Held by trustee	16,731,584	16,422,908
Designated	3,176,335	3,499,000
Donor restricted	925,031	778,584
	<u>\$ 152,285,098</u>	<u>\$ 149,771,811</u>

6. 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.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

- 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.

- *Money market mutual funds*: Valued based at the subscription and redemption activity at a \$1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of 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 NAV and to transact at that price.
- *US Government securities*: Valued at the closing price reported on the active market on which the individual securities are traded, when available. The fair value of the securities for which quoted market price is not available are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

The following table sets 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				
Investments				
Mutual funds				
Blend	\$ 9,762,631	\$ 9,762,631	\$ -0-	\$ -0-
Intermediate-term bond	46,377,415	46,377,415	-0-	-0-
Other	6,081,823	6,081,823	-0-	-0-
Total mutual funds	62,221,869	62,221,869	-0-	-0-
US Government securities				
Federal Home Loan Mortgage	2,999,550	-0-	2,999,550	-0-
GMNA	56,971	-0-	56,971	-0-
Total US Government securities	3,056,521	-0-	3,056,521	-0-
	65,278,390	\$ 62,221,869	\$ 3,056,521	\$ -0-
Cash	376,881			
Certificates of deposit	2,496,875			
Total investments	<u>\$ 68,152,146</u>			
Assets whose use is limited				
Cash and cash equivalents				
Money market mutual funds	\$ 16,731,584	\$ -0-	\$ 16,731,584	\$ -0-
Cash	4,101,366			
Total assets whose use is limited	<u>\$ 20,832,950</u>			
	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Blend	\$ 8,443,587	\$ 8,443,587	\$ -0-	\$ -0-
Intermediate-term bond	42,218,529	42,218,529	-0-	-0-
Other	4,869,931	4,869,931	-0-	-0-
Total mutual funds	55,532,047	55,532,047	-0-	-0-
US Government securities				
Federal Home Loan Mortgage	5,921,505	-0-	5,921,505	-0-
GMNA	145,646	-0-	145,646	-0-
Total US Government securities	6,067,151	-0-	6,067,151	-0-
	61,599,198	\$ 55,532,047	\$ 6,067,151	\$ -0-
Cash	606,679			
Certificates of deposit	4,493,026			
Total investments	<u>\$ 66,698,903</u>			
Assets whose use is limited				
Cash and cash equivalents				
Money market mutual funds	\$ 16,422,908	\$ -0-	\$ 16,422,908	\$ -0-
Cash	4,277,584			
Total assets whose use is limited	<u>\$ 20,700,492</u>			

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

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.

Realized gains and losses are included in the consolidated statements of revenues, expenses and changes in net position as a component of investment return. The market value of investments and assets whose use is limited exceeded cost value by approximately \$3,664,000 as of December 31, 2019. The cost value of investments and assets whose use is limited exceeded market value by approximately \$1,130,000 as of December 31, 2018. The changes in unrealized gains and losses relating to assets held at year end are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment return.

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

7. CAPITAL ASSETS

A summary of property and equipment for 2019 and 2018 follow:

	December 31, 2018	Additions	Disposals	Transfers	December 31, 2019
Land and improvements	\$ 17,250,327	\$ 118,562	\$ -0-	\$ -0-	\$ 17,368,889
Buildings and improvements	97,035,002	720,907	-0-	2,187,145	99,943,054
Equipment	76,954,051	12,284,113	(372,632)	2,694,774	91,560,306
Construction in progress	29,163,673	14,028,659	-0-	(4,881,919)	38,310,413
Total capital assets	220,403,053	27,152,241	(372,632)	-0-	247,182,662
Less accumulated depreciation					
Land improvements	2,706,129	138,539	-0-	-0-	2,844,668
Buildings and improvements	29,561,461	2,738,716	-0-	-0-	32,300,177
Equipment	54,495,897	6,191,014	(322,714)	-0-	60,364,197
Total accumulated depreciation	86,763,487	9,068,269	(322,714)	-0-	95,509,042
Capital assets, net	\$ 133,639,566	\$ 18,083,972	\$ (49,918)	\$ -0-	\$ 151,673,620

