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July 29, 2021

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, 2020 to December 31, 2020. 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, 2020, 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, 2020

CPAs / ADVISORS



WITHAM HEALTH SERVICES

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DECEMBER 31, 2020

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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 the Hospital's discretely presented component unit, Witham Health Services Foundation, Inc. (the Foundation) which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of revenue, expenses and changes in net position and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the *Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts; 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 opinions, the consolidated financial statements present fairly, in all material respects, the respective consolidated financial position of the business type activities and the discretely presented component unit of the Hospital as of December 31, 2020, and the respective 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 2019 consolidated financial statements, and we expressed unmodified opinions on those audited consolidated financial statements in our report dated May 27, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 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 26, 2021

REQUIRED SUPPLEMENTARY INFORMATION

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

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, 2020 with comparative amounts for December 31, 2019 and 2018. 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 \$21,583,000 in 2020 compared to \$25,194,000 in 2019.
- The Hospital reported an operating loss of approximately \$16,784,000 for 2020, representing a decrease of \$34,069,000 in comparison to 2019 results. Operating income for 2019 of \$17,285,000 was \$5,681,000 less than 2018.
- The Hospital recognized approximately \$32,353,000 during 2020 in nonoperating revenue from grants related to COVID-19.
- Total revenues decreased by approximately \$3,723,000 in 2020 compared to 2019. In 2019, total revenue increased \$19,823,000 over 2018.
- Long-term care services generated approximately \$288,958,000 and \$314,915,000 in gross patient service revenue during 2020 and 2019, respectively. In 2018, long-term care services generated approximately \$313,842,000 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, noncapital financing 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, 2020 (WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

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

	2020	2019	2020-2019 Change	2018	2019-2018 Change
Assets					
Current assets	\$ 263,803,789	\$ 205,544,643	\$ 58,259,146	\$ 173,587,741	\$ 31,956,902
Assets whose use is limited	14,621,093	15,466,950	(845,857)	15,440,492	26,458
Capital assets, net	158,583,866	151,673,620	6,910,246	133,639,566	18,034,054
Other assets	5,391,909	5,175,856	216,053	5,141,476	34,380
Total assets	442,400,657	377,861,069	64,539,588	327,809,275	50,051,794
Deferred outflows	939,561	1,043,956	(104,395)	1,148,352	(104,396)
Total assets and deferred outflows	<u>\$ 443,340,218</u>	<u>\$ 378,905,025</u>	<u>\$ 64,435,193</u>	<u>\$ 328,957,627</u>	<u>\$ 49,947,398</u>
Liabilities					
Current liabilities	\$ 146,100,559	\$ 97,625,227	\$ 48,475,332	\$ 67,570,811	\$ 30,054,416
Long-term debt	32,387,664	37,483,923	(5,096,259)	42,462,116	(4,978,193)
Other liabilities	2,197,001	2,723,335	(526,334)	3,046,000	(322,665)
Total liabilities	180,685,224	137,832,485	42,852,739	113,078,927	24,753,558
Net position					
Net investment in capital assets	121,099,944	109,211,503	11,888,441	86,308,132	22,903,371
Restricted					
Trustee held for debt service and capital	16,525,868	16,731,584	(205,716)	16,422,908	308,676
Expendable for donor restriction	926,224	925,031	1,193	778,584	146,447
Total restricted	17,452,092	17,656,615	(204,523)	17,201,492	455,123
Unrestricted					
Other internal designations	2,642,001	3,176,335	(534,334)	3,499,000	(322,665)
Undesignated	121,460,957	111,028,087	10,432,870	108,870,076	2,158,011
Total unrestricted	124,102,958	114,204,422	9,898,536	112,369,076	1,835,346
Total net position	262,654,994	241,072,540	21,582,454	215,878,700	25,193,840
Total liabilities and net position	<u>\$ 443,340,218</u>	<u>\$ 378,905,025</u>	<u>\$ 64,435,193</u>	<u>\$ 328,957,627</u>	<u>\$ 49,947,398</u>

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

Total assets and deferred outflows in 2020 increased approximately \$64,435,000 over 2019 primarily due to cash and capital assets. Investments, patient accounts receivable, other assets, capital assets, and deferred outflows increased in total by \$16,112,000 over 2019, while cash and assets whose use is limited increased by \$33,153,000 over 2019.

Total liabilities increased approximately \$42,853,000 over 2019 mainly due to increases in current liabilities related primarily to accounts payable, accrued salaries and related liabilities and Medicare accelerated/advance payments which were partially offset by principal payments on long-term debt.

Total assets and deferred outflows in 2019 increased approximately \$49,947,000 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 \$48,887,000 over 2018, while cash and assets whose use is limited increased by \$1,060,000 over 2018.

Total liabilities increased approximately \$24,754,000 over 2018 mainly due to increases in current liabilities.

