

**Blanchard Valley Health System
and Subsidiaries**
Independent Auditor's Reports
and Consolidated Financial Statements
December 31, 2019 and 2018

Blanchard Valley Health System and Subsidiaries

December 31, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Blanchard Valley Health System and Subsidiaries
Findlay, Ohio

We have audited the accompanying consolidated financial statements of Blanchard Valley Health System and Subsidiaries (Corporation), which comprise the consolidated balance sheets 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 Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 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 consolidated financial position of Blanchard Valley Health System and Subsidiaries as of December 31, 2019 and 2018, and the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 2 of the consolidated financial statements, in 2019, the Corporation adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* and ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Retirement Benefit Cost*. Our opinion is not modified with respect to these matters.

BKD, LLP

Fort Wayne, Indiana
April 28, 2020

Blanchard Valley Health System and Subsidiaries

Consolidated Balance Sheets

December 31, 2019 and 2018

(Dollar Amounts in Thousands)

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,025	\$ 14,527
Accounts receivable		
Patient	46,268	43,113
Other	9,860	10,714
Contributions receivable	573	1,546
Inventories	8,923	9,604
Prepaid expenses	<u>3,297</u>	<u>3,810</u>
Total current assets	<u>74,946</u>	<u>83,314</u>
Assets Limited as to Use		
Internally designated	378,248	319,653
Externally restricted by donors	13,536	12,588
Held by trustee	<u>14,959</u>	<u>12,549</u>
	<u>406,743</u>	<u>344,790</u>
Property and Equipment, net	<u>176,550</u>	<u>176,262</u>
Other Assets		
Contributions receivable, less current portion	930	531
Investments in equity investees	797	1,023
Right of use assets	4,864	—
Beneficial interest in perpetual trusts	16,295	15,784
Intangible assets, net	9,363	14,107
Other	<u>40</u>	<u>137</u>
	<u>32,289</u>	<u>31,582</u>
Total assets	<u>\$ 690,528</u>	<u>\$ 635,948</u>

	<u>2019</u>	<u>2018</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 6,780	\$ 6,490
Current portion of right of use liability	2,100	—
Accounts payable and accrued expenses	17,027	23,116
Accrued wages, withholdings and payroll taxes	20,389	17,933
Estimated amounts due to third-party payers	1,252	1,699
Other	<u>1,052</u>	<u>1,059</u>
Total current liabilities	<u>48,600</u>	<u>50,297</u>
Other Liabilities		
Long-term debt	121,676	129,334
Deferred revenue	417	415
Right of use liability	2,975	—
Pension liability	30,325	26,950
Interest rate swap agreement	20,142	17,246
Other long-term obligations	<u>11,125</u>	<u>10,758</u>
Total other liabilities	<u>186,660</u>	<u>184,703</u>
Total liabilities	<u>235,260</u>	<u>235,000</u>
Net Assets		
Without donor restrictions		
Blanchard Valley Health System and Subsidiaries	424,456	372,635
Noncontrolling interest	<u>(463)</u>	<u>(1,514)</u>
Total net assets without donor restrictions	423,993	371,121
With donor restrictions		
Perpetual in nature	20,549	19,998
Time-restricted for future periods	<u>10,726</u>	<u>9,829</u>
Total net assets	<u>455,268</u>	<u>400,948</u>
Total liabilities and net assets	<u>\$ 690,528</u>	<u>\$ 635,948</u>

Blanchard Valley Health System and Subsidiaries

Consolidated Statements of Operations Years Ended December 31, 2019 and 2018 (Dollar Amounts in Thousands)

	<u>2019</u>	<u>2018</u>
Revenues, Gains and Other Support Without Donor Restrictions		
Patient care service revenue	\$ 365,674	\$ 347,743
Rental revenue	209	271
Other revenue	8,274	8,569
Net assets released from restrictions used for operations	<u>1,012</u>	<u>299</u>
Total revenues, gains and other support without donor restrictions	<u>375,169</u>	<u>356,882</u>
Expenses and Losses		
Compensation, contract wages and benefits	217,775	197,863
Purchased and contracted services	23,238	20,867
Medical and professional fees	4,643	4,429
Medical and pharmacy supplies	63,781	61,469
Insurance	1,461	2,261
Depreciation and amortization of fixed assets and intangibles	22,263	21,353
Interest and amortization of deferred financing costs	4,510	4,489
Other and allocated costs	26,326	27,539
Gain on disposal of property and equipment	<u>(213)</u>	<u>(169)</u>
Total expenses and losses	<u>363,784</u>	<u>340,101</u>
Operating Income	<u>11,385</u>	<u>16,781</u>
Nonoperating Gains (Losses) and Other		
Investment return, net	53,873	(22,229)
Gain on investment in equity investee	512	1,218
Change in fair value of interest rate swap agreement	(2,897)	3,496
Net periodic benefit costs, other than service cost	1,416	1,449
Other	<u>90</u>	<u>(422)</u>
Total nonoperating gains (losses) and other	<u>52,994</u>	<u>(16,488)</u>
Excess of Revenues Over Expenses	64,379	293
Excess of Revenues Over Expenses Attributable to Noncontrolling Interest	<u>(4,411)</u>	<u>(5,146)</u>
Excess (Deficiency) of Revenues Over Expenses Attributable to Blanchard Valley Health System and Subsidiaries	<u>59,968</u>	<u>(4,853)</u>
Other Changes in Net Assets Without Donor Restrictions		
Net assets released from restriction used for purchase of property and equipment	942	1,333
Defined benefit pension plan		
Change in gains and losses and prior service cost	(9,089)	2,996
Change in noncontrolling interest	1,051	1,685
Other changes in net assets	<u>—</u>	<u>948</u>
Total other changes in net assets without donor restrictions	<u>(7,096)</u>	<u>6,962</u>
Increase in Net Assets Without Donor Restrictions	<u>\$ 52,872</u>	<u>\$ 2,109</u>