	December 31, 2017	Additions	Disposals	Transfers	December 31, 2018
Land and improvements	\$ 16,454,664	\$ 795,663	\$ -0-	\$ -0-	\$ 17,250,327
Buildings and improvements	96,545,930	489,072	-0-	-0-	97,035,002
Equipment	68,067,412	9,219,845	(333,206)	-0-	76,954,051
Construction in progress	6,268,350	22,895,323	-0-	-0-	29,163,673
Total capital assets	187,336,356	33,399,903	(333,206)	-0-	220,403,053
Less accumulated depreciation					
Land improvements	2,497,498	208,631	-0-	-0-	2,706,129
Buildings and improvements	26,812,519	2,748,942	-0-	-0-	29,561,461
Equipment	49,094,123	5,423,442	(21,668)	-0-	54,495,897
Total accumulated depreciation	78,404,140	8,381,015	(21,668)	-0-	86,763,487
Capital assets, net	\$ 108,932,216	\$ 25,018,888	\$ (311,538)	\$ -0-	\$ 133,639,566

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

As of December 31, 2019, the Hospital had remaining commitments related to property and equipment of approximately \$14,600,000 primarily related to the construction and expansion of its main campus facility.

8. LONG TERM DEBT

A summary of long-term debt for 2019 and 2018 is as follows:

	December 31, 2018	Additional Borrowings	Payments	December 31, 2019	Current Portion
2015 Revenue bonds	\$ 19,702,000	\$ -0-	\$ 2,707,000	\$ 16,995,000	\$ 2,763,000
2017 Revenue bonds	27,350,000	-0-	2,100,000	25,250,000	2,150,000
Loans payable	279,434	-0-	62,317	217,117	65,194
	<u>\$ 47,331,434</u>	<u>\$ -0-</u>	<u>\$ 4,869,317</u>	<u>\$ 42,462,117</u>	<u>\$ 4,978,194</u>
	December 31, 2017	Additional Borrowings	Payments	December 31, 2018	Current Portion
2015 Revenue bonds	\$ 22,354,000	\$ -0-	\$ 2,652,000	\$ 19,702,000	\$ 2,707,000
2017 Revenue bonds	28,340,000	-0-	990,000	27,350,000	2,100,000
Loans payable	338,977	-0-	59,543	279,434	62,318
	<u>\$ 51,032,977</u>	<u>\$ -0-</u>	<u>\$ 3,701,543</u>	<u>\$ 47,331,434</u>	<u>\$ 4,869,318</u>

In December 2017, the Hospital issued 2017 Revenue Bonds in the amount of \$28,340,000 through the Association. The Hospital, the Association and BMO Harris Bank (BMO) entered into a Bond Purchase Agreement whereby BMO purchased from the Association all of the 2017 Revenue Bonds in a private placement. The 2017 Revenue Bonds are due in semiannual installments through 2030 ranging from \$990,000 to \$1,335,000, with a fixed interest rate of 2.330%. The 2017 Revenue Bonds are secured by the Hospital's net revenues. BMO agreed to hold the 2017 Revenue bonds through the maturity date in 2030.

The proceeds from the 2017 Revenue Bonds were used to refund the 2010 Revenue Bonds which resulted in a loss on defeasance of approximately \$1,253,000. The loss on defeasance is included in deferred outflows as of December 31, 2019 and 2018 at approximately \$1,044,000 and \$1,148,000, respectively, and will be amortized as a component of interest expense of approximately \$104,000 annually through 2030.

In September 2015, the Hospital issued 2015 Revenue Bonds in the amount of \$27,083,000 through the Association. The Hospital, the Association and Commerce Bank (Commerce) entered into a Bond Purchase Agreement whereby Commerce purchased from the Association all of the 2015 Revenue Bonds in a private placement. The 2015 Revenue Bonds are due in semiannual installments through 2025 ranging from \$855,000 to \$1,526,000, with a fixed interest rate of 2.0667%. The 2015 Revenue Bonds are secured by the Hospital's net revenues. Commerce agreed to hold the 2015 Revenue Bonds through the maturity date in 2025.