Consolidated Statements of Revenues, Expenses and Changes in Net Position

	2020	2019	2020-2019 Change	2018	2019-2018 Change
Revenues					
Net patient service revenue	\$ 439,318,416	\$ 449,788,680	\$ (10,470,264)	\$ 429,571,204	\$ 20,217,476
Other operating revenue	12,101,302	5,354,398	6,746,904	5,749,156	(394,758)
Total revenues	451,419,718	455,143,078	(3,723,360)	435,320,360	19,822,718
Expenses					
Salaries and benefits	90,689,138	87,413,985	3,275,153	77,364,237	10,049,748
Supplies	86,875,089	88,818,987	(1,943,898)	85,915,777	2,903,210
Depreciation	10,976,092	9,068,269	1,907,823	8,381,015	687,254
Other operating expenses	279,663,366	252,557,297	27,106,069	240,693,527	11,863,770
Total expenses	468,203,685	437,858,538	30,345,147	412,354,556	25,503,982
Operating income (loss)	(16,783,967)	17,284,540	(34,068,507)	22,965,804	(5,681,264)
Nonoperating revenue (expense), net	38,366,421	7,909,300	30,457,121	(422,912)	8,332,212
Change in net position	21,582,454	25,193,840	(3,611,386)	22,542,892	2,650,948
Net position					
Beginning of year	241,072,540	215,878,700	25,193,840	193,335,808	22,542,892
End of year	\$ 262,654,994	\$ 241,072,540	\$ 21,582,454	\$ 215,878,700	\$ 25,193,840

The main component of the overall change in the Hospital's net position is operating income (loss). In 2019, the Hospital reported operating income of approximately \$17,285,000 compared to an operating loss in 2020 of \$16,784,000, which is a decrease of \$34,069,000 from 2019. The main reason relates to increases in operating expenses (\$30,345,000) incurred in response to the COVID-19 pandemic and a decrease in operating revenues (\$3,723,000).

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

Nonoperating revenue (expense) consists primarily of investment return, interest expense, Foundation revenue and expenses, and COVID-19 grant funds. The nonoperating items changed from a net revenue of approximately \$7,909,000 in 2019 to \$38,366,000 in 2020. The increase of \$30,457,000 is primarily due to Provider Relief Funds received that were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic.

Operating income in 2019 was approximately \$5,681,000 less than 2018. The primary reason for the change in operating income relates to increases in health insurance (\$4,400,000) and HAF and HIP programs expenses (\$3,600,000) in 2019.

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, noncapital and 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?"

	2020	2019	2020-2019 Change	2018	2019-2018 Change
Cash flows from					
Operating	\$ 36,997,715	\$ 44,052,355	\$ (7,054,640)	\$ 54,232,813	\$ (10,180,458)
Noncapital financing	35,948,285	-0-	35,948,285	-0-	-0-
Capital and related financing	(22,979,460)	(31,880,472)	8,901,012	(33,571,564)	1,691,092
Investing	(16,340,544)	(11,341,637)	(4,998,907)	(11,798,929)	457,292
Change in cash and cash equivalents	<u>\$ 33,625,996</u>	<u>\$ 830,246</u>	<u>\$ 32,795,750</u>	<u>\$ 8,862,320</u>	<u>\$ (8,032,074)</u>

Operating activities generated cash and cash equivalents of approximately \$36,998,000 in 2020. Noncapital financing activities generated cash of approximately \$35,948,000 in 2020 due to governmental funds received for expenses incurred in response to the COVID-19 pandemic. Capital and related financing activities used cash of approximately \$22,979,000 in 2020. Two significant components of capital and related financing activities include cash used to purchase capital assets of approximately \$17,213,000 and cash paid for principal and interest of approximately \$5,766,000 in 2020. Investing activities reduced cash by approximately \$16,341,000 in 2020 mainly due to classification changes between investments and cash equivalents.

In 2019, cash and cash equivalents increased approximately \$830,000. In 2018, cash and cash equivalents increased approximately \$8,862,000. The primary difference related to the change in operating activities of approximately \$10,180,000 mainly due to increases in cash paid for salaries, wages and benefits and cash paid to vendors and suppliers partially offset by cash received from patient services.

SOURCES OF REVENUE

During 2020, 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 2020 and 2019, and 62% in 2018.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

Following is a table of major sources of gross patient revenues for 2020, 2019 and 2018:

	2020	2019	2018
Medicare	48%	48%	47%
Medicaid	15%	15%	15%
Commercial	34%	32%	33%
Self Pay	3%	5%	5%
	100%	100%	100%

CAPITAL ASSETS

At December 31, 2020, the Hospital had approximately \$158,584,000 invested in capital assets, net of accumulated depreciation, as detailed below.

	2020	2019	2020-2019 Change	2018	2019-2018 Change
Land and improvements	\$ 19,567,615	\$ 17,368,889	\$ 2,198,726	\$ 17,250,327	\$ 118,562
Buildings and improvements	141,263,212	99,943,054	41,320,158	97,035,002	2,908,052
Equipment	100,519,797	91,560,306	8,959,491	76,954,051	14,606,255
Construction in progress	3,704,163	38,310,413	(34,606,250)	29,163,673	9,146,740
Total property and equipment	265,054,787	247,182,662	17,872,125	220,403,053	26,779,609
Accumulated depreciation	(106,470,921)	(95,509,042)	(10,961,879)	(86,763,487)	(8,745,555)
Capital assets, net	\$ 158,583,866	\$ 151,673,620	\$ 6,910,246	\$ 133,639,566	\$ 18,034,054

Net capital assets increased by approximately \$6,910,000 in 2020 compared to 2019 as current year additions outpaced depreciation expense. The change between 2019 and 2018 was approximately \$18,034,000 as 2019 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 2020, 2019 and 2018. More detailed information about the Hospital's long-term debt is presented in the notes to the consolidated financial statements.