Blanchard Valley Health System and Subsidiaries

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2019 and 2018

(Dollar Amounts in Thousands)

	2019	2018
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenue over expenses attributable to Blanchard Valley Health System and Subsidiaries	\$ <u>59,968</u>	\$ <u>(4,853)</u>
Net assets released from restriction used for purchase of property and equipment	942	1,333
Defined benefit pension plan		
Change in gains and losses and prior service cost	(9,089)	2,996
Change in noncontrolling interest	1,051	1,685
Other changes in net assets	<u>—</u>	<u>948</u>
Total other changes in net assets without donor restrictions	<u>(7,096)</u>	<u>6,962</u>
Increase in net assets without donor restrictions	<u>52,872</u>	<u>2,109</u>
 Net Assets With Donor Restrictions		
Donations	1,935	2,446
Investment return, net	956	(392)
Change in beneficial interest in perpetual trusts	511	(1,698)
Net assets released from restrictions	<u>(1,954)</u>	<u>(1,632)</u>
Increase (decrease) in net assets with donor restrictions	<u>1,448</u>	<u>(1,276)</u>
 Change in Net Assets	 54,320	 833
 Net Assets, Beginning of Year	 <u>400,948</u>	 <u>400,115</u>
 Net Assets, End of Year	 <u>\$ 455,268</u>	 <u>\$ 400,948</u>

Blanchard Valley Health System and Subsidiaries

Consolidated Statements of Cash Flows Years Ended December 31, 2019 and 2018 (Dollar Amounts in Thousands)

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 54,320	\$ 833
Change in net assets attributable to noncontrolling interests	<u>(1,051)</u>	<u>(1,685)</u>
Change in net assets attributable to the Corporation	53,269	(852)
Items not requiring (providing) operating cash flow		
Gain on disposal of property and equipment	(213)	(169)
Loss on extinguishment of debt	—	—
Depreciation and amortization of fixed assets and intangibles	22,263	21,353
Amortization of deferred financing costs	128	95
Gain on equity investments	(512)	(1,218)
Net (gain) loss on assets limited as to use	(38,762)	37,909
Change in fair value of interest rate swap agreement	2,896	(3,496)
Change in beneficial interest in perpetual trusts	(511)	1,698
Right of use assets and liabilities, net	10	—
Noncontrolling interest	4,411	5,146
Change in defined benefit pension plan liability	3,375	(8,781)
Contributions and net investment return received restricted for long-term investment or for acquisition of long-term assets	(999)	(821)
Changes in		
Accounts and contributions receivable	(1,727)	(3,202)
Prepaid expenses and other current assets	1,194	(1,254)
Other assets and liabilities	749	1,962
Accounts payable, accrued expenses and accrued wages, withholdings and payroll taxes	<u>(3,067)</u>	<u>(308)</u>
Net cash provided by operating activities	<u>42,504</u>	<u>48,062</u>
Investing Activities		
Net change in assets limited as to use	(23,191)	(25,499)
Purchases of property and equipment and intangibles - software	<u>(17,959)</u>	<u>(17,007)</u>
Net cash used in investing activities	<u>(41,150)</u>	<u>(42,506)</u>
Financing Activities		
Contributions and net investment return received restricted for long-term investment or for acquisition of long-term assets	999	821
Principal payments on long-term debt	(7,496)	(7,234)
Distributions to minority interest holders	<u>(3,359)</u>	<u>(3,461)</u>
Net cash used in financing activities	<u>(9,856)</u>	<u>(9,874)</u>
Decrease in Cash and Cash Equivalents	(8,502)	(4,318)
Cash and Cash Equivalents, Beginning of Year	<u>14,527</u>	<u>18,845</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,025</u>	<u>\$ 14,527</u>
Supplemental Cash Flows Information		
Interest paid	\$ 5,135	\$ 6,015
Property and equipment included in accounts payable	393	959

Blanchard Valley Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollar Amounts in Thousands)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations, Organization, Principles of Consolidation and Noncontrolling Interest

Blanchard Valley Health System (Corporation) is a nonprofit, integrated regional health system based in Findlay, Ohio and provides a wide range of health care services to the residents in Findlay and the surrounding areas of northwest Ohio. The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries: Blanchard Valley Regional Health Center (Health Center), Blanchard Valley Continuing Care Services, Inc. (Continuing Care Services), Blanchard Valley Health Foundation (Foundation), Blanchard Valley Medical Practice, LLC (BVMP) and CITAS, Inc. (CITAS).

The Corporation provides executive administrative support, strategic planning and oversight to all subsidiaries. The Corporation is the sole shareholder of Hanco Ambulance, Inc. (Hanco), a local pre-emergency medical care and transportation ambulance company that serves the residents of Findlay, Ohio and Hancock County, Ohio. The Corporation is also the sole member of Beyond MedSpa (MedSpa), a local cosmetic and medical treatment company that has locations in Findlay and Bluffton, Ohio.

The Health Center operates a 150-bed general acute care, hospital in Findlay, Ohio (Blanchard Valley Hospital) and a 25-bed critical access hospital in Bluffton, Ohio (Bluffton Hospital). The Health Center has a 51 percent interest in Blanchard Valley Pain Management, LLC (BVPM), which owns and operates a pain management center. The Health Center also has a 67 percent interest in TechniCore Clinical Engineering Services, LLC (TCES), a biomedical engineering services company.

