
Adena Health System and Subsidiaries

**Consolidated Financial Report
with Additional Information
December 31, 2019**

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Independent Auditor's Report

To the Board of Directors
Adena Health System and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Adena Health System and Subsidiaries (the "System"), which comprise the consolidated balance sheet as of December 31, 2019 and 2018 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Adena Health System and Subsidiaries as of December 31, 2019 and 2018 and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, the System adopted Accounting Standards Codification (ASC) 842, *Leases*, using a modified retrospective transition method effective January 1, 2019. Our opinion is not modified with respect to this matter.

To the Board of Directors
Adena Health System and Subsidiaries

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2020 on our consideration of Adena Health System and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Adena Health System and Subsidiaries' internal control over financial reporting and compliance.

Plante & Moran, PLLC

March 30, 2020

Adena Health System and Subsidiaries

Consolidated Balance Sheet

December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 44,258,067	\$ 34,527,772
Patient accounts receivable (Note 4)	67,348,783	63,505,423
Inventory	9,753,962	7,816,416
Other current assets	10,536,171	9,583,943
Prepaid expenses and other	5,841,026	5,893,732
Total current assets	137,738,009	121,327,286
Assets Limited as to Use (Note 5)	394,789,590	287,012,269
Property and Equipment - Net (Note 7)	203,149,177	168,948,335
Indefeasible Right-of-use Asset (Note 8)	12,341,942	13,113,813
Right-of-use Operating Lease Assets (Note 17)	9,307,403	-
Other Assets		
Notes and grants receivable	6,509,415	5,374,911
Other noncurrent assets	17,436,968	14,889,751
Total other assets	23,946,383	20,264,662
Total assets	\$ 781,272,504	\$ 610,666,365
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 35,963,536	\$ 33,003,037
Right-of-use operating lease obligation - Current portion (Note 17)	2,847,000	-
Current portion of long-term debt (Note 12)	8,181,762	4,607,169
Estimated third-party payor settlements (Note 9)	2,676,446	473,782
Accrued liabilities and other:		
Accrued compensation	37,540,500	34,273,820
Deferred compensation	6,527,430	6,105,063
Accrued interest	796,117	672,668
Other accrued liabilities	2,223,021	2,228,718
Total current liabilities	96,755,812	81,364,257
Long-term Debt and Finance Lease Obligations - Net of current portion (Note 12)	272,343,558	186,023,251
Other Liabilities		
Right-of-use operating lease obligation - Net of current portion (Note 17)	6,460,403	-
Other long-term liabilities	23,766,232	20,306,912
Total liabilities	399,326,005	287,694,420
Net Assets		
Without donor restrictions	375,357,605	317,764,699
With donor restrictions (Note 15)	6,588,894	5,207,246
Total net assets	381,946,499	322,971,945
Total liabilities and net assets	\$ 781,272,504	\$ 610,666,365

Adena Health System and Subsidiaries

Consolidated Statement of Operations

Years Ended December 31, 2019 and 2018

	2019	2018
Revenue, Gains, and Other Support		
Patient service revenue (Note 16)	\$ 552,986,131	\$ 506,253,479
Other operating revenue	12,260,323	12,462,370
Net assets released from restrictions (Note 15)	205,883	408,030
Total revenue, gains, and other support	565,452,337	519,123,879
Expenses		
Salaries and wages	258,228,611	235,245,820
Employee benefits and payroll taxes	52,392,133	49,436,348
Operating supplies and expenses	94,179,010	88,784,075
Professional services and consultant fees	3,958,186	4,185,126
Purchased services	65,024,199	60,041,096
Insurance	3,419,330	2,700,181
Utilities	5,106,400	5,029,077
Travel/Education	3,475,786	4,259,475
Repair, maintenance, and rental	22,447,116	22,002,384
Assessments	8,682,253	5,394,936
Depreciation and amortization	29,280,229	23,324,872
Interest expense	7,364,597	5,820,797
Total expenses (Note 18)	553,557,850	506,224,187
Operating Income	11,894,487	12,899,692
Nonoperating Income (Loss)		
Interest income and net realized gains (Note 5)	4,734,890	11,113,299
Unrealized gains (losses) on investments (Note 5)	41,391,876	(26,001,898)
Defined benefit pension plan cost settlement	-	(14,225,651)
Other (loss) income	(573,665)	120,481
Total nonoperating income (loss)	45,553,101	(28,993,769)
Excess of Revenue Over (Under) Expenses	57,447,588	(16,094,077)
Net Assets Released from Restrictions for Purchase of Capital Assets (Note 15)	145,318	1,163,244
Pension-related Changes Other than Net Periodic Cost	-	13,253,363
Increase (Decrease) in Net Assets without Donor Restrictions	\$ 57,592,906	\$ (1,677,470)

Adena Health System and Subsidiaries

Consolidated Statement of Changes in Net Assets

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net Assets without Donor Restrictions		
Excess of revenue over (under) expenses	\$ 57,447,588	\$ (16,094,077)
Pension-related changes other than net periodic cost	-	13,253,363
Net assets released from restrictions for purchase of capital assets	<u>145,318</u>	<u>1,163,244</u>
Increase (decrease) in net assets without donor restrictions	57,592,906	(1,677,470)
Net Assets with Donor Restrictions		
Restricted contributions	1,452,383	728,593
Restricted investment income	90,682	35,965
Net realized and unrealized gains (losses) on investments	189,784	(123,664)
Net assets released from restrictions	<u>(351,201)</u>	<u>(1,571,965)</u>
Increase (decrease) in net assets with donor restrictions	<u>1,381,648</u>	<u>(931,071)</u>
Increase (Decrease) in Net Assets	58,974,554	(2,608,541)
Net Assets - Beginning of year	<u>322,971,945</u>	<u>325,580,486</u>
Net Assets - End of year	<u><u>\$ 381,946,499</u></u>	<u><u>\$ 322,971,945</u></u>

Adena Health System and Subsidiaries

Consolidated Statement of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 58,974,554	\$ (2,608,541)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	28,593,305	22,882,252
Net realized gains on investments	(285,082)	(130,147)
Unrealized net (gains) losses on investments	(41,391,876)	26,001,898
Pension-related changes other than net periodic cost	-	(13,253,363)
Loss on refunding of bonds	406,322	-
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Patient accounts receivable	(3,843,360)	(519,479)
Other current assets	(2,837,068)	(7,655,708)
Other noncurrent assets	(3,723,721)	(1,527,792)
Accounts payable	2,960,499	9,598,142
Accrued liabilities and other	7,766,119	3,447,603
Estimated third-party payor settlements	2,202,664	1,374,301
Change in defined benefit plan liability	-	10,054,933
Net cash and cash equivalents provided by operating activities	48,822,356	47,664,099
Cash Flows from Investing Activities		
Purchase of property and equipment	(37,396,764)	(43,753,815)
Purchases of investments	(109,886,288)	(11,889,479)
Proceeds from sales and maturities of investments	43,785,925	17,958,690
Net cash and cash equivalents used in investing activities	(103,497,127)	(37,684,604)
Cash Flows from Financing Activities		
Proceeds from issuance of debt, including original issuance premium	98,467,294	-
Principal payments on long-term debt	(2,358,330)	(4,271,266)
Debt issuance costs	(881,359)	-
Repayment of debt	(26,424,039)	-
Payments on finance lease	(4,398,500)	-
Net cash and cash equivalents provided by (used in) financing activities	64,405,066	(4,271,266)
Net Increase in Cash and Cash Equivalents	9,730,295	5,708,229
Cash and Cash Equivalents - Beginning of year	34,527,772	28,819,543
Cash and Cash Equivalents - End of year	\$ 44,258,067	\$ 34,527,772
Supplemental Cash Flow Information		
Cash paid for interest	\$ 9,892,000	\$ 8,032,000
Equipment acquired via finance lease and note payable	2,570,000	750,000
Right-of-use assets via operating lease obligation	8,406,000	-
Property reclassified via ASC 842 implementation (Note 12)	22,700,000	-

December 31, 2019 and 2018

Note 1 - Nature of Business

Adena Health System and Subsidiaries (the "System"), located in Ross County, Ohio, is a not-for-profit acute-care hospital operating 214 general acute-care beds. Adena Health System provides inpatient, outpatient, and emergency care services for residents of Ross County, Ohio and the surrounding communities.