ECONOMIC OUTLOOK

During 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.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

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, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	2020		2019	
	Total Hospital	Foundation	Total reporting entity	Total reporting entity
ASSETS AND DEFERRED OUTFLOWS				
Current assets				
Cash and cash equivalents	\$ 94,162,234	\$ 3,029,287	\$ 97,191,521	\$ 63,300,002
Investments	68,768,388	2,482,719	71,251,107	68,152,146
Patient accounts receivable, less allowance for uncollectible accounts of \$13,321,000 in 2020 and \$7,555,000 in 2019	63,491,959	-0-	63,491,959	57,500,809
Other receivables	21,836,791	-0-	21,836,791	7,445,133
Inventory and other current assets	4,498,077	61,334	4,559,411	3,780,553
Current portion of assets whose use is limited	5,473,000	-0-	5,473,000	5,366,000
Total current assets	258,230,449	5,573,340	263,803,789	205,544,643
Assets whose use is limited				
Held by trustee for debt service and capital	16,525,868	-0-	16,525,868	16,731,584
Other board designated	2,642,001	-0-	2,642,001	3,176,335
Donor restricted	-0-	926,224	926,224	925,031
Total assets whose use is limited	19,167,869	926,224	20,094,093	20,832,950
Current portion	(5,473,000)	-0-	(5,473,000)	(5,366,000)
Noncurrent assets whose use is limited	13,694,869	926,224	14,621,093	15,466,950
Capital assets				
Land and improvements	19,567,615	-0-	19,567,615	17,368,889
Depreciable capital assets	241,783,009	-0-	241,783,009	191,503,360
Construction in progress	3,704,163	-0-	3,704,163	38,310,413
	265,054,787	-0-	265,054,787	247,182,662
Accumulated depreciation	(106,470,921)	-0-	(106,470,921)	(95,509,042)
Capital assets, net	158,583,866	-0-	158,583,866	151,673,620
Other assets				
Investment in affiliates and other	3,171,600	-0-	3,171,600	2,782,976
Other	2,220,309	-0-	2,220,309	2,392,880
Total other assets	5,391,909	-0-	5,391,909	5,175,856
Total assets	435,901,093	6,499,564	442,400,657	377,861,069
Deferred outflows				
	939,561	-0-	939,561	1,043,956
Total assets and deferred outflows	\$ 436,840,654	\$ 6,499,564	\$ 443,340,218	\$ 378,905,025

See accompanying notes to consolidated financial statements.

WITHAM HEALTH SERVICES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	2020		2019	
	Total Hospital	Foundation	Total reporting entity	Total reporting entity
LIABILITIES AND NET POSITION				
Current liabilities				
Accounts payable	\$ 54,847,570	\$ -0-	\$ 54,847,570	\$ 41,068,725
Accrued salaries and related liabilities	66,349,671	-0-	66,349,671	46,404,777
Accrued expenses and other current liabilities	3,599,305	68,824	3,668,129	3,708,531
Medicare accelerated/advance payments	12,094,102	-0-	12,094,102	-0-
Refundable advances - COVID-19	3,594,829	-0-	3,594,829	-0-
Estimated third-party settlements	450,000	-0-	450,000	1,465,000
Current portion of long-term debt				
Loans payable	68,258	-0-	68,258	65,194
Revenue bonds payable	5,028,000	-0-	5,028,000	4,913,000
Total current liabilities	146,031,735	68,824	146,100,559	97,625,227
Long-term debt, net of current portion				
Loans payable	83,664	-0-	83,664	151,923
Revenue bonds payable	32,304,000	-0-	32,304,000	37,332,000
Total long-term debt	32,387,664	-0-	32,387,664	37,483,923
Other liabilities				
Total liabilities	2,197,001	-0-	2,197,001	2,723,335
Net position				
Net investment in capital assets	121,099,944	-0-	121,099,944	109,211,503
Restricted				
Trustee held for debt service and capital	16,525,868	-0-	16,525,868	16,731,584
Expendable for donor restriction	-0-	926,224	926,224	925,031
Total restricted	16,525,868	926,224	17,452,092	17,656,615
Unrestricted				
Other internal designations	2,642,001	-0-	2,642,001	3,176,335
Undesignated	115,956,441	5,504,516	121,460,957	111,028,087
Total unrestricted	118,598,442	5,504,516	124,102,958	114,204,422
Total net position	256,224,254	6,430,740	262,654,994	241,072,540
Total liabilities and net position	\$ 436,840,654	\$ 6,499,564	\$ 443,340,218	\$ 378,905,025

See accompanying notes to consolidated financial statements.

WITHAM HEALTH SERVICES

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	2020		2019	
	Total Hospital	Foundation	Total reporting entity	Total reporting entity
Operating revenues				
Net patient service revenue	\$ 439,318,416	\$ -0-	\$ 439,318,416	\$ 449,788,680
Other operating revenue	12,101,302	-0-	12,101,302	5,354,398
Total operating revenues	451,419,718	-0-	451,419,718	455,143,078
Operating expenses				
Salaries and wages	69,391,575	-0-	69,391,575	64,740,665
Employee benefits	21,297,563	-0-	21,297,563	22,673,320
Professional medical fees	6,664,437	-0-	6,664,437	6,918,566
Purchased services	199,598,364	-0-	199,598,364	174,913,171
Supplies	86,875,089	-0-	86,875,089	88,818,987
Repairs and maintenance	5,014,585	-0-	5,014,585	5,269,768
Equipment and facility rental	47,962,144	-0-	47,962,144	43,717,030
Utilities	8,508,580	-0-	8,508,580	8,960,350
Depreciation	10,976,092	-0-	10,976,092	9,068,269
Insurance	1,716,395	-0-	1,716,395	2,179,663
HAF and HIP programs	8,125,542	-0-	8,125,542	6,439,643
Other expenses	2,073,319	-0-	2,073,319	4,159,106
Total operating expenses	468,203,685	-0-	468,203,685	437,858,538
Operating income (loss)	(16,783,967)	-0-	(16,783,967)	17,284,540
Nonoperating revenue (expense)				
Investment return	5,923,606	351,976	6,275,582	7,647,567
Interest expense	(734,633)	-0-	(734,633)	(302,096)
Foundation revenue	-0-	500,912	500,912	477,513
Foundation expense	-0-	(466,848)	(466,848)	(194,765)
Gain on investment in affiliates	537,306	-0-	537,306	228,787
COVID-19 grant funds	32,353,456	-0-	32,353,456	-0-
Other nonoperating revenue (expense)	(99,354)	-0-	(99,354)	52,294
Total nonoperating revenue (expense), net	37,980,381	386,040	38,366,421	7,909,300
Change in net position	21,196,414	386,040	21,582,454	25,193,840
Net position				
Beginning of year	235,027,840	6,044,700	241,072,540	215,878,700
End of year	\$ 256,224,254	\$ 6,430,740	\$ 262,654,994	\$ 241,072,540

See accompanying notes to consolidated financial statements.

WITHAM HEALTH SERVICES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	2020		2019	
	Total Hospital	Foundation	Total reporting entity	Total reporting entity
Operating activities				
Cash received from patient services	\$ 456,680,348	\$ -0-	\$ 456,680,348	\$ 426,335,193
Cash paid for salaries, wages and benefits	(70,744,244)	-0-	(70,744,244)	(55,197,612)
Cash paid to vendors and suppliers	(360,603,143)	-0-	(360,603,143)	(332,944,349)
Other receipts (disbursements), net	12,101,302	(436,548)	11,664,754	5,859,123
Net cash flows from operating activities	37,434,263	(436,548)	36,997,715	44,052,355
Noncapital financing activities				
COVID-19 grant funds	35,948,285	-0-	35,948,285	-0-
Capital and related financing activities				
Acquisition and construction of capital assets	(17,213,032)	-0-	(17,213,032)	(26,656,622)
Cash paid for interest on long-term debt	(788,233)	-0-	(788,233)	(354,533)
Principal payments on long-term debt	(4,978,195)	-0-	(4,978,195)	(4,869,317)
Net cash flows from capital and related financing activities	(22,979,460)	-0-	(22,979,460)	(31,880,472)
Investing activities				
Investment return	5,923,606	351,976	6,275,582	7,647,567
Purchase of investments	(25,993,259)	(381,295)	(26,374,554)	(24,673,103)
Proceeds from sale of investments	3,205,266	15,856	3,221,122	5,455,112
Cash from investments in affiliates, net	537,306	-0-	537,306	228,787
Net cash flows from investing activities	(16,327,081)	(13,463)	(16,340,544)	(11,341,637)
Net change in cash and cash equivalents	34,076,007	(450,011)	33,625,996	830,246
Cash and cash equivalents				
Beginning of year	80,104,311	4,405,522	84,509,833	83,679,587
End of year	<u>\$ 114,180,318</u>	<u>\$ 3,955,511</u>	<u>\$ 118,135,829</u>	<u>\$ 84,509,833</u>
Reconciliation of cash and cash equivalents to the consolidated balance sheets				
Cash and cash equivalents				
Included in current assets	\$ 94,162,234	\$ 3,029,287	\$ 97,191,521	\$ 63,300,002
In investments	850,215	-0-	850,215	376,881
In assets whose use is limited - held by trustee	16,525,868	-0-	16,525,868	16,731,584
In assets whose use is limited - designated	2,642,001	-0-	2,642,001	3,176,335
In assets whose use is limited - donor restricted	-0-	926,224	926,224	925,031
Total cash and cash equivalents	<u>\$ 114,180,318</u>	<u>\$ 3,955,511</u>	<u>\$ 118,135,829</u>	<u>\$ 84,509,833</u>

See accompanying notes to consolidated financial statements.

WITHAM HEALTH SERVICES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	2020		2019	
	Total Hospital	Foundation	Total reporting entity	Total reporting entity
Reconciliation of operating income (loss) to net cash flows from operating activities				
Operating income (loss)	\$ (16,783,967)	\$ -0-	\$ (16,783,967)	\$ 17,284,540
Adjustment to reconcile operating income (loss) to net cash flows from operating activities				
Depreciation	10,976,092	-0-	10,976,092	9,068,269
Provision for bad debts	12,273,980	-0-	12,273,980	10,780,055
Changes in operating assets and liabilities				
Patient accounts receivable	2,134,392	-0-	2,134,392	(28,196,311)
Other receivables	(14,391,658)	-0-	(14,391,658)	5,062,825
Inventory and other current assets	(778,487)	(371)	(778,858)	103,056
Accounts payable	13,089,140	-0-	13,089,140	(1,859,005)
Accrued salaries and related liabilities	19,944,894	-0-	19,944,894	32,216,373
Accrued expenses and other current liabilities	(109,225)	(436,177)	(545,402)	(809,859)
Medicare accelerated/advance payments	12,094,102	-0-	12,094,102	-0-
Estimated third-party settlements	(1,015,000)	-0-	(1,015,000)	402,412
Net cash flows from operating activities	<u>\$ 37,434,263</u>	<u>\$ (436,548)</u>	<u>\$ 36,997,715</u>	<u>\$ 44,052,355</u>
Noncash capital and related financing activities				
Capital asset acquisitions in accounts payable	\$ 689,705	\$ -0-	\$ 689,705	\$ 495,619

See accompanying notes to consolidated financial statements.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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, 2019 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, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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.

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, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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 are reflected in estimated third-party settlements on the consolidated balance sheets. The Hospital recognized an increase of approximately \$27,000 during 2020 and a decrease of approximately \$402,000 during 2019 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 2020 and 2019 were approximately \$2,812,000 and \$3,128,000, respectively. The Hospital did not change its charity care policy during 2020.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

Of the Hospital's total expenses reported, an estimated \$946,000 and \$1,005,000 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, 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 \$6,498,000 and \$6,158,000 for 2020 and 2019, 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 2021.

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 2021.

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, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

Grants and Contributions

From time to time, the reporting entity receives grants and contributions from governmental agencies, 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. Grants are recognized to the extent that the Hospital meets the terms and conditions of the grant. To the extent the Hospital has not met the terms and conditions of the grant, amounts are recorded as refundable advances within the consolidated balance sheets.

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 2020 and 2019 was approximately \$243,000 and \$782,000, 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, 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 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, 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).

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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 (\$12,000,000 in the annual aggregate) 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 (\$15,000,000 in the annual aggregate). 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, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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 \$47,000 and \$66,000 for 2020 and 2019, respectively.

Reclassifications

Certain summarized amounts in the 2019 total column have been reclassified to conform with the 2020 presentation. Patient accounts receivable related to long-term care of approximately \$31,926,000 was reclassified to accrued salaries and related liabilities. The previously reported balance for patient accounts receivable was \$25,575,000 with a currently reported 2019 balance of \$57,501,000 as of December 31, 2019. The previously reported balance for accrued salaries and related liabilities was \$14,479,000 with a currently reported 2019 balance of \$46,405,000 as of December 31, 2019. There was no change in previously reported consolidated net position or consolidated change in net position in 2019 related to this reclassification.

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 26, 2021.

Recently Issued Accounting Standards

In June 2017, the Governmental Accounting Standards Board (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.

In June 2018, the 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.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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

2. CHANGE IN ACCOUNTING PRINCIPLES

During 2020, the Hospital implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*. This statement addressed accounting and financial reporting issues related to asset retirement obligations. This statement also provides guidance for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. There was no impact to these consolidated financial statements as a result of adoption of this statement.

During 2020, the Hospital implemented GASB Statement No. 84, *Fiduciary Activities*. Generally, this statement requires governmental entities, who control assets of a fiduciary activity in which a fiduciary relationship exists with beneficiaries, to include those activities in two separate, interrelated financial statements, the statement of fiduciary net position and the statement of changes in fiduciary net position. The Hospital's fiduciary activities relate to its 403(b) plan which does not meet the financial accountability and financial burden criteria for fiduciary activities to be included as component units under this statement. As such, there was no impact to these consolidated financial statements as a result of adoption of this statement.

During 2020, the Hospital implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement addressed accounting and financial reporting issues related to debt, including direct borrowings and direct placements. This statement also provides guidance for which liabilities should be included when disclosing information related to debt. As a result of the implementation, disclosures related to the Hospital's direct borrowings are identified in Note 9. There was no other impact to these consolidated financial statement disclosures as a result of adoption of this statement as these disclosures have been provided historically.

During 2020, the Hospital implemented GASB Statement No. 90, *Majority Equity Interests*. This statement addressed accounting and financial reporting issues related to a majority equity interest in a legally separate organization and certain component units. Generally, this statement requires governmental entities, who have a majority equity interest that meets the definition of an investment, to measure the investment using the equity method. There was no impact to these consolidated financial statements as a result of adoption of this statement.

During 2020, the Hospital early implemented GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This statement addressed the determination of financial accountability for a potential component unit and the financial burden criteria of a potential component unit. The Hospital's fiduciary activities relate to its 403(b) plan which does not meet the financial accountability and financial burden criteria for fiduciary activities to be included as component units under this statement. As such, there was no impact to these consolidated financial statements as a result of adoption of this statement.

3. 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.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

A summary of the reimbursement arrangements with major third-party payors is as follows:

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 revenues, expenses and changes in net position. 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 2020 and 2019, the Hospital recognized HAF and HIP programs expense of approximately \$8,126,000 and \$6,440,000, respectively, which resulted in increased Medicaid reimbursement. HAF and HIP assessments are included in the consolidated statements of revenues, expenses and changes in net position as operating expenses. The Medicaid rate increases under HAF and HIP are included in patient service revenue in the statements of revenues, expenses and changes in net position.

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 \$1,724,000 and \$2,759,000 during 2020 and 2019, 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, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

The following is a summary of net patient service revenue for 2020 and 2019:

	2020	2019
Inpatient routine services	\$ 26,368,455	\$ 26,891,548
Inpatient ancillary services	65,548,925	63,715,656
Outpatient ancillary services	371,643,963	393,567,320
Long-term care	288,957,513	314,915,292
Gross patient service revenue	752,518,856	799,089,816
Contractual allowances	(291,616,038)	(329,234,412)
Uninsured self pay discounts	(6,498,490)	(6,158,359)
Charity care	(2,811,932)	(3,128,310)
Provision for bad debts	(12,273,980)	(10,780,055)
Deductions from revenue	(313,200,440)	(349,301,136)
Net patient service revenue	\$ 439,318,416	\$ 449,788,680

4. 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:

	2020	2019
Cash and cash equivalents	\$ 850,215	\$ 376,881
Certificates of deposit	2,122,468	2,496,875
Mutual funds	68,278,424	62,221,869
US Government securities	-0-	3,056,521
	\$ 71,251,107	\$ 68,152,146

5. 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 special purpose projects.

Donor restricted – Amounts designated by donor restrictions to support Hospital programs.

WITHAM HEALTH SERVICES

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(WITH COMPARATIVE TOTALS FOR 2019)

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:

	<u>2020</u>	<u>2019</u>
Held by trustee for debt service and capital		
Cash and cash equivalents	\$ 16,525,868	\$ 16,731,584
Other internally designated		
Cash and cash equivalents	2,642,001	3,176,335
Donor restricted		
Cash and cash equivalents	<u>926,224</u>	<u>925,031</u>
Total assets whose use is limited	<u>\$ 20,094,093</u>	<u>\$ 20,832,950</u>

6. 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, 2020 and 2019, 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:

	<u>December 31, 2020</u>				
		<u>Investment Maturities (in years)</u>			
	<u>Carrying Amount</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Certificates of deposit	\$ 2,122,468	\$ 1,052,213	\$ 1,070,255	\$ -0-	\$ -0-
Mutual funds	68,278,424	68,278,424	-0-	-0-	-0-
	<u>\$ 70,400,892</u>	<u>\$ 69,330,637</u>	<u>\$ 1,070,255</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(WITH COMPARATIVE TOTALS FOR 2019)

	December 31, 2019				
	Carrying Amount	Investment Maturities (in years)			More than 10
		Less than 1	1-5	6-10	
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>

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:

	2020	2019
Carrying amount		
Deposits	\$ 118,135,829	\$ 84,509,833
Investments	70,400,892	67,775,265
	<u>\$ 188,536,721</u>	<u>\$ 152,285,098</u>
Included in the balance sheets		
Cash and cash equivalents	\$ 97,191,521	\$ 63,300,002
Investments	71,251,107	68,152,146
Held by trustee	16,525,868	16,731,584
Designated	2,642,001	3,176,335
Donor restricted	926,224	925,031
	<u>\$ 188,536,721</u>	<u>\$ 152,285,098</u>

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

7. FAIR VALUE MEASUREMENTS

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2020 and 2019.

- *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, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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, 2020 and 2019.

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Blend	\$ 10,653,718	\$ 10,653,718	\$ -0-	\$ -0-
Intermediate-term bond	50,593,640	50,593,640	-0-	-0-
Other	7,031,066	7,031,066	-0-	-0-
Total mutual funds	68,278,424	<u>\$ 68,278,424</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Cash	850,215			
Certificates of deposit	2,122,468			
Total investments	<u>\$ 71,251,107</u>			
Assets whose use is limited				
Cash and cash equivalents				
Money market mutual funds	\$ 16,525,868	<u>\$ -0-</u>	<u>\$ 16,525,868</u>	<u>\$ -0-</u>
Cash	3,568,225			
Total assets whose use is limited	<u>\$ 20,094,093</u>			
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	<u>\$ 62,221,869</u>	<u>\$ 3,056,521</u>	<u>\$ -0-</u>
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	<u>\$ -0-</u>	<u>\$ 16,731,584</u>	<u>\$ -0-</u>
Cash	4,101,366			
Total assets whose use is limited	<u>\$ 20,832,950</u>			

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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 \$6,892,000 and \$3,664,000 as of December 31, 2020 and 2019, respectively. 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.

8. CAPITAL ASSETS

A summary of property and equipment for 2020 and 2019 follow:

	December 31, 2019	Additions	Disposals	Transfers	December 31, 2020
Land and improvements	\$ 17,368,889	\$ 2,198,726	\$ -0-	\$ -0-	\$ 19,567,615
Buildings and improvements	99,943,054	560,959	-0-	40,759,199	141,263,212
Equipment	91,560,306	3,586,460	(30,612)	5,403,643	100,519,797
Construction in progress	38,310,413	11,556,592	-0-	(46,162,842)	3,704,163
Total capital assets	247,182,662	17,902,737	(30,612)	-0-	265,054,787
Accumulated depreciation					
Land improvements	(2,844,668)	(65,227)	-0-	-0-	(2,909,895)
Buildings and improvements	(32,300,177)	(3,684,812)	-0-	-0-	(35,984,989)
Equipment	(60,364,197)	(7,226,053)	14,213	-0-	(67,576,037)
Total accumulated depreciation	(95,509,042)	(10,976,092)	14,213	-0-	(106,470,921)
Capital assets, net	\$ 151,673,620	\$ 6,926,645	\$ (16,399)	\$ -0-	\$ 158,583,866

	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
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

As of December 31, 2020, the Hospital had remaining commitments related to property and equipment of approximately \$3,000,000 primarily related to the construction and expansion of its main campus facility.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

9. LONG TERM DEBT

A summary of long-term debt for 2020 and 2019 is as follows:

	December 31, 2019	Additional Borrowings	Payments	December 31, 2020	Current Portion
Direct borrowings/placements					
2015 Revenue bonds	\$ 16,995,000	\$ -0-	\$ 2,763,000	\$ 14,232,000	\$ 2,823,000
2017 Revenue bonds	25,250,000	-0-	2,150,000	23,100,000	2,205,000
Loans payable	217,117	-0-	65,195	151,922	68,258
	<u>\$ 42,462,117</u>	<u>\$ -0-</u>	<u>\$ 4,978,195</u>	<u>\$ 37,483,922</u>	<u>\$ 5,096,258</u>
	December 31, 2018	Additional Borrowings	Payments	December 31, 2019	Current Portion
Direct borrowings/placements					
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>

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, 2020 and 2019 at approximately \$940,000 and \$1,044,000, 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 \$1,500,000 and \$1,700,000 as of December 31, 2020 and 2019, respectively.

Certain long-term debt agreements require the Hospital to maintain certain financial ratios. As of December 31, 2020 and 2019, the Hospital believed it was in compliance with the ratios.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

Scheduled principal and interest repayments on long-term debt and payments on loans payable for the years succeeding December 31, 2020 are as follows:

Year Ending December 31,	Direct Borrowings/Placements		
	Principal	Interest	Total
2021	\$ 5,096,258	\$ 810,849	\$ 5,907,107
2022	5,201,439	697,402	5,898,841
2023	5,259,225	582,299	5,841,524
2024	5,368,000	467,072	5,835,072
2025	4,999,000	349,273	5,348,273
2026-2030	11,560,000	683,098	12,243,098
	<u>\$ 37,483,922</u>	<u>\$ 3,589,993</u>	<u>\$ 41,073,915</u>

10. 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 2020 and 2019 approximated \$2,558,000 and \$2,199,000, respectively. Minimum non-cancelable annual lease payments for 2021 approximate \$60,000.

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$45,404,000 and \$41,518,000 for 2020 and 2019, respectively. Annual rent expense for the next five years will approximate \$45,000,000 under these leases.

11. PENSION PLAN

Plan Description

The Hospital has a defined contribution pension plan named Witham Health Services Contribution Plan (the 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 (the 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 \$3,045,000 and \$2,781,000 for 2020 and 2019, respectively.

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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12. 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 \$365,000 and \$383,000 as of December 31, 2020 and 2019, 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 \$2,663,000 and \$2,057,000 as of December 31, 2020 and 2019, 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 \$12,000 and \$232,000 as of December 31, 2020 and 2019, 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 as of December 31, 2020 and 2019.

Other

The Hospital has equity interests other entities which are recorded on the equity method at approximately \$93,000 and \$73,000 as of December 31, 2020 and 2019, respectively.

13. 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, 2020 and 2019 was as follows:

	<u>Receivables</u>		<u>Revenues</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Medicare	21%	20%	48%	48%
Medicaid	9%	15%	15%	15%
Commercial	54%	49%	34%	32%
Self-Pay and other	16%	16%	3%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

WITHAM HEALTH SERVICES

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Under the long-term care leases, the Hospital recorded expenses related to purchased services from the managers of the facilities of approximately \$190,283,000 and \$164,409,000 during 2020 and 2019, respectively. Amounts due to the managers, included in current liabilities, as of December 31, 2020 and 2019 were approximately \$102,785,000 and \$72,153,000 respectively.

14. 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 \$300,000 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 \$9,607,000 and \$12,003,000 in 2020 and 2019, respectively. Changes in health claim liabilities for 2020 and 2019 are as follows:

	2020	2019
Unpaid claims, beginning of year	\$ 1,754,417	\$ 1,255,408
Incurred claims and changes in estimates	9,606,982	12,003,002
Claim payments	(9,573,604)	(11,503,993)
Unpaid claims, end of year	<u>\$ 1,787,795</u>	<u>\$ 1,754,417</u>

15. COVID-19

During 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 the Hospital is not currently able to predict. These impacts have included and may continue to include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue, contributions and funding, and investment portfolio declines. Management believes the 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.

During 2020, Provider Relief Funds (PRF) authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. The Hospital received approximately \$35,948,000 of these funds from the CARES Act. PRF amounts are recognized to the extent the Hospital meets the terms and conditions. The Hospital recognized PRF of approximately \$32,353,000 as COVID-19 grant funds within nonoperating revenue (expenses), net in the consolidated statements of revenues, expenses and changes in net position for the year ended December 31, 2020. The Hospital deferred PRF of approximately \$3,595,000, which is included in refundable advances – COVID-19 in current liabilities on the consolidated balance sheets.

WITHAM HEALTH SERVICES

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The CARES Act also allowed health care providers to request accelerated and advanced payments for Medicare services. The Hospital requested and received approximately \$12,094,000 of accelerated and advanced Medicare payments under this CARES Act provision through the date the consolidated financial statements were available to be issued. The amounts due for Medicare accelerated and advance payments was reported in current liabilities on the consolidated balance sheets.

Compliance with the terms and conditions may also be subject to future government review and interpretation as they are emerging and uncertain at the time the consolidated financial statements were available to be issued. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with the terms and conditions, and it is not possible to determine the impact (if any) such claims would have upon the Hospital.

16. 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, 2020 and 2019. While the Association is also a blended component unit of the Hospital, it was created pursuant to the provisions of IC 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital. As such, its financial position and related activities are not significant. For separate financial information related to the blended component units MOP, LLC and CIHA, contact the Hospital Controller's Office, at PO Box 1200, Lebanon, IN, 46052.

	2020		2019	
	MOP, LLC	CIHA	MOP, LLC	CIHA
Balance sheet				
Assets				
Current assets	\$ 1,477,719	\$ 66,505,930	\$ 1,113,053	\$ 60,630,804
Capital assets	2,968,648	11,437,211	3,163,501	11,486,591
Other assets	-0-	10,340,409	-0-	10,803,668
Total assets	\$ 4,446,367	\$ 88,283,550	\$ 4,276,554	\$ 82,921,063
Liabilities				
Current liabilities	\$ 365	\$ 460,536	\$ 22,283	\$ 924,162
Due to Hospital	-0-	349,252	-0-	117,350
Other liabilities	-0-	2,197,001	-0-	2,723,335
Total liabilities	365	3,006,789	22,283	3,764,847
Net position	4,446,002	85,276,761	4,254,271	79,156,216
Total liabilities and net position	\$ 4,446,367	\$ 88,283,550	\$ 4,276,554	\$ 82,921,063

WITHAM HEALTH SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	2020		2019	
	MOP, LLC	CIHA	MOP, LLC	CIHA
Statement of revenue, expenses and changes in net position				
Revenues				
Other revenue	\$ 783,442	\$ 229,519	\$ 723,750	\$ 226,412
Total revenues	783,442	229,519	723,750	226,412
Expenses				
Depreciation	214,586	49,649	192,503	49,714
Other expenses	377,125	856,726	412,888	933,114
Total expenses	591,711	906,375	605,391	982,828
Operating income (loss)	191,731	(676,856)	118,359	(756,416)
Nonoperating	-0-	5,697,401	-0-	6,335,163
Excess revenue over expenses	191,731	5,020,545	118,359	5,578,747
Transfers from Hospital	-0-	1,100,000	-0-	10,108,747
Change in net position	191,731	6,120,545	118,359	15,687,494
Net position				
Beginning of year	4,254,271	79,156,216	4,135,912	63,468,722
End of year	\$ 4,446,002	\$ 85,276,761	\$ 4,254,271	\$ 79,156,216
Statement of cash flows				
Cash provided by (used in)				
Operating activities	\$ 329,846	\$ 203,804	\$ 457,907	\$ (209,754)
Capital and related financing activities	(19,734)	-0-	(347,224)	-0-
Total change	310,112	203,804	110,683	(209,754)
Cash equivalents				
Beginning of year	1,034,457	41,906	923,774	251,660
End of year	\$ 1,344,569	\$ 245,710	\$ 1,034,457	\$ 41,906



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

Board of Trustees
Witham Health Services
Lebanon, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Witham Health Services (the Hospital), a component unit of Boone County, which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of revenues, expenses and changes in net position, 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 26, 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 Trustees
Witham Health Services
Lebanon, Indiana

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 26, 2021