Continuing Care Services operates a 190,000 square foot retirement community in Findlay (Birchaven Village), consisting of 136-bed licensed skilled nursing facility, 23 assisted living units and a congregate care living facility of 71 total units which are dually certified as independent living/assisted living. Also, Continuing Care Services operates a separate 50-bed licensed skilled nursing facility and a 27-unit senior living apartment facility in Fostoria (Independence House). Continuing Care Services is also the sole member of Blanchard Valley Home Care Services, LLC (Bridge), which provides home health, hospice and private care services and Birchaven Estates at Eastern Woods, Ltd. (Estates), which is a condominium development for seniors on approximately 16 acres adjacent to Birchaven. Continuing Care Services has a 73 percent interest in Northwest Ohio Medical Equipment (NOME), a provider of home medical and oxygen equipment.

The Foundation solicits and manages donations in support of the operation of the Corporation and its subsidiaries.

BVMP operates several family practice physician offices and specialty physician offices that are primarily located in Findlay and the surrounding communities, as well as an urgent care center.

CITAS currently performs physician recruiting on behalf of the Corporation.

Significant intercompany accounts and transactions have been eliminated in consolidation.

Blanchard Valley Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollar Amounts in Thousands)

Noncontrolling interest represents the 49 percent interest in BVPM and the 33 percent interest in TCES that the Health Center does not own, as well as the 27 percent interest in NOME that Continuing Care Services does not own.

Mission Statement and Nonoperating Gains and Losses

The Corporation's mission statement is "*Caring for a lifetime.*" The Corporation's primary mission is to provide exceptional health care services through its acute care, long-term care and ambulatory facilities. Primarily those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in gains or losses unrelated to the Corporation's primary mission are considered to be nonoperating. Nonoperating gains and losses include realized and unrealized investment earnings other than on trustee-held investments related to borrowed funds, gifts and bequests without donor restrictions, gains and losses on equity investments, net fundraising activities and changes in the fair value of interest rate swap agreements.

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 could differ from those estimates.

Cash and Cash Equivalents

The Corporation considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts.

Uninvested cash and cash equivalents included in investment accounts, including endowment accounts and assets limited as to use, are not considered to be cash and cash equivalents.

Deposit accounts restricted internally by the Board and/or externally by regulators are not considered to be cash and cash equivalents.

At December 31, 2019, the Corporation's cash accounts exceeded federally insured limits by approximately \$4,129.

Blanchard Valley Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollar Amounts in Thousands)

Investments, Investment Return and Assets Limited as to Use

Debt Investments

Debt securities held by the Corporation generally are classified and recorded in the consolidated financial statements as follows:

Classified as	Description	Recorded at
Trading	Securities that are bought and held principally for the purpose of selling in the near term and, therefore, held for only a short period of time	Fair value, with changes in fair value included in excess (deficiency) revenues over expenses

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

When the fair value of securities is below the amortized cost, the Corporation's accounting treatment for an other-than-temporary impairment (OTTI) is as follows:

Circumstances of Impairment Considerations	Accounting Treatment for OTTI Components	
	Credit Component	Remaining Portion
Not intended for sale and more likely than not that the Corporation will not have to sell before recovery of cost basis	Recognized in excess (deficiency) revenues over expenses	Recognized below excess (deficiency) revenues over expenses
Intended for sale or more likely than not that the Corporation will be required to sell before recovery of cost basis	Recognized in excess (deficiency) revenues over expenses	

When a credit loss component is separately recognized in earnings, the amount is identified as the total of principal cash flows not expected to be received over the remaining term of the security, as projected based on cash flow projections.

Equity Investments

The Corporation measures equity securities, other than investments that qualify for the equity method of accounting, at fair value with changes recognized in excess revenues over expenses. Investments in pooled investments and limited partnerships are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Blanchard Valley Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollar Amounts in Thousands)

Net Investment Return

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statements of operations and changes in net assets as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The Corporation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Patient Accounts Receivable

Patient accounts receivable reflects the outstanding amount of consideration to which the Corporation 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. As a service to the patient, the Corporation bills third-party payers directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed.

Inventories

At December 31, 2019 and 2018, the Corporation states supplies inventories at the lower of cost or net realizable value.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Expenditures for renewals or betterments are capitalized and expenditures for maintenance and repairs are charged to expense. Assets under leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The cost and related accumulated depreciation of property and equipment that is sold or retired are removed from the consolidated financial statements and the resulting gain or loss is recorded as operating expense.

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

Blanchard Valley Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollar Amounts in Thousands)

Long-Lived Asset Impairment

The Corporation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt and are amortized on the bonds outstanding method over the term of the debt. Amortization expense was approximately \$130 during the years ended December 31, 2019 and 2018, and is reported as a component of interest expense.

Deferred Revenue

In 2004, Continuing Care Services received approximately \$1,000 for advanced rental payments for space, which was recorded as deferred revenue and is being recognized in income over a 25-year period ending in 2028. The remaining amount of deferred revenue to be recognized in future periods was \$310 and \$350 at December 31, 2019 and 2018, respectively.

Other revenues which relate to future periods are also included in deferred revenue.

Derivatives

Derivatives are recognized as assets and liabilities on the consolidated balance sheet and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For nonexchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies or similar techniques for which the determination of fair value may require significant management judgement or estimation.

Net Assets

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing Board has not designated any net assets.

Net assets with donor restrictions contain donor-imposed restrictions of a particular time period or purpose that permit the Corporation to use or expend the assets as specified.

Blanchard Valley Health System and Subsidiaries

Notes to Consolidated Financial Statements

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(Dollar Amounts in Thousands)

Net assets with donor restrictions also contain donor-imposed restrictions that stipulate the resources, including original donation, unrealized net gains and undistributed investment income, be maintained permanently, but permit the Corporation to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes. For many restricted assets, the Corporation receives the higher of traditional trust income or 5 percent of the Applicable Fund Value (average market value), in accordance with the Institutional Trust Fund Act.