In September 1999, Adena Health System became the sole member of Greenfield Area Medical Center (Greenfield), a 25-bed acute-care hospital located in Greenfield, Ohio. Greenfield has Section 501(c)(3) status with the Internal Revenue Service (IRS). Adena Health System, in its discretion as the sole member of Greenfield, may at any time amend the articles of incorporation and code of regulations of Greenfield in any manner and take any other action with respect to Greenfield that members of not-for-profit corporations may take under the Ohio not-for-profit corporation law. Effective June 1, 2001, Greenfield received a federal critical access hospital (CAH) designation, which is awarded to select small, rural hospitals, allowing Greenfield to recoup Medicare-defined allowable costs for services provided to Medicare patients. The CAH designation gives Greenfield increased reimbursement so that it can better serve its community. To receive this designation, hospitals must meet specific criteria, such as available beds, patient length of stay, and transfer agreements with other facilities.

On January 7, 2002, Adena Health System created the Adena Health Foundation (the "Foundation"). The purpose of the Foundation is to support Adena Health System and community programs to improve the health and well-being of the people served by Adena Health System. The Foundation received its 501(c)(3) status from the IRS on April 10, 2002.

On December 14, 2007, Adena Health System created Southern Ohio Health Care Network, Inc. (SOHCN). The purpose for which SOHCN was formed was to create an inclusive and sustainable broadband healthcare network open to all providers in the southern Ohio service area. The System was granted tax exemption for SOHCN during 2014.

On October 19, 2009, Adena Health System created Adena Medical Group, LLC (AMG). AMG is a disregarded entity, with Adena Health System as its sole member. AMG was formed to employ physicians to provide patient care within the Adena Health System, and it became operational on April 1, 2010.

On January 1, 2010, Adena Health System created Adena Pharmacy, LLC (AP). AP is a disregarded entity, with Adena Health System as its sole member. AP was formed to establish and operate a retail pharmacy within Adena Health System, and it became operational on November 1, 2012.

On August 11, 2010, Adena Health System created Adena Hospice, LLC; Adena Home Health LLC; Adena Home Infusion; and DME & Respiratory, LLC (collectively referred to as "Adena Home Care"). Adena Health System is the sole member of these entities. The entities were formed to provide hospice care, home health services, and durable medical equipment/services, respectively, to patients within the Adena Health System service area.

On November 10, 2011, Adena Health System created Adena Care, Inc., which is doing business as (d/b/a) Adena Health Plan. Adena Health System is the sole shareholder of Adena Care, Inc. Adena Health Plan functions as a taxable entity and was formed to market employee health insurance to organizations in Ohio.

On March 1, 2012, the System became the sole corporate member of Pike Health Services, Inc. (Adena Pike Community Hospital). The System took operational control effective March 1, 2012. Pike Health Services, Inc. is a not-for-profit hospital operating 25 beds in Waverly, Ohio that has received a critical access hospital designation.

December 31, 2019 and 2018

Note 1 - Nature of Business (Continued)

On July 23, 2014, Adena Health System created Adena Healthcare Collaborative, LLC, an Accountable Care Organization (ACO), to participate in the Medicare Shared Savings Program. An ACO is a group of doctors, hospitals, and other healthcare providers that come together voluntarily to provide coordinated high-quality care to their Medicare patients. The goal of coordinated care is to ensure that patients get the right care at the right time, while avoiding unnecessary duplication of services and preventing medical errors. When an ACO succeeds both in delivering high-quality care and spending healthcare dollars more wisely, the ACO will share in the savings it achieves for the Medicare program.

Note 2 - Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Adena Health System and its subsidiaries, Greenfield Area Medical Center; Adena Health Foundation; Southern Ohio Health Care Network, Inc.; Adena Medical Group, LLC; Adena Pharmacy, LLC; Adena Hospice, LLC; Adena Home Health LLC; Adena Home Infusion; DME & Respiratory, LLC; Adena Care, Inc. d/b/a Adena Health Plan; Adena Pike Community Hospital; and Adena Healthcare Collaborative, LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less.

Accounts Receivable

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges, reduced by explicit price concessions provided to third-party payors, discounts provided to qualifying individuals as part of the System's financial assistance policy, and implicit price concessions provided primarily to self-pay patients. Estimates for explicit price concessions are based on provider contracts, payment terms for relevant prospective payment systems, and historical experience, adjusted for economic conditions and other trends affecting the System's ability to collect outstanding amounts.

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records significant implicit price concessions in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

Physician Receivables and Advances

The System has entered into agreements to advance money to physicians. Based upon the terms of the agreements, these loans are to be repaid by the physicians or fulfilled through providing services at the System for an agreed-upon time period. Most of these loans are expected to be satisfied by the physicians providing services at the System. These amounts are shown within other current assets and notes and grants receivable on the consolidated balance sheet.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law.

Note 2 - Significant Accounting Policies (Continued)

Assets Limited as to Use

Assets limited as to use include assets designated by the board of directors for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes. Assets limited as to use also include assets held by trustees in connection with repayment of principal and interest on bond indebtedness, funds set aside by donor restrictions, and funds designated for the professional liability self-insurance trust.

Inventory

Inventories, which consist of medical, surgical, and office supplies and pharmaceutical products, are stated at the lower of cost or net realizable value, determined on a first-in, first-out basis.

Property and Equipment

Property and equipment are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred. 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.

Indefeasible Right-of-use Asset

The indefeasible right-of-use asset is recorded at cost and is being amortized over the estimated useful life of the asset of 24 years.

Classification of Net Assets

Net assets of the System are classified as net assets without donor restrictions or net assets with donor restrictions depending on the presence and characteristics of donor-imposed restrictions limiting the System's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions may expire with the passage of time or be removed by meeting certain requirements. Additionally, donor-imposed restrictions may limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as changes in net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Excess of Revenue Over (Under) Expenses

The consolidated statement of operations includes excess of revenue over (under) expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue over (under) expenses, consistent with industry practice, include net assets released from restrictions for purchase of capital assets, permanent transfers of assets to and from affiliates for other than goods and services, and pension-related changes other than net periodic cost.

Revenue Recognition

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

Performance obligations are determined based on the nature of the services provided. The majority of the System's services represent a bundle of services that are not capable of being distinct and, as such, are treated as a single performance obligation satisfied over time as services are rendered.

Note 2 - Significant Accounting Policies (Continued)

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

Charity Care

The System 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 System does not pursue collection of amounts determined to qualify as charity care, they are not reported in patient service revenue.

Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation that applies a ratio of cost 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 System's total operating expenses divided by gross revenue charges. The System estimates that it provided approximately \$10,004,000 and \$7,164,000 of services to indigent patients during 2019 and 2018, respectively. The System received approximately \$7,997,000 and \$2,035,000 in net distributions from the Ohio Medicaid Hospital Care Assurance Program (HCAP) during 2019 and 2018, respectively, as assistance to offset the cost of charity care. The remaining Ohio Medicaid HCAP monies of \$6,111,000 and \$6,818,000 as of December 31, 2019 and 2018, respectively, were received and used to offset losses on Medicaid services.

Litigation

The System is exposed to litigation arising in the course of business. The System has purchased excess coverage for these claims in excess of its self-insured retention. Settled claims related to the coverage have not exceeded the amount of insurance coverage in 2019 or 2018. The System accrues an estimate of the ultimate expense, including litigation and settlement expense, for incidents of potential improper professional service and other liability claims occurring during the year, as well as for those claims that have not been reported at year end.

Contributions and Grants

The System reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the consolidated statement of changes in net assets as net assets released from restrictions.

The System reports gifts of property and equipment as earnings unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the System reports the expiration of donor restrictions when the assets are placed in service.

Contributions and grants received for capital purposes are excluded from the performance indicator (excess of revenue over expenses), while grants received for operational purposes are included in other operating income.

December 31, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

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 and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Tax Status

Adena Health System and its subsidiaries (except for Adena Pharmacy, LLC; Adena Home Care; and Adena Care, Inc. d/b/a Adena Health Plan) are nonprofit, tax-exempt entities. Adena Pharmacy, LLC and Adena Home Care are limited liability companies, and, as such, federal and other income taxes are not provided for by these entities. The sole member, Adena Health System, may be taxed on the earnings; the taxes, if any, are not expected to be significant. Adena Care, Inc. is a taxable entity; however, Adena Care, Inc. has recorded operating losses and has an operating loss carryforward at December 31, 2019. Adena Care, Inc. is tax exempt for state purposes.

Recently Adopted Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) established Topic 842, *Leases*, by issuing Accounting Standards Update (ASU) No. 2016-02, which requires lessees to recognize leases with terms longer than 12 months on the balance sheet and disclose key information about leasing arrangements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The classification criteria for distinguishing between operating and finance (previously capital) leases are substantially similar to the previous lease guidance, but with no explicit bright lines included within the classification criteria.

The System adopted the standard as of January 1, 2019, electing the transition method that allows it to apply the standard as of the adoption date and record a cumulative-effect adjustment in net assets, if applicable. The new standard provides practical expedients for an entity's ongoing accounting. The System has made an accounting policy to keep leases with an initial term of 12 months or less off of the consolidated balance sheet and recognize those lease payments in the consolidated statement of operations on a straight-line basis over the lease term. The System has also elected the practical expedient to allow hindsight in determining the lease term and in assessing impairment of the right-of-use assets. The adoption of this standard resulted in recognition of right-of-use assets and lease liabilities of \$8,406,000 on its consolidated balance sheet as of January 1, 2019.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including March 30, 2020, which is the date the consolidated financial statements were issued.

In January 2020, the System approved a nonbinding letter of intent to acquire a hospital in the geographic footprint of the System.

The large-scale COVID-19 pandemic may have a material adverse effect on future patient volumes, diversion of patients, staffing shortages, and business operations over an extended period of time. While it is not yet possible to estimate the financial impact, a large-scale pandemic could have a material adverse effect on the System's revenue, liquidity and operating results. On March 18, 2020, the governor of Ohio ordered all elective surgeries to be postponed, which caused a decrease in certain revenue of the System to date. The System is proactively responding to both the health crisis and the related financial impact.

Adena Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Subsequent to year end, the System's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Note 3 - Cash in Excess of Insured Limits

The System and its subsidiaries maintain cash and investment balances at several financial institutions located in the vicinity of Chillicothe, Ohio. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. As of December 31, 2019 and 2018, cash balances exceed the insured limit. Management believes that, due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

Note 4 - Patient Accounts Receivable

The composition of receivables from patients and third-party payors was as follows:

	2019	2018
Medicare	24.00 %	23.00 %
Medicaid	19.00	21.00
Commercial insurance and other	54.00	54.00
Self-pay	3.00	2.00
Total	100.00 %	100.00 %

Note 5 - Assets Limited as to Use

The composition of assets limited as to use at December 31, 2019 and 2018 is set forth in the following table:

	2019	2018
Internally designated for capital acquisition, donor restrictions, and professional liability self-insurance trust:		
Money market accounts	\$ 505,720	\$ 646,758
Common stock	671,883	269,746
Mutual funds	1,962,319	887,742
Common collective trust funds	314,624,978	269,578,490
Corporate bonds	1,685,402	1,724,959
Total	319,450,302	273,107,695
Held by trustee under indenture agreement for certain bond indebtedness principal and interest payments - Money market accounts	75,339,288	13,904,574
Total assets limited as to use	\$ 394,789,590	\$ 287,012,269

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 5 - Assets Limited as to Use (Continued)

Investment income and (losses) gains for assets limited as to use, cash equivalents, and other investments reported within nonoperating income (loss) on the consolidated statement of operations are composed of the following for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Interest income	\$ 4,639,592	\$ 10,859,488
Net realized gains on sales of securities	95,298	253,811
Net unrealized gains (losses) on securities	<u>41,391,876</u>	<u>(26,001,898)</u>
Total income (loss)	<u>\$ 46,126,766</u>	<u>\$ (14,888,599)</u>

Note 6 - Liquidity

The following reflects the System's financial assets as of December 31, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated balance sheet date:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 44,258,067	\$ 34,527,772
Patient accounts receivable	67,348,783	63,505,423
HCAP and UPL receivable (included in other current assets)	2,831,971	4,290,167
Physician notes and grants receivable (included in other current assets and notes and grants receivable)	9,246,008	8,006,692
Assets limited as to use - Internally designated for capital acquisition, donor restrictions, and professional self-insurance trust	319,450,302	273,107,695
Assets limited as to use - Held by trustee under indenture agreement	<u>75,339,288</u>	<u>13,904,574</u>
Financial assets - At year end	518,474,419	397,342,323
Less those unavailable for general expenditures within one year due to:		
Assets limited as to use - Internally designated for capital acquisition, donor restrictions, and professional self-insurance trust	(319,450,302)	(273,107,695)
Assets limited as to use - Held by trustee under indenture agreement	(75,339,288)	(13,904,574)
Physician notes and grants receivable (included in other current assets and notes and grants receivable)	<u>(9,246,008)</u>	<u>(8,006,692)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 114,438,821</u>	<u>\$ 102,323,362</u>

The System has certain board-designated and assets limited as to use that could be made available for general expenditure within one year in the normal course of operations. These assets have been included in the quantitative information above for the unavailable financial assets to meet general expenditures within one year. The System has other assets limited to use for donor-restricted purposes, debt service, and professional and general liability coverage. These assets limited as to use, which are more fully described in Note 5, are not available for general expenditure within the next year.

As part of the System's liquidity management plan, cash in excess of daily requirements is invested in mutual funds that can be liquidated quickly to meet unexpected liquidity needs. The cash balance is reviewed quarterly by management, and, in compliance with the board cash management policy, money is designated to be added to board-designated investments or withdrawn from board-designated investments.

As of December 31, 2019, the System was in compliance with bond covenants, as more fully described in Note 12.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 7 - Property and Equipment

The costs of property, plant, and equipment and depreciable lives are summarized as follows:

	2019	2018	Depreciable Life - Years
Land	\$ 3,565,992	\$ 3,485,204	-
Land improvements	9,030,372	8,596,666	5-25
Buildings and improvements	230,435,158	214,905,220	5-40
Right-of-use finance lease assets	27,984,444	-	-
Equipment	203,958,120	199,841,498	5-20
Construction in progress	7,153,569	5,304,381	-
Total cost	482,127,655	432,132,969	
Accumulated depreciation	278,978,478	263,184,634	
Net property and equipment	\$ 203,149,177	\$ 168,948,335	

Depreciation on property and equipment totaled approximately \$28,374,000 and \$22,511,000 in 2019 and 2018, respectively.