Loans payable with local financial institution, due in monthly installments at a fixed interest rate of 4.50%, due through 2023, secured by property with net book value of approximately \$1,700,000 and \$1,900,000 as of December 31, 2019 and 2018, respectively. Certain long-term debt agreements require the Hospital to maintain certain financial ratios. As of December 31, 2019 and 2018, the Hospital believed it was in compliance with the ratios.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Scheduled principal and interest repayments on long-term debt and payments on loans payable for the years succeeding December 31, 2019 are as follows:

Year Ending December 31,	Principal	Interest	Total
2020	\$ 4,978,194	\$ 921,733	\$ 5,899,927
2021	5,096,258	810,849	5,907,107
2022	5,201,440	697,402	5,898,842
2023	5,259,225	582,299	5,841,524
2024	5,368,000	467,072	5,835,072
2025-2029	15,229,000	1,016,876	16,245,876
2030	1,330,000	15,495	1,345,495
	<u>\$ 42,462,117</u>	<u>\$ 4,511,726</u>	<u>\$ 46,973,843</u>

9. OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating expenses as incurred. Equipment and facility rental expense for leases for 2019 and 2018 approximated \$2,199,000 and \$1,688,000, respectively. Minimum non-cancelable annual lease payments for 2020 approximate \$376,000.

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$41,518,000 and \$35,154,000 for 2019 and 2018, respectively. Annual rent expense for the next five years will approximate \$35,000,000 under these leases.

10. PENSION PLAN

Plan Description

The Hospital has a defined contribution pension plan named Witham Health Services Contribution Plan (Plan) as authorized by IC 16-22-3-11. The Plan provides retirement, disability and death benefits to plan members and beneficiaries who meet the eligibility requirements for age and hours worked. The Plan was established by written agreement between the Hospital Board of Trustees and Transamerica Retirement Solutions (Plan Administrator). The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the Plan. The report is available by contacting the Hospital's accounting department.

Funding Policy

The contribution requirements of Plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. There are two parts to the Plan, the Money Purchase Base Contribution and the Matching Contribution. Plan members are not required to contribute to the Money Purchase Base Contribution portion of the Plan. The Hospital contributes either 2% or 3% based on the number of years of service for this portion of the Plan. Plan members may contribute to the Matching Contribution portion of the Plan up to the maximum allowed by the Internal Revenue Service. The Hospital matches up to either 3% or 4% of the employee's annual salary based on years of service and employee contributions. Pension expense was approximately \$2,781,000 and \$2,581,000 for 2019 and 2018, respectively.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

11. INVESTMENTS IN AFFILIATED COMPANIES

Witham St. Vincent Cancer Institute, LLC

The Hospital has a one-third equity interest in Witham St. Vincent Cancer Institute, LLC. The investment is recorded on the equity method at approximately \$383,000 and \$443,000 as of December 31, 2019 and 2018, respectively.

Suburban Health Organization Captive

The Hospital has a 20% equity interest in its captive insurance company, Suburban Health Organization Captive recorded on the equity method at approximately \$2,057,000 and \$2,043,000 as of December 31, 2019 and 2018, respectively.

Liberty Dialysis Lebanon, LLC

The Hospital has a 20% equity interest in Liberty Dialysis Lebanon, LLC. The investment is recorded on the equity method at approximately \$232,000 and \$202,000 as of December 31, 2019 and 2018, respectively.

Suburban Home Health, LLC

The Hospital has a 20% equity interest in Suburban Home Health, LLC. The investment is recorded on the equity method at approximately \$39,000 and \$95,000 as of December 31, 2019 and 2018, respectively.

Other

The Hospital has equity interests other entities which are recorded on the equity method at approximately \$73,000 and \$93,000 as of December 31, 2019 and 2018, respectively.

12. CONCENTRATION OF CREDIT RISK

The Hospital's main campus is located in Lebanon, Indiana and serves Lebanon and the surrounding communities. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and revenues from patients and third-party payors as of and for the years ended December 31, 2019 and 2018 was as follows:

	Receivables		Revenues	
	2019	2018	2019	2018
Medicare	20%	22%	48%	47%
Medicaid	15%	11%	15%	15%
Commercial	49%	49%	32%	33%
Self-Pay and other	16%	18%	5%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Under the long-term care leases, the Hospital recorded expenses related to purchased services from the managers of the facilities of approximately \$164,409,000 and \$164,439,000 during 2019 and 2018, respectively. Amounts due to the managers, included in current liabilities, as of December 31, 2019 and 2018 were approximately \$40,226,000 and \$40,141,000 respectively.