Patient Care Service Revenue

Patient care service revenue is recognized as the Corporation satisfies performance obligations under its contracts with patients. Patient care service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. The Corporation 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 Corporation's policies and implicit price concessions provided to uninsured patients.

The Corporation determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payor groups. The Corporation determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors.

Contract Assets

Amounts related to health care services provided to patients which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract asset balances consist primarily of health care services provided to patients who are still receiving inpatient care in the Hospital at the end of the year. Contract asset balances recorded at the amounts that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care, at December 31, 2019 and 2018, were \$587 and \$1,737, respectively, and are included in patient accounts receivable on the consolidated balance sheets.

Refund Liabilities

The consideration the Corporation has received from patients for which it does not expect to be entitled to is recorded as a refund liability.

Blanchard Valley Health System and Subsidiaries

Notes to Consolidated Financial Statements

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(Dollar Amounts in Thousands)

Charity Care

The Corporation accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Corporation. Essentially, these policies define charity care as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Corporation utilizes generally recognized poverty income levels but also includes certain cases where incurred charges are significant when compared to income. Charity care provided in 2019 and 2018, measured at estimated cost, approximated \$2,021 and \$2,136, respectively. Estimated cost is derived from a ratio of total operating expenses as a percentage of gross charges. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

The Corporation recorded revenue of approximately \$2,806 and \$4,463 for the years ended December 31, 2019 and 2018, respectively, for amounts received from a State of Ohio uncompensated care fund, net of payments into the fund, to subsidize charity services provided under its charity care policy.

Other Operating Revenues

The Corporation receives other revenues throughout the year that are not related to its mission. These revenues are for rental of real estate, purchased discounts, and other miscellaneous fees and income. These revenues are recorded at their transaction prices when received as they have commercial substance.

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified and reported as an increase in net assets without donor restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as restricted contributions and released from restriction. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Self-Funded Insurance

The Corporation maintains self-funded health insurance and workers' compensation insurance plans covering substantially all employees. Contributions are made to the administrators of these plans as claims are paid, while expenses are accrued as incurred. The Corporation has purchased insurance that limits its exposure for individual health claims to \$275 per employee.

Estimated Malpractice Costs

An annual estimated provision is accrued for the self-insured portion of medical malpractice claims and includes an estimate of the ultimate costs for both reported claims and claims incurred, but not reported.

Blanchard Valley Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollar Amounts in Thousands)

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period beginning date.

Income Taxes

The Corporation and its subsidiaries are incorporated under the laws of the state of Ohio. The Corporation, the Health Center, Continuing Care Services, and the Foundation are not-for-profit corporations. CITAS is a for-profit corporation. The Internal Revenue Service has determined the not-for-profit corporations to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Corporation's tax-exempt entities are subject to federal income tax on any unrelated business taxable income.

The Corporation files various tax returns in the U. S. federal jurisdiction.

Excess of Revenue Over Expenses

The consolidated statements of operations include excess of revenue over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenue over expenses, consistent with industry practice, include permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets), changes in noncontrolling interests, contributions and changes in the defined benefit pension plan.

Intangible Assets

Intangible assets with finite lives represent software licensing agreements. Amounts are amortized over five years. Such assets are periodically evaluated as to the recoverability of the carrying values.

Blanchard Valley Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollar Amounts in Thousands)

Note 2: Changes in Accounting Principle

Adoption of ASU 2016-02

See *Note 15* for discussion of the System's adoption of ASU 2016-02, *Leases (Topic 842)*.

Adoption of ASU 2017-07

During the year ended December 31, 2019, the Corporation adopted ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Retirement Benefit Cost*. ASU 2017-07 provided guidance on which costs should be included in periodic pension cost in the financial statements and is required to be presented retroactively to all period presented in the consolidated financial statements. Under ASU 2017-07, the Corporation is required to report the service cost component of net benefit cost in the same financial statement line as other employee compensation costs arising during the period. The other components of benefit costs are required to be presented in the income statement separately from the service cost component and outside of income from operations.

The effect of the adoption of ASU 2017-07 on the December 31, 2018, consolidated statement of operations was an increase in compensation, contract wages and benefits and total expenses of \$1,449, a decrease in operating income of \$1,449, and an increase in nonoperating gains (losses) of \$1,449. There was no impact to excess of revenue over expenses for the year ended December 31, 2018, as a result of ASU 2017-07.

Note 3: Patient Care Service Revenue

Patient care service revenue is reported at the amount that reflects the consideration to which the Corporation 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 Corporation bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility and patient accounts receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

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Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected, or actual, charges. The Corporation 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 the Corporation receiving inpatient acute care services or patients receiving services in its outpatient centers or in their homes (home care). The Corporation measures the performance obligation from inpatient admission, 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 its patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Corporation does not believe it is required to provide additional goods related to the patient.

Transaction Price

Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to 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.

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

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Third-Party Payors

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare. Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. The Corporation is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicare administrative contractor. The Corporation's Medicare cost reports have been audited by the Medicare administrative contractor through December 31, 2018.

Medicaid. Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service or per covered member. The Corporation is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicaid administrative contractor. The Corporation's Medicaid cost reports have been audited by the Medicaid administrative contractor through December 31, 2018.

Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care 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 Corporation'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 Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

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Settlements with third-party payors for retroactive adjustments due to cost report or other audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations. For the years ended December 31, 2019 and 2018, there was an increase of \$579 and \$370, respectively, recognized due to changes in the estimated transaction price for cost report settlements for performance obligations satisfied in prior years.

Refund Liabilities

From time to time the Corporation will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of December 31, 2019 and 2018, the Corporation has a liability for refunds to third-party payors and patients recorded of \$1,252 and \$1,699, respectively, which is included in accounts payable and accrued expenses in the consolidated balance sheets.

Patients and Uninsured Payors

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient care service revenue in the period of the change. For the years ended December 31, 2019 and 2018, there was a decrease of \$482 and \$1,193, respectively, recognized due to changes in its estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. 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 Corporation's mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as 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 Corporation expects to collect based on its collection history with those patients.

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Patients who meet the Corporation'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.

Revenue Composition

The Corporation 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 for the years ended December 31, 2019 and 2018:

2019	Blanchard Valley		Blanchard Valley		Blanchard Valley	Other	Totals
	Hospital	Bluffton Hospital	Medical Practices	Services	Continuing Care		
Medicare	\$ 70,533	\$ 4,520	\$ 11,054	\$ 19,954	\$ 1,658	\$	107,719
Medicaid	19,803	1,575	4,410	10,520	392		36,700
Commercial insurers	147,674	13,482	24,510	4,020	1,417		191,103
Patient's responsibility for deductibles and coinsurance	7,331	456	1,224	12,102	648		21,761
Uninsured	-	-	-	-	-		-
Other	5,694	497	1,016	933	251		8,391
	<u>\$ 251,035</u>	<u>\$ 20,530</u>	<u>\$ 42,214</u>	<u>\$ 47,529</u>	<u>\$ 4,366</u>		<u>\$ 365,674</u>

2018	Blanchard Valley		Blanchard Valley		Blanchard Valley	Other	Totals
	Hospital	Bluffton Hospital	Medical Practices	Services	Continuing Care		
Medicare	\$ 68,002	\$ 4,628	\$ 9,302	\$ 17,621	\$ 1,478	\$	101,031
Medicaid	18,387	1,327	4,265	10,514	341		34,834
Commercial insurers	141,220	13,506	21,968	4,133	1,651		182,478
Patient's responsibility for deductibles and coinsurance	5,993	553	1,096	11,470	770		19,882
Uninsured	-	-	-	-	-		-
Other	7,080	745	811	707	175		9,518
	<u>\$ 240,682</u>	<u>\$ 20,759</u>	<u>\$ 37,442</u>	<u>\$ 44,445</u>	<u>\$ 4,415</u>		<u>\$ 347,743</u>

The composition of patient care service revenue based on lines of business, method of reimbursement and timing of revenue recognition for the years ended December 31, 2019 and 2018, are as follows:

	2019	2018
Service lines		
Hospital	\$ 271,565	\$ 261,441
Physician services	42,214	37,442
Nursing home and senior care	23,675	23,421
Home health and hospice	15,438	13,735
Retail sales	5,855	5,520
Other	<u>6,927</u>	<u>6,184</u>
Total	<u>\$ 365,674</u>	<u>\$ 347,743</u>

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	<u>2019</u>	<u>2018</u>
Method of reimbursement		
Fee for service	\$ 273,553	\$ 259,857
Per diem	77,549	73,921
Per case	9,691	6,736
Rental and other	<u>4,881</u>	<u>7,229</u>
Total	<u>\$ 365,674</u>	<u>\$ 347,743</u>
	<u>2019</u>	<u>2018</u>
Timing of revenue and recognition		
Health care services transferred over time	\$ 359,819	\$ 342,223
Retail sales	<u>5,855</u>	<u>5,520</u>
Total	<u>\$ 365,674</u>	<u>\$ 347,743</u>

Contract Assets

Contract assets consist primarily of health care services provided to patients who are still receiving inpatient care in the Hospital at the end of the year. Contract assets are transferred to receivables when the rights become unconditional. Contract liabilities represent the Hospital's obligation to provide services to patients when consideration has already been received from the patient or a third-party payer.

There were no significant changes in contract assets during the period.

Financing Component

The Corporation has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Contract Costs

The Corporation has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Corporation otherwise would have recognized is one year or less in duration.

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Note 4: Concentration of Credit Risk

The Health Center and certain other subsidiaries of the Corporation grant credit without collateral to patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers for the Health Center and certain other subsidiaries of the Corporation at December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Medicare	35%	38%
Commercial	34	31
Medicaid	12	14
Patients, including patients' responsibility for deductibles and coinsurance	<u>19</u>	<u>17</u>
	<u>100%</u>	<u>100%</u>

Note 5: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use at December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Cash	\$ 160	\$ 937
Money market mutual funds	2,607	3,058
Domestic equity mutual funds	124,935	98,428
International equity mutual funds	86,313	68,455
Pooled investment and limited partnership funds, at net asset value	71,914	63,742
Corporate bonds	4,140	4,955
Municipal bonds	24	29
Domestic fixed income mutual funds	107,379	96,974
International fixed income mutual funds	<u>9,271</u>	<u>8,212</u>
	<u>\$ 406,743</u>	<u>\$ 344,790</u>

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The following tables present information regarding the nature and significant terms of the Corporation's pooled investment and limited partnership funds at December 31, 2019 and 2018:

2019					
Investments	Fair Value	Unfunded Commitments	Redemption Frequency (if Eligible)	Redemption Notice Period	
Limited partnerships (A)	\$ 7,153	\$ 15,189	None	N/A	
Pooled investment funds (B)	64,761	—	Quarterly to annually	65 – 95 days	
2018					
Investments	Fair Value	Unfunded Commitments	Redemption Frequency (if Eligible)	Redemption Notice Period	
Limited partnerships (A)	\$ 2,059	\$ 112	None	N/A	
Pooled investment funds (B)	61,683	—	Quarterly to annually	15 – 370 days	

- (A) This category includes several private equity funds that invest in early stage, high-growth private companies, growth equity financing, leverage buyouts, securities and other obligations of distressed businesses and financially troubled companies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the funds. These investments are planned to be held and it is estimated that the underlying assets of the funds will be liquidated in approximately 10 years. The fair value of the investments in this category have been estimated using the Corporation's ownership interests in partners' capital.
- (B) This category includes investments in hedge funds that invest primarily in other hedge funds, limited partnerships and investment companies. Management of these funds employs a variety of strategies and has the ability to shift investments based on market, economic, political and government driven events. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. These investments can be redeemed and currently there are no restrictions.

Most of the Corporation's investments are pooled into one managed account. Invested amounts relate to the net assets without donor restrictions and with donor restrictions and each net asset category receives an allocation of asset type and income based on its relative contribution to the managed accounts. The types of investments and credit risks associated with the managed accounts are limited through the Corporation's investment policy (Policy), which is to provide for long-term growth of capital without undue exposure to risk. To achieve this objective, the Policy provides for a predetermined asset allocation method, which is reviewed annually.

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Total investment return is comprised of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 18,372	\$ 17,878
Net settlement payments under interest rate swap agreement	(2,305)	(2,590)
Realized gains	379	1,245
Unrealized gains (losses)	<u>38,383</u>	<u>(39,154)</u>
	<u>\$ 54,829</u>	<u>\$ (22,621)</u>

Total investment return is reflected in the consolidated statements of operations and changes in net assets as follows:

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions		
Other nonoperating income	\$ 53,873	\$ (22,229)
Net assets with donor restrictions	<u>956</u>	<u>(392)</u>
	<u>\$ 54,829</u>	<u>\$ (22,621)</u>

Note 6: Property and Equipment

Property and equipment and related accumulated depreciation at December 31, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 12,313	\$ 10,676
Land improvements	14,104	13,320
Building	216,310	206,303
Leasehold improvements	2,938	2,737
Equipment	158,768	150,069
Construction in progress (estimated cost to complete of \$1.1 million at December 31, 2019)	<u>5,624</u>	<u>9,735</u>
	410,057	392,840
Less allowance for depreciation and amortization	<u>(233,507)</u>	<u>(216,578)</u>
	<u>\$ 176,550</u>	<u>\$ 176,262</u>

Note 7: Beneficial Interest in Perpetual Trusts

The Corporation is an income beneficiary of several perpetual trusts controlled by unrelated third-party trustees. The beneficial interests in the assets of these trusts are included in the Corporation's consolidated financial statements as net assets with donor restrictions. Income is distributed in accordance with the individual trust documents and is included in investment return. The estimated value of the expected future cash flows is \$16,295 and \$15,784, which represents the fair value of the trust at December 31, 2019 and 2018, respectively. Trust income distributed to the Corporation for the years ended December 31, 2019 and 2018, was \$988 and \$1,435, respectively.

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Note 8: Acquired Intangible Assets

The Corporation entered into a license agreement for the implementation of a new information system and electronic medical record platform. Total incurred implementation fees through December 31, 2019, approximated \$25,140. The information system was placed in service in 2016. These amounts are recorded as an intangible asset and will be amortized straight-line over five years. The carrying basis and accumulated amortization of the recognized intangible asset at December 31, 2019 and 2018, were:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
December 31, 2019			
Amortized intangible assets licensing agreements	\$ 25,140	\$ (15,777)	\$ 9,363
	<u>\$ 25,140</u>	<u>\$ (15,777)</u>	<u>\$ 9,363</u>
December 31, 2018			
Amortized intangible assets licensing agreements	\$ 24,895	\$ (10,788)	\$ 14,107
	<u>\$ 24,895</u>	<u>\$ (10,788)</u>	<u>\$ 14,107</u>

Note 9: Medical Malpractice Claims

Prior to March 22, 2004, the Corporation was covered under an occurrence-based policy for professional liabilities with an aggregate deductible of \$150.

Subsequent to that date, the Corporation provides for professional and general liability risk under a self-insured retention program (SIR). Under the SIR, the Corporation has self-insured the first \$2,000 of losses related to each claim, with a \$4,000 aggregate loss limit per year.

The Corporation has established SIR trust to hold assets designated to pay losses. The fair value of the SIR trust assets was \$14,144 and \$11,870 at December 31, 2019 and 2018, respectively. These assets were included in assets limited as to use as of December 31, 2019 and 2018.

The Corporation has purchased umbrella insurance for claims exceeding the SIR retention amounts. The umbrella insurance is through an excess carrier that covers aggregate claims up to \$15,000. Premium payments are amortized over the coverage period of the policy. Any liability for deductibles or claims exceeding coverage limits is recorded at the time it becomes probable and estimable.

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The accrued medical malpractice claims liability was \$10,336 and \$10,030 at December 31, 2019 and 2018, respectively, and is included in the other long-term obligations liability in the accompanying consolidated balance sheets. The provision for expenses related to medical liability risks for 2018 and 2017, presented net of expected insurance recoveries in the consolidated statements of operations, are a net loss of \$306 and \$741 for 2019 and 2018, respectively.

The accrued medical malpractice claims liability represents the estimated ultimate cost of all reported and unreported losses incurred through the respective consolidated balance sheet dates. The liability for unpaid losses and loss expenses is estimated using actuarial analyses. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The time period required to resolve these claims can vary depending upon whether the claim is settled or litigated. It is reasonably possible that this estimate could change materially in the near term.

Note 10: Long-Term Debt

Long-term debt at December 31, 2019 and 2018, consists of the following:

	<u>2019</u>	<u>2018</u>
2017 Note, Health Center (A)	\$ 6,975	\$ 7,275
Health Center Series 2011A Revenue Bonds (B)	4,350	8,550
Health Center Series 2017 Revenue Bonds (C)	85,150	85,150
2010 Notes, Continuing Care Services (D)	432	465
2017 Note, Continuing Care Services (E)	23,003	24,794
2007 Promissory Notes, Continuing Care Services (F)	<u>597</u>	<u>765</u>
	120,507	126,999
Plus unamortized premium on bonds	9,005	10,009
Less deferred financing costs	(1,056)	(1,184)
Less current maturities	<u>(6,780)</u>	<u>(6,490)</u>
	<u>\$ 121,676</u>	<u>\$ 129,334</u>

- (A) In December 2017, the Health Center issued the 2017 Note (2017 Note, Health Center). The 2017 Note was issued to refinance the 2012 Note. In connection with the issuance of the 2017 Note, Fifth Third Bank (Lessor), The Village of Bluffton, Ohio (Lessee) and the Health Center (Sublessee) simultaneously entered into Master Lease-Purchase and Sublease-Purchase Agreements related to the financed project, consisting of the renovation of the Bluffton Hospital and for future equipment acquisitions, facility renovations and reimbursement of certain prior capital expenditures. Under the terms of the agreement, the Health Center is required to make semiannual payments to the Lessor which are sufficient to meet the rental payments as required by the agreement. The Health Center holds title to the project which it leases to the Lessor for \$1. At the conclusion of the lease period and payment of all related lease amounts, the Health Center retains title to the project assets.

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The semiannual principal payments range from \$150 to \$238 (\$300 to \$475 per annum), plus interest. The lease obligation has a variable monthly interest payment that is calculated based on a factor of the one-month LIBOR rate (2.24 at December 31, 2019) and matures in December 2036. The Lessor, in its sole discretion, may require the Sublessee to purchase the project for the remaining principal payments due on the lease on December 31, 2024, and on any December 1 of each year thereafter, with 90-day notice. The Notes may be prepaid by the Sublessee at any time with no penalty.

- (B) The County of Hancock, Ohio (County) issued the Series 2011A Hospital Facilities Revenue Bonds (Series 2011A Bonds) in April 2011. The Series 2011A Bonds were issued to provide refunding of the Series 2004 Bonds. The Amended and Restated Lease dated March 1, 2011, (2011 Lease), required the Health Center to lease the Leased Premises from the County and make monthly basic rent payments sufficient to pay the principal and interest as they become due.

The Series 2011A Bonds were issued in the form of Serial Bonds of \$29,975 and Term Bonds of \$78,700 with maturities continuing through December 2034. Annual principal payments ranged from \$1,000 to \$7,600. The interest rates on these Serial Bonds and Term Bonds ranged from 3.00 percent to 6.50 percent.

The debt is subject to a Master Trust Indenture and a Supplemental Indenture (Master Indenture) which include various covenants. The Series 2011A Bonds are guaranteed by a pledge of gross receipts of each member of the Obligated Group (as defined in the Master Indenture) and a mortgage lien on certain facilities of the Health Center and Corporation. The Corporation, the Health Center, the Foundation, Continuing Care Services and BVMP are members of the Obligated Group.

In December 2017, an advance refunding of a portion of the Series 2011A Bonds occurred. The remaining 2011A Revenue Bonds have annual principal payments ranging from \$4,025 to \$4,350 and mature in December 2020.

- (C) The Village of Bluffton, Ohio issued the Series 2017 Hospital Facilities Revenue Refunding Bonds (Series 2017 Bonds) in December 2017. The Series 2017 Bonds were issued to provide advance refunding of a portion of the Series 2011A Hospital Facilities Revenue Bonds.

The Series 2017 Bonds were issued in the form of serial bonds of \$85,150 with maturities continuing through December 2034. Annual principal payments range from \$4,925 to \$7,130. The interest rates on these Serial Bonds range from 4.00 percent to 5.00 percent. Total deferred issuance cost associated with the Series 2017 Bonds were \$983 and \$1,093 at December 31, 2019 and 2018, respectively. The Series 2017 Bonds were originally issued at a premium of \$11,015, which are amortized over the life of the Series 2017 Bonds using the effective interest method. As of December 31, 2019 and 2018, the amount of premium still to be amortized was \$9,005 and \$10,009, respectively.

The debt is subject to the same Lease, Master Trust Indenture and a Supplemental Indenture (Master Indenture) as the Series 2011A Bonds, which include various covenants. The Corporation, the Health Center, the Foundation, Continuing Care Services and BVMP are members of the Obligated Group.

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- (D) In December 2010, Continuing Care Services issued the 2010 Notes (2010 Notes, Continuing Care Services). In connection with the issuance of the 2010 Notes, the Village of Bluffton (Lessee), Fifth Third Bank (Lessor) and Continuing Care Services (Sublessee) simultaneously entered into Master Lease-Purchase and Sublease-Purchase Agreements related to the financed projects. Continuing Care Services is required to make semiannual payments to the Lessee, which are sufficient to meet the rental payments as required by the Agreements. The Lessee holds the title to certain leasehold improvements, which Continuing Care Services subleases to operate and use certain improvements and additions from the financed projects, until the 2010 notes mature, at which time ownership will be transferred to the Sublessee. In addition, Continuing Care Services has agreed to maintain and properly insure the projects and pay other similar expenses. These agreements are secured by certain property, equipment and revenue of Continuing Care Services and are subject to the Master Trust Indenture including the various covenants.

A portion of the 2010 Notes were restructured and refinanced in December 2017, as further described in the 2017 Notes, Continuing Care Services.

The semiannual principal payment of the remaining 2010 Note is \$17 (\$33 per annum), plus interest. This Note has a variable monthly interest payment that is calculated based on a factor of the one-month LIBOR rate (2.45 percent at December 31, 2019) and matures in December 2032. The Lessor, in its sole discretion, may require the Sublessee to purchase the project for the remaining principal payments due on the lease on December 1 of any year commencing December 1, 2018, and thereafter, with 180 days notice. The Note may be prepaid by the Sublessee at any time with no penalty.

- (E) In December 2017, Continuing Care Services is the 2017 Note (2017 Note, Continuing Care Services). The 2017 Note was issued to refund and restructure a portion of the 2010 Notes. In connection with the issuance of the 2017 Note, Fifth Third Bank (Lessor), The Village of Bluffton (Lessee) and the Continuing Care Services (Sublessee) simultaneously entered into Master Lease-Purchase and Sublease-Purchase Agreements related to the financed projects. Continuing Care Services is required to make semiannual payments to the Lessee, which are sufficient to meet the rental payments as required by the Agreements. The Lessee holds the title to certain leasehold improvements, which Continuing Care Services subleases to operate and use certain improvements and additions from the financed projects, until the 2017 Note matures, at which time ownership will be transferred to the Sublessee. In addition, Continuing Care Services has agreed to maintain and properly insure the projects and pay other similar expenses. These agreements are secured by certain property, equipment and revenue of Continuing Care Services and are subject to the Master Trust Indenture including the various covenants.

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Semiannual principal payments range from \$189 to \$1,165 (\$382 to \$2,306 per annum), plus interest. The lease obligation has a variable monthly interest payment that is calculated based on a factor of the one-month LIBOR rate (2.24 percent at December 31, 2019) and matures in December 2032. The Lessor, in its sole discretion, may require the Sublessee to purchase the leased assets for the remaining principal payments due on the lease on December 1 of any year commencing December 1, 2024, with 90 days notice. The Note may be prepaid by the Sublessee at any time with no penalty. Total deferred issuance costs associated with the 2017 Note were \$73 and \$91 at December 31, 2019 and 2018, respectively.

- (F) In December 2007, Continuing Care Services entered into two promissory notes, related to the purchase of Independence House assets for \$2,844 (2007 Promissory Notes, Continuing Care Services). Monthly principal and interest payments commenced in 2008 in the amount of \$26 (\$312 per annum). During 2011, one of the promissory notes was paid in full. The remaining promissory note is due in January 2023, and bears interest at a rate of 7 percent and is unsecured.

Future principal payments based on stated terms of debt obligations by year and in the aggregate, for the long-term debt at December 31, 2019, consist of the following:

	2017 Note, Health Center	Series 2011A Bonds	Series 2017 Bonds	2010 Notes, Continuing Care Services	2017 Notes, Continuing Care Services	2007 Promissory Note	Total
2020	\$ 350	\$ 4,350	\$ —	\$ 33	\$ 1,868	\$ 179	\$ 6,780
2021	375	—	4,925	33	1,950	193	7,476
2022	425	—	5,115	33	2,036	206	7,815
2023	450	—	5,300	33	2,125	19	7,927
2024	460	—	5,460	33	2,218	—	8,171
Thereafter	<u>4,915</u>	<u>—</u>	<u>64,350</u>	<u>267</u>	<u>12,806</u>	<u>—</u>	<u>82,338</u>
	<u>\$ 6,975</u>	<u>\$ 4,350</u>	<u>\$ 85,150</u>	<u>\$ 432</u>	<u>\$ 23,003</u>	<u>\$ 597</u>	<u>\$ 120,507</u>

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Note 11: Interest Rate Swap Agreement

2004 Swap

In May 2004, the Health Center entered into an interest rate swap (2004 Swap) for a notional amount equal to the total amount of the 2004 Series Bonds. The 2004 Swap is a fixed rate payer swap that terminates in December 2034, and originally amortized in coordination with the 2004 Series Bonds. Under this agreement, the Health Center pays a fixed fee of 4.040 percent and receives a floating rate equal to 67 percent of one month of USD-LIBOR (1.574 percent at December 31, 2018). The original objective of the 2004 Swap was to hedge the risk of overall changes in the variable interest payments on the Series 2004 Bonds. The fair value of the 2004 Swap represents a payable to the counterparty and is recorded as a liability of \$20,142 and \$17,246 at December 31, 2019 and 2018, respectively. Under the 2004 Swap agreement, the Corporation pays or receives the net interest amounts monthly, with the monthly settlement amounts included in investment return.

The 2004 Swap was initially designated as a cash flow hedge and the effective portion of changes in the fair value of the 2004 Swap were recorded as a component of other changes in net assets.

On March 31, 2008, the 2004 Swap no longer qualified as an effective hedge due to volatility in the Series 2004 Bond R-FLOATS variable interest rates. Changes in fair value of the 2004 Swap after April 1, 2008, are being recorded in nonoperating gains (losses). The effective portion of the 2004 Swap not previously recognized in excess of revenue over expenses as of March 31, 2008, (\$14,939) was being amortized into nonoperating income over the remaining term of the 2004 Swap. In April 2012, the 2004 Swap was amended by mutual consent of the Health Center and the counterparty, changing the notional amount to equal the outstanding debt on the original Series 2004 Bonds repayment schedule, along with changes to other terms. As a result of the amendment, the notional amount of the 2004 Swap is no longer allocated to any specific debt and the remaining unamortized loss of approximately \$13,399 was recognized in net excess of revenue over expenses in full in 2011.

In 2012, The Health Center elected to make a partial termination payment on the 2004 Swap in the amount of \$5,811. The result of the termination payment was a \$60,730 reduction to the notional value of the swap during the periods of 2012 through 2014. This reduction in notional value reduced the monthly settlement amounts that the Health Center paid or received, with the monthly settlement amounts included in investment return. In 2014, this agreement was extended through 2016 and the Health Center made an additional payment of \$5,156. In April 2017, this agreement was further extended through April 2020 with no additional payment required.

The 2004 Swap agreement requires the Corporation to post collateral for negative fair value amounts above various threshold levels, ranging from \$0 to \$20,000, depending on the occurrence of an adverse surety event, as defined