In connection with the Accounting Standards Codification (ASC) 842 implementation as of January 1, 2019, there was approximately \$1.3 million of right-of-use finance lease assets as of December 31, 2018, which was included within net property and equipment above.

Construction in progress consists primarily of costs incurred for two projects: the emergency and main lobby expansion and renovation and specialty surgery center and parking. Remaining costs to complete the projects are approximately \$6,600,000 as of December 31, 2019.

Note 8 - Infeasible Right-of-use Asset

During 2009, SOHCN received an award from the Federal Communications Commission (FCC) to develop a sustainable broadband healthcare network open to all providers in the southern Ohio service area. The award from the FCC totaled \$15,765,417, which represented approximately 85 percent of the total contract value of the broadband fiber to be installed, with the remaining 15 percent being a required contribution from the System. At the same time, SOHCN entered into a contract with a broadband partner for that partner to install and maintain the broadband fiber network. The agreement stipulated that the broadband partner would own the fiber, but SOHCN would have an infeasible right of use of the asset for the next 40 years. All funds from the FCC are to be paid directly to the broadband partner upon approval of fiber construction by the System. During 2011, the broadband partner began installing the fiber, with a total cost of \$15,562,000 as of December 31, 2011. The cost of the asset totaled \$18,524,823 at both December 31, 2019 and 2018. Accumulated amortization of the asset is \$6,182,881 and \$5,411,010 as of December 31, 2019 and 2018, respectively. The asset will be amortized over its estimated useful life of 24 years; amortization commenced in November 2011, with amortization expense totaling \$771,871 for both years ended December 31, 2019 and 2018.

Note 9 - Estimated Third-party Settlements

Approximately 44 percent of the System's revenue from patient services is received from the Medicare and Medicaid programs. The System has agreements with these payors that provide for reimbursement to the System at amounts different from its established rates. Adjustments under third-party reimbursement programs represent the difference between the System's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors is as follows:

Medicare

For Adena Health System, inpatient acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient capital costs are paid at prospectively determined rates per discharge. Most outpatient services and outpatient-defined capital costs related to Medicare beneficiaries are paid based on an ambulatory payment classification system (prospectively determined). Outpatient services for therapies and laboratory services are reimbursed on an established fee schedule methodology. For Greenfield Area Medical Center and Adena Pike Community Hospital, the facilities will receive reasonable cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries.

The professional services supplied by the employed physicians are reimbursed on an applicable fee schedule. These fee schedules are updated as regulations require or as contracts are negotiated in the case of some of Adena's Medicare Advantage plans.

Medicaid

For hospitals, inpatient acute-care services rendered to Medicaid program beneficiaries are reimbursed on a prospective basis using the All Patient Refined Diagnosis Related Group (APR-DRG) system. The hospitals are reimbursed for outpatient services on a prospective basis using the Enhanced Ambulatory Patient Groups (EAPG) system.

Final reimbursement under these programs is subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a significant effect on the accompanying consolidated financial statements.

The professional services supplied by the employed physicians are reimbursed on an applicable fee schedule. These fee schedules are updated as regulations require or as contracts are negotiated in the case of some of Adena's Medicaid managed care plans.

The Medicaid payment system in Ohio is a prospective one, whereby rates for the following state fiscal year beginning on July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant change in rates, or the payment system itself, could have a material impact on future Medicaid funding to providers.

Effective January 1, 2014, the State of Ohio extended Medicaid to more low-income patients, which resulted in patients previously classified as self-pay being eligible for Medicaid.

Commercial

The System has also entered into agreements with certain commercial carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement to the System under these agreements is discounts from established charges, prospectively determined rates per discharge, and prospectively determined daily rates.

The professional services supplied by the employed physicians are reimbursed on an applicable fee schedule. These fee schedules are updated from time to time as negotiated.

Note 10 - Medical Malpractice Claims

Based on the nature of its operations, the System is, at times, subject to pending or threatened legal actions that arise in the normal course of its activities.

The System has been insured with various providers. The System added coverage for integrated (employed) physicians to its policy in 1998, sharing primary limits of \$1,000,000 per incident and \$3,000,000 annual aggregate. Beginning with the 2000-2001 policy year, the physicians were covered under a separate occurrence policy, with individual limits for each physician of \$1,000,000 per occurrence and \$3,000,000 annual aggregate. The coverages for the System and physicians were occurrence based until 2005, at which time the System became insured on a claims-made basis.

The System's medical malpractice coverage was renewed with a \$250,000 deductible per claim on February 22, 2005, and the deductible increased to \$500,000 per claim as of February 22, 2006. In addition, as of October 1, 2008, the System modified the physician coverages to include a deductible of \$500,000 per claim.

On January 1, 2011, the System implemented a self-insured medical malpractice trust with shared retention limits for all medical providers of \$1,000,000 per incident and \$3,000,000 in the aggregate, annually. Excess policies in the amount of up to \$30,000,000 in insurance coverage annually are layered on top of the System's self-insured retention.

At December 31, 2019, the System's management accrued its best estimate, with the help of an actuary, for claims arising prior to December 31, 2019. Based on changes to generally accepted accounting principles, system management has estimated the ultimate costs, if any, to settle these claims through an actuarial valuation and, accordingly, has allowed for them in the accrual for professional liability claims of approximately \$12,900,000 and \$12,100,000 for the years ended December 31, 2019 and 2018, respectively. These amounts are recorded in other accrued liabilities and other liabilities on the consolidated balance sheet.

In addition, the System has estimated a receivable from its insurance carrier for payment of claims in excess of self-insured retention. The receivable is estimated at \$2,400,000 and \$2,900,000 for the years ended December 31, 2019 and 2018, respectively. These amounts are included in other current assets and other noncurrent assets on the consolidated balance sheet. The System is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits.

Medical

The System estimates the liability for medical claims that have been incurred through the end of the fiscal year, including both claims that have been reported, as well as those that have not yet been reported. These estimates are recorded as other liabilities on the consolidated balance sheet.

Note 11 - Self-insurance

The System is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$275,000 per employee annually in both 2019 and 2018, or total claims in excess of approximately \$35,462,000 and \$39,855,000 in 2019 and 2018, respectively. Once the excess from these individual stop-loss claims reaches \$500,000 or more, the stop-loss carrier will reimburse the System. Claims and expenses charged to operations when incurred were approximately \$27,647,000 and \$26,830,000 for the years ended December 31, 2019 and 2018, respectively. The System has recorded a receivable of approximately \$186,000 and \$0 for claims paid exceeding the self-insured retention due from its insurance carrier at December 31, 2019 and 2018, respectively.

Adena Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 12 - Long-term Debt

A summary of long-term debt obligations at December 31, 2019 and 2018 is as follows:

	2019	2018
City of Chillicothe, Ohio, Hospital Facilities Revenue Refunding and Improvement Bonds 2017 (maturing in December 2047)	\$ 145,570,000	\$ 145,570,000
PNC Bank term loan. Loan refinanced as of June 2019 through Series 2019 bonds	-	3,989,542
County of Ross, Ohio, Hospital Facilities Revenue Bonds 2010. Bonds refinanced as of June 2019 through Series 2019 bonds	-	23,950,074
County of Ross, Ohio, Hospital Facilities Revenue Bonds 1998 (maturing in December 2023)	2,020,000	2,470,000
County of Ross, Ohio, Hospital Facilities Revenue Bonds 2019 (maturing in December 2049)	83,270,000	-
Other notes payable	777,920	450,000
Finance lease obligations for equipment purchases	4,990,167	1,370,266
Finance lease obligations for real estate	17,252,035	-
Unamortized premium	29,175,555	14,749,060
Total	283,055,677	192,548,942
Less current portion	8,181,762	4,607,169
Less deferred bond issue costs	2,530,357	1,918,522
Long-term portion	<u>\$ 272,343,558</u>	<u>\$ 186,023,251</u>

In June 2017, the System entered into an agreement with the City of Chillicothe, Ohio (Chillicothe) in which Chillicothe issued \$145,570,000 of Hospital Facilities Revenue Refunding and Improvement Bonds (the "Series 2017 Bonds"). The Series 2017 Bonds were issued for the purpose of refinancing previously issued debt and financing the acquisition, construction, renovation, improvement, expansion, and equipping of certain of its healthcare facilities. The debt matures in increasing annual principal payments beginning in 2021 through 2047. The interest rate per year ranges from 4.00 percent to 5.00 percent over the life of the bonds.

In June 2017, the System entered into an agreement with PNC Bank, National Association (PNC Bank), in which PNC Bank issued \$7,405,000 through a term loan (the "PNC Bank Term Loan"). The PNC Bank Term Loan was issued for the purpose of repaying existing indebtedness of the System. The debt matures in monthly principal payments beginning in 2017 through 2020. The interest rate per year is fixed at 2.61 percent. The PNC Bank Term Loan was refinanced in June 2019.

In September 2010, the County of Ross, Ohio issued \$30,000,000 Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2010 (Adena Health System Project) (the "Series 2010 Bonds"). The Series 2010 Bonds are a private placement in which PNC Bank purchased the Series 2010 Bonds and agreed to hold the Series 2010 Bonds until at least September 1, 2020. The Series 2010 Bonds were issued for the purpose of financing the construction of a cancer center and the renovation and equipping of certain other facilities. The debt has a final maturity date of September 1, 2037 and provides for the repayment of principal in increasing monthly principal payments beginning in 2012 through September 1, 2020, at which time the Series 2010 Bonds are subject to mandatory tender. As long as the interest rate remains at the initial fixed rate (bank rate) and no event of default occurs under the indenture, then the bonds cannot be redeemed by the bondholder until September 1, 2020; however, the System has an option to redeem bonds prior to September 1, 2020, subject to a prepayment premium.

Note 12 - Long-term Debt (Continued)

If the System chooses to change the interest rate in accordance with the provisions of the indenture, then the bonds may be redeemable upon such conversion of rate as well. As long as there are no changes in the initial bank rate or early redemptions, then on and after September 1, 2020, the principal of the Series 2010 Bonds will be amortized pursuant to an agreement between the System and the new holder of the Series 2010 Bonds. While the interest rate of the bonds is adjustable based on various indices over the term of the bonds, PNC Bank has agreed to fix the rate at 2.97 percent until September 1, 2020, after which time the rate will become a variable rate to be negotiated between the System and the debt holder, unless the System chooses to change the interest rate in accordance with the indenture before September 1, 2020. The bonds were refinanced in June 2019, and a loss on refunding was recorded in other nonoperating income (loss) of approximately \$406,000.

In September 1998, the System entered into an agreement with the County of Ross, Ohio in which the County of Ross, Ohio issued \$8,175,000 of Hospital Facilities Revenue Bonds (the "Series 1998 Bonds") to (1) pay the costs of acquisition and construction of various improvements to the System, including the 60,000-square-foot expansion of a medical office building to provide additional physicians' offices and hospital services and renovation of the women's and maternity unit; (2) pay the cost of acquisition and installation of certain movable equipment and a management information system; and (3) pay certain eligible expenses associated with the issuance of the Series 1998 Bonds. The bonds are secured by an irrevocable letter of credit issued by PNC Bank. The bonds are remarketed weekly and bear interest at variable market rates (0.00 and 1.71 percent at December 31, 2019 and 2018, respectively). Should the remarketing agent fail to remarket the bonds, funds would be drawn on the letter of credit to pay the bonds. The System is under no obligation to repay draws on the letter of credit until the 368th day after the occurrence of such draw. The letter of credit expires on January 10, 2021, at which time the System would become liable for draws on the letter of credit, if any.

In June 2019, the System entered into an agreement with the City of Chillicothe, Ohio in which Chillicothe issued \$83,270,000 of Hospital Facilities Revenue Refunding and Improvement Bonds (the "Series 2019 Bonds"). The Series 2019 Bonds were issued for the purpose of refinancing previously issued debt and financing the acquisition, construction, renovation, improvement, expansion, and equipping of certain of its healthcare facilities. The debt matures in increasing annual principal payments beginning in 2020 through 2049. The interest rate per year is 5.00 percent over the life of the bonds.

Interest expense on all indebtedness totaled approximately \$7,365,000 in 2019 and \$5,821,000 in 2018. Cash paid for interest amounted to approximately \$9,892,000 and \$8,032,000 for 2019 and 2018, respectively.

In connection with the Series 1998, 2010, 2017, and 2019 Bonds, Chillicothe, as lessee, and the System, as lessor, entered into a master lease agreement for the System's premises. Chillicothe, as lessor, then entered into a sublease agreement with the System, as lessee, for the System's premises. The lease agreements expire on December 1, 2047, the mandatory retirement date of the Series 2017 Bonds. Under the terms of the lease and the indenture of trust related to the bonds, the System has pledged to Chillicothe a security interest in all present and future gross receipts, as defined. After final payment of the bonds, the System's facilities will be surrendered back to the System. Accordingly, such premises, together with the bond proceeds and bond indebtedness, are included in the accompanying consolidated financial statements as assets and liabilities of the System.

The terms of the lease and the indenture of trust between Chillicothe, the System, and the trustee provide for the establishment and maintenance of certain funds under the control of the trustee into which the System is to make regular payments sufficient to cover principal and interest on the Series 1998, 2010, 2017, and 2019 Bonds. The balances of these funds as of December 31, 2019 and 2018 are reflected in the accompanying consolidated financial statements as assets limited as to use. In addition, the System is required to comply with certain financial and other restrictive covenants related to these bonds. For the year ended December 31, 2019, the maximum annual debt service is \$19,759,316.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 12 - Long-term Debt (Continued)

The System leases medical office space and various medical equipment under long-term lease arrangements that are classified as finance leases. Under the terms of the lease agreements, payments ranging from \$39,000 to \$372,000 are due monthly through October 2034. The right-of-use asset and related lease liability have been calculated using a discount rate of 3.00 percent.

Scheduled future minimum repayments on long-term debt and principal payments on finance lease obligations are as follows:

Years Ending December 31	Bonds	Finance Lease Obligations	Notes Payable
2020	\$ 3,600,000	\$ 4,424,499	\$ 157,263
2021	3,760,000	3,925,898	120,657
2022	3,935,000	2,792,556	-
2023	4,110,000	2,594,356	-
2024	4,300,000	2,088,506	-
Thereafter	211,155,000	6,416,387	500,000
Total	<u>\$ 230,860,000</u>	<u>\$ 22,242,202</u>	<u>\$ 777,920</u>

Total interest payments on finance leases for the year ended December 31, 2019 are \$679,397. Total amortization expense on finance leases for the year ended December 31, 2019 is \$3,989,173.

The cost of equipment under finance lease is \$27,984,000 and \$9,243,000 as of December 31, 2019 and 2018, respectively. Accumulated amortization on the equipment totaled approximately \$5,556,000 and \$7,992,000 as of December 31, 2019 and 2018, respectively.

In connection with the ASC 842 implementation as of January 1, 2019, leases totaling \$22.7 million were reassessed and reclassified from operating lease to finance lease obligations as of January 1, 2019.

Note 13 - Defined Benefit Plan

The System sponsored a defined benefit pension plan.

In January 2004, the board of directors of the System voted to freeze almost all employees' participation in the future accrual of benefits under the existing defined benefit plan, effective July 1, 2004. Approximately 100 employees who had obtained five years of service and were at least 55 years of age were allowed to continue with the existing plan. At the time the plan was frozen, employees vested in the plan earned a rate of return based on the 30-year United States Treasury rates.

Effective June 5, 2017, the System approved a plan to freeze benefit accruals and terminate the defined benefit pension plan. Upon termination of the defined benefit pension plan, participants will become fully vested in their accrued benefits.

In August 2018, the System was granted approval by the Internal Revenue Service to terminate the plan. The final payment was made in December 2018, effectively liquidating the plan.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 13 - Defined Benefit Plan (Continued)

	Pension Benefits	
	2019	2018
Obligations and funded status:		
Benefit obligation at beginning of year	\$ -	\$ 52,087,004
Interest cost	-	1,187,034
Plan settlements	-	(49,524,856)
Benefits paid	-	(1,289,383)
Actuarial gains	-	(2,459,799)
Benefit obligation at end of year	-	-
Change in plan assets:		
Fair value of plan assets at beginning of year	-	48,888,574
Contributions	-	2,675,355
Actual return on plan assets	-	(672,043)
Plan settlements	-	(49,602,503)
Benefits paid	-	(1,289,383)
Fair value of plan assets at end of year	-	-
Funded status at end of year	\$ -	\$ -

Information for pension plans with an accumulated benefit obligation in excess of plan assets is as follows:

	Pension Benefits	
	2019	2018
Net Periodic Benefit Cost, Employer Contributions, Participant Contributions, and Benefits Paid		
Net periodic benefit cost	\$ -	\$ 12,652,641
Benefits paid	-	1,289,383
Net Periodic Benefit Cost		
Interest cost	\$ -	\$ 1,187,034
Expected return on plan assets	-	479,276
Amortization of prior service cost	-	28,005
Settlement loss recognized	-	9,997,096
Amortization of net loss	-	961,230
Total recognized in net periodic benefit cost	\$ -	\$ 12,652,641

Note 14 - Retirement Plans

The System maintains a contributory defined contribution plan 403(b) and a retirement savings plan 401(a) for qualified employees who meet certain service requirements.

The System's contributions to the retirement savings plan 401(a) are board determined and can range from 3 to 6 percent of participants' base compensation. The related matching program currently funds 50 percent of employees' contributions, from the related 403(b) plan, up to a maximum of 6 percent of the employee's gross compensation. For the years ended December 31, 2019 and 2018, the retirement savings expense and the related match aggregated approximately \$9,998,000 and \$8,569,000, respectively.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 15 - Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following specific purposes at December 31, 2019 and 2018:

	2019	2018
Building and equipment	\$ 3,199,061	\$ 2,274,255
Indigent care	1,475,628	1,311,112
Supplies	524,608	446,326
Healthcare education	926,332	820,822
Research	35,855	37,030
Community benefit	427,410	317,701
	<u>\$ 6,588,894</u>	<u>\$ 5,207,246</u>
Total net assets with donor restrictions	<u>\$ 6,588,894</u>	<u>\$ 5,207,246</u>

At both December 31, 2019 and 2018, all net assets with donor restrictions were restricted for purpose. During 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose established by donors in the amount of \$351,201 and \$1,571,274, respectively.

Note 16 - Patient Care Service Revenue

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

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute-care services or patients receiving services in our outpatient centers or in their homes (home care). The System measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment), and the System does not believe it is required to provide additional goods or services related to that sale. The amount of revenue the System recognized in revenue at a point in time was \$10,240,202 and \$9,932,563 during December 31, 2019 and 2018, respectively, and is included within other operating revenue on the consolidated statement of operations.

The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute-care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

December 31, 2019 and 2018

Note 16 - Patient Care Service Revenue (Continued)

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

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

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and for those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2019 and 2018, changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The System has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors and service lines. Tables providing details of these factors are presented below.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 16 - Patient Care Service Revenue (Continued)

The composition of patient care service revenue by primary payor for the years ended December 31 is as follows:

	<u>2019</u>	<u>2018</u>
Payors:		
Medicare	\$ 185,250,308	\$ 169,942,118
Medicaid	55,934,841	59,024,515
Commercial	278,698,964	247,631,270
Direct billed	14,758,593	13,174,104
Self-pay	9,843,700	9,240,874
Other	<u>8,499,725</u>	<u>7,240,598</u>
Total	<u>\$ 552,986,131</u>	<u>\$ 506,253,479</u>
Major service lines:		
Hospital inpatient	\$ 162,050,691	\$ 151,997,004
Hospital outpatient	306,198,552	279,858,808
Physician	76,237,163	67,157,069
Other	<u>8,499,725</u>	<u>7,240,598</u>
Total	<u>\$ 552,986,131</u>	<u>\$ 506,253,479</u>

After a review of reimbursement methods and contract obligations, the System deems all significant patient revenue to be fee for service, and the performance obligation is met over time.

Contract assets of \$1,832,568 and \$1,236,811 are included within other current assets on the consolidated balance sheet as of December 31, 2019 and 2018, respectively.

Note 17 - Operating Leases

The System is obligated under operating leases primarily for medical office space and various medical equipment, expiring at various dates through September 2032. The right-of-use asset and related lease liability have been calculated using a discount rate of 3.00 percent. The leases require the System to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was approximately \$2,817,000 and \$5,794,000 for 2019 and 2018, respectively.

The System assesses whether it is reasonable certain to exercise an option to extend or terminate a lease at the lease commencement date. In this assessment, the System considers all relevant factors that create economic incentive to exercise such options, including asset, contract, market, and entity-based factors.

When readily determinable, the System utilizes the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not readily determinable, the System's incremental borrowing rate is used.

Adena Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 17 - Operating Leases (Continued)

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2020	\$ 2,847,000
2021	2,381,028
2022	1,733,850
2023	932,745
2024	844,050
Thereafter	<u>1,307,251</u>
Total	10,045,924
Less amount representing interest	<u>738,521</u>
Present value of net minimum lease payments	9,307,403
Less current obligations	<u>2,847,000</u>
Long-term obligations	<u>\$ 6,460,403</u>

Note 18 - Functional Expenses

The System is a general acute-care facility that provides inpatient and outpatient healthcare services to patients in Ross County, Ohio and several surrounding counties. Expenses related to providing these services for the years ended December 31, 2019 and 2018 are as follows:

	2019		
	Program Services	Support Services	Total
Salaries and wages	\$ 211,345,100	\$ 46,883,511	\$ 258,228,611
Employee benefits and payroll taxes	45,945,589	6,446,544	52,392,133
Operating supplies and expenses	90,082,788	4,096,222	94,179,010
Professional services and consultant fees	3,498,179	460,007	3,958,186
Purchased services	29,157,521	35,866,678	65,024,199
Insurance	3,254,751	164,579	3,419,330
Utilities	17,408	5,088,992	5,106,400
Travel/Education	1,779,430	1,696,356	3,475,786
Repair, maintenance, and rental	12,041,489	10,405,627	22,447,116
Assessments	8,547,687	134,566	8,682,253
Depreciation and amortization	20,966,487	8,313,742	29,280,229
Interest expense	4,695,436	2,669,161	7,364,597
Total	<u>\$ 431,331,865</u>	<u>\$ 122,225,985</u>	<u>\$ 553,557,850</u>

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 18 - Functional Expenses (Continued)

	2018		
	Program Services	Support Services	Total
Salaries and wages	\$ 189,165,694	\$ 46,080,126	\$ 235,245,820
Employee benefits and payroll taxes	43,157,621	6,278,727	49,436,348
Operating supplies and expenses	84,081,304	4,702,771	88,784,075
Professional services and consultant fees	3,474,026	711,100	4,185,126
Purchased services	25,451,388	34,589,708	60,041,096
Insurance	1,979,431	720,750	2,700,181
Utilities	9,079	5,019,998	5,029,077
Travel/Education	1,832,074	2,427,401	4,259,475
Repair, maintenance, and rental	11,537,800	10,464,584	22,002,384
Assessments	5,276,084	118,852	5,394,936
Depreciation and amortization	16,703,149	6,621,723	23,324,872
Interest expense	3,941,772	1,879,025	5,820,797
Total	\$ 386,609,422	\$ 119,614,765	\$ 506,224,187

The consolidated financial statements report certain functions or expense categories that support both program and support functions. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, interest, purchasing, and information technology expenses, are allocated between program and support based on a unit-of-service basis. Allocated healthcare services costs not allocated on a units-of-service basis are otherwise allocated based on a pro rata percentage of program revenue/expense to total revenue or expense. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Note 19 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the System’s assets measured at fair value on a recurring basis at December 31, 2019 and 2018 and the valuation techniques used by the System to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the System has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 19 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Assets limited as to use:				
Money market accounts	\$ 75,845,008	\$ -	\$ -	\$ 75,845,008
Common stock	671,883	-	-	671,883
Corporate bonds (a)	-	1,685,402	-	1,685,402
Mutual funds	1,962,319	-	-	1,962,319
Investments valued at fair value	<u>\$ 78,479,210</u>	<u>\$ 1,685,402</u>	<u>\$ -</u>	<u>\$ 80,164,612</u>
Assets Measured at Fair Value on a Recurring Basis at December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Assets limited as to use:				
Money market accounts	\$ 14,551,332	\$ -	\$ -	\$ 14,551,332
Common stock	269,746	-	-	269,746
Corporate bonds (a)	-	1,724,959	-	1,724,959
Mutual funds	887,742	-	-	887,742
Investments valued at fair value	<u>\$ 15,708,820</u>	<u>\$ 1,724,959</u>	<u>\$ -</u>	<u>\$ 17,433,779</u>

(a) This class invests primarily in fixed-income corporate bond securities with a maturity of less than one year. The fair value of this investment has been estimated using quoted prices from the System's custodian bank.

The System has the ability to conduct transactions related to these funds at any time. The System's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period. There were no transfers between levels for the years ended December 31, 2019 and 2018.

Investments in Entities that Calculate Net Asset Value per Share

The System has investments in common collective trust funds of \$314,624,978 and \$269,578,490 at December 31, 2019 and 2018, respectively. The System holds shares or interests in common collective trust funds at year end whereby the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the common collective trust funds.

The fixed-income funds invest primarily in U.S. dollar-denominated investment-grade and government securities, U.S. high yield, non-U.S. bonds, and Treasury Inflation-Protected Securities (TIPS). The fair value of this investment has been estimated using net asset value per share of the investment.

The large-cap funds invest primarily in common stock of large-cap and small- to midsized companies in the U.S. The fair value of this investment has been estimated using net asset value per share of the investment.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 19 - Fair Value Measurements (Continued)

The emerging market funds invest in companies operating in developed and emerging markets outside the U.S. The fair value of this investment has been estimated using net asset value per share of the investment.

The investments measured at net asset value per share (or its equivalent) of the common collective trust funds do not have unfunded commitments or redemption periods.

Additional Information

Independent Auditor's Report on Additional Information

To the Board of Directors
Adena Health System and Subsidiaries

We have audited the consolidated financial statements of Adena Health System and Subsidiaries as of and for the years ended December 31, 2019 and 2018 and have issued our report thereon dated March 30, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet and consolidating statement of operations are presented for the purpose of additional analysis rather than to present the financial position, changes in net assets, and cash flows of the individual companies and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2019 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2019 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2019 consolidated financial statements as a whole.

Plante & Moran, PLLC

March 30, 2020

Adena Health System and Subsidiaries

Consolidating Balance Sheet

December 31, 2019

	Adena Health System and Adena Medical Group, LLC	Greenfield Area Medical Center	Adena Health Foundation	Southern Ohio Health Care Network, Inc.	Adena Home Care	Adena Health Plan	Adena Pharmacy, LLC	Adena Pike Community Hospital	Adena Healthcare Collaborative, LLC	Eliminating Entries	Total
Assets											
Current Assets											
Cash and cash equivalents	\$ 41,551,027	\$ 795,551	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,911,489	\$ -	\$ -	\$ 44,258,067
Patient accounts receivable	61,206,310	2,377,542	-	-	1,204,970	-	126,355	2,433,606	-	-	67,348,783
Inventory	7,375,260	283,320	-	-	975,684	-	730,221	389,477	-	-	9,753,962
Other current assets	10,168,381	193,624	8,275	-	-	-	-	165,891	-	-	10,536,171
Prepaid expenses and other	5,841,026	-	-	-	-	-	-	-	-	-	5,841,026
Other current assets - Intercompany	-	-	915,171	-	-	-	-	-	-	(915,171)	-
Total current assets	126,142,004	3,650,037	923,446	-	2,180,654	-	856,576	4,900,463	-	(915,171)	137,738,009
Assets Limited as to Use	388,223,907	1,528,554	5,037,129	-	-	-	-	-	-	-	394,789,590
Property and Equipment - Net	189,269,591	5,466,160	-	-	-	-	35,122	8,378,304	-	-	203,149,177
Indefeasible Right-of-use Asset	-	-	-	12,341,942	-	-	-	-	-	-	12,341,942
Right-of-use Operating Lease Assets	9,307,403	-	-	-	-	-	-	-	-	-	9,307,403
Other Assets											
Notes and grants receivable	6,509,415	-	-	-	-	-	-	-	-	-	6,509,415
Other noncurrent assets	15,625,823	-	40,145	-	-	-	-	1,771,000	-	-	17,436,968
Total other assets	22,135,238	-	40,145	-	-	-	-	1,771,000	-	-	23,946,383
Total assets	<u>\$ 735,078,143</u>	<u>\$ 10,644,751</u>	<u>\$ 6,000,720</u>	<u>\$ 12,341,942</u>	<u>\$ 2,180,654</u>	<u>\$ -</u>	<u>\$ 891,698</u>	<u>\$ 15,049,767</u>	<u>\$ -</u>	<u>\$ (915,171)</u>	<u>\$ 781,272,504</u>

Adena Health System and Subsidiaries

Consolidating Balance Sheet (Continued)

December 31, 2019

	Adena Health System and Adena Medical Group, LLC	Greenfield Area Medical Center	Adena Health Foundation	Southern Ohio Health Care Network, Inc.	Adena Home Care	Adena Health Plan	Adena Pharmacy, LLC	Adena Pike Community Hospital	Adena Healthcare Collaborative, LLC	Eliminating Entries	Total
Liabilities and Net Assets (Deficiency in Net Assets)											
Current Liabilities											
Accounts payable	\$ 35,189,438	\$ 343,553	\$ 10,438	\$ 9,998	\$ 25,748	\$ 6,486	\$ 30,000	\$ 347,875	\$ -	\$ -	\$ 35,963,536
Right-of-use operating lease obligation - Current portion	2,847,000	-	-	-	-	-	-	-	-	-	2,847,000
Current portion of long-term debt	8,107,261	29,235	-	-	-	-	-	45,266	-	-	8,181,762
Intercompany liabilities	915,171	-	-	-	-	-	-	-	-	(915,171)	-
Estimated third-party payor settlements	1,367,544	(527,769)	-	-	-	-	-	1,836,671	-	-	2,676,446
Accrued liabilities and other:											
Accrued compensation	35,606,653	710,754	46,240	-	316,824	-	74,344	765,985	19,700	-	37,540,500
Deferred compensation	6,527,430	-	-	-	-	-	-	-	-	-	6,527,430
Accrued interest	796,117	-	-	-	-	-	-	-	-	-	796,117
Other accrued liabilities	2,223,021	-	-	-	-	-	-	-	-	-	2,223,021
Total current liabilities	93,579,635	555,773	56,678	9,998	342,572	6,486	104,344	2,995,797	19,700	(915,171)	96,755,812
Long-term Debt and Finance Lease Obligations - Net of current portion											
	272,234,120	42,944	-	-	-	-	-	66,494	-	-	272,343,558
Other Liabilities											
Right-of-use operating lease obligation - Net of current portion	6,460,403	-	-	-	-	-	-	-	-	-	6,460,403
Other long-term liabilities	23,766,232	-	-	-	-	-	-	-	-	-	23,766,232
Total liabilities	396,040,390	598,717	56,678	9,998	342,572	6,486	104,344	3,062,291	19,700	(915,171)	399,326,005
Net Assets (Deficiency in Net Assets)											
Without donor restrictions	336,797,283	8,511,727	3,132,692	12,331,944	1,838,082	(6,486)	787,354	11,984,709	(19,700)	-	375,357,605
With donor restrictions	2,240,470	1,534,307	2,811,350	-	-	-	-	2,767	-	-	6,588,894
Total net assets (deficiency in net assets)	339,037,753	10,046,034	5,944,042	12,331,944	1,838,082	(6,486)	787,354	11,987,476	(19,700)	-	381,946,499
Total liabilities and net assets (deficiency in net assets)	\$ 735,078,143	\$ 10,644,751	\$ 6,000,720	\$ 12,341,942	\$ 2,180,654	\$ -	\$ 891,698	\$ 15,049,767	\$ -	\$ (915,171)	\$ 781,272,504

Adena Health System and Subsidiaries

Consolidating Statement of Operations

Year Ended December 31, 2019

	Adena Health System and Adena Medical Group, LLC	Greenfield Area Medical Center	Adena Health Foundation	Southern Ohio Health Care Network, Inc.	Adena Home Care	Adena Health Plan	Adena Pharmacy, LLC	Adena Pike Community Hospital	Adena Healthcare Collaborative, LLC	Eliminating Entries	Total
Revenue, Gains, and Other Support											
Patient service revenue	\$ 509,111,571	\$ 16,863,067	\$ -	\$ -	\$ 8,411,432	\$ -	\$ -	\$ 18,869,782	\$ -	\$ (269,721)	\$ 552,986,131
Other operating revenue	11,883,265	576,238	571,559	115,848	5,097	-	5,321,244	333,561	-	(6,546,489)	12,260,323
Net assets released from restrictions	205,883	-	-	-	-	-	-	-	-	-	205,883
Total revenue, gains, and other support	521,200,719	17,439,305	571,559	115,848	8,416,529	-	5,321,244	19,203,343	-	(6,816,210)	565,452,337
Expenses											
Salaries and wages	237,741,970	7,127,419	348,390	-	4,658,075	-	609,732	7,345,805	397,220	-	258,228,611
Employee benefits and payroll taxes	51,689,071	2,172,517	113,458	-	1,400,538	771	183,548	2,235,072	122,936	(5,525,778)	52,392,133
Operating supplies and expenses	85,821,901	1,357,717	5,974	-	1,000,231	269	4,320,358	1,672,560	-	-	94,179,010
Professional services and consultant fees	4,947,067	20,004	-	-	83,055	-	-	20,004	-	(1,111,944)	3,958,186
Purchased services	59,023,128	2,412,681	36,748	134,358	892,752	190,897	-	2,332,907	728	-	65,024,199
Insurance	3,276,709	54,666	-	-	24,463	-	-	63,492	-	-	3,419,330
Utilities	4,571,351	137,952	-	-	-	-	-	397,097	-	-	5,106,400
Travel/Education	2,923,020	39,579	11,625	-	410,503	5,864	35,028	50,167	-	-	3,475,786
Repair, maintenance, and rental	20,912,620	526,204	500	-	282,817	-	47,329	856,134	-	(178,488)	22,447,116
Assessments	7,853,211	400,313	-	-	-	-	-	428,729	-	-	8,682,253
Depreciation and amortization	26,350,361	836,463	-	771,871	-	-	4,641	1,316,893	-	-	29,280,229
Interest expense	7,357,901	2,626	-	-	-	-	-	4,070	-	-	7,364,597
Corporate cost allocation	(7,390,994)	2,616,648	54,864	-	1,488,084	58,899	157,224	2,991,264	24,011	-	-
Total expenses	505,077,316	17,704,789	571,559	906,229	10,240,518	256,700	5,357,860	19,714,194	544,895	(6,816,210)	553,557,850
Operating Income (Loss)	16,123,403	(265,484)	-	(790,381)	(1,823,989)	(256,700)	(36,616)	(510,851)	(544,895)	-	11,894,487
Nonoperating Income (Loss)											
Interest income and net realized gains	4,643,865	32	90,993	-	-	-	-	-	-	-	4,734,890
Unrealized gains on investments	41,019,346	-	372,530	-	-	-	-	-	-	-	41,391,876
Other (loss) income	(312,790)	-	(265,050)	-	-	-	-	4,175	-	-	(573,665)
Total nonoperating income	45,350,421	32	198,473	-	-	-	-	4,175	-	-	45,553,101
Excess of Revenue Over (Under) Expenses	61,473,824	(265,452)	198,473	(790,381)	(1,823,989)	(256,700)	(36,616)	(506,676)	(544,895)	-	57,447,588
Net Assets Released from Restrictions for Purchase of Capital Assets	86,810	25,080	-	-	-	-	-	33,428	-	-	145,318
Transfer (to) from Affiliate	(5,399,081)	2,324,027	-	11,420	2,309,602	263,261	118,718	(153,142)	525,195	-	-
Increase (Decrease) in Net Assets without Donor Restrictions	\$ 56,161,553	\$ 2,083,655	\$ 198,473	\$ (778,961)	\$ 485,613	\$ 6,561	\$ 82,102	\$ (626,390)	\$ (19,700)	\$ -	\$ 57,592,906

Report 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*

Independent Auditor's Report

To Management and the Board of Directors
Adena Health System and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Adena Health System and Subsidiaries (the "System"), which comprise the consolidated balance sheet as of December 31, 2019 and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated March 30, 2020.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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 determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To Management and the Board of Directors
Adena Health System and Subsidiaries

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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

March 30, 2020