13. RISK MANAGEMENT

The Hospital is self-funded for medical and related health benefits provided to employees and their families. 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 \$270,000 per individual per policy year. There is no aggregate limit for the Plan under the stop loss agreement.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Self-funded health insurance and related expenses were approximately \$12,003,000 and \$7,613,000 in 2019 and 2018, respectively. Changes in health claim liabilities for 2019 and 2018 are as follows:

	2019	2018
Unpaid claims, beginning of year	\$ 1,255,408	\$ 1,092,976
Incurred claims and changes in estimates	12,003,002	7,612,859
Claim payments	(11,503,993)	(7,450,427)
Unpaid claims, end of year	<u>\$ 1,754,417</u>	<u>\$ 1,255,408</u>

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

14. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its Blended Component Units, MOP, LLC and CIHA as of and for the years ended December 31, 2019 and 2018. For separate financial information related to the blended component units, contact the Hospital Controller's Office, at PO Box 1200, Lebanon, IN, 46052.

	2019		2018	
	MOP, LLC	CIHA	MOP, LLC	CIHA
Balance sheet				
Assets				
Current assets	\$ 1,113,053	\$ 60,630,804	\$ 1,132,767	\$ 54,563,041
Capital assets	3,163,501	11,486,591	3,008,780	1,494,920
Other assets	-0-	10,803,668	-0-	11,046,000
Total assets	<u>\$ 4,276,554</u>	<u>\$ 82,921,063</u>	<u>\$ 4,141,547</u>	<u>\$ 67,103,961</u>
Liabilities				
Current liabilities	\$ 22,283	\$ 1,041,512	\$ 5,635	\$ 589,239
Other liabilities	-0-	2,723,335	-0-	3,046,000
Total liabilities	22,283	3,764,847	5,635	3,635,239
Net position	4,254,271	79,156,216	4,135,912	63,468,722
Total liabilities and net position	<u>\$ 4,276,554</u>	<u>\$ 82,921,063</u>	<u>\$ 4,141,547</u>	<u>\$ 67,103,961</u>
Statement of revenue, expenses and changes in net position				
Revenues				
Other revenue	\$ 723,750	\$ 226,412	\$ 730,997	\$ 154,383
Total revenues	723,750	226,412	730,997	154,383
Expenses				
Depreciation	192,503	49,714	190,208	-0-
Other expenses	412,888	933,114	401,647	933,365
Total expenses	605,391	982,828	591,855	933,365
Operating income	118,359	(756,416)	139,142	(778,982)
Nonoperating	-0-	6,335,163	-0-	(890,561)
Excess revenue over (under) expenses	118,359	5,578,747	139,142	(1,669,543)
Transfers	-0-	10,108,747	-0-	8,310,000
Change in net position	118,359	15,687,494	139,142	6,640,457
Net position				
Beginning of year	4,135,912	63,468,722	3,996,770	56,828,265
End of year	<u>\$ 4,254,271</u>	<u>\$ 79,156,216</u>	<u>\$ 4,135,912</u>	<u>\$ 63,468,722</u>
Statement of cash flows				
Cash provided by (used in)				
Operating activities	\$ 457,907	\$ (209,754)	\$ 249,108	\$ (338,389)
Capital and related financing activities	(347,224)	-0-	(5,812)	-0-
Total change	110,683	(209,754)	243,296	(338,389)
Cash equivalents				
Beginning of year	923,774	251,660	680,478	590,049
End of year	<u>\$ 1,034,457</u>	<u>\$ 41,906</u>	<u>\$ 923,774</u>	<u>\$ 251,660</u>

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

15. SUBSEQUENT EVENT

In March 2020, the World Health Organization declared 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 operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of health care personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines. Management believes the Hospital is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the consolidated financial statements were available to be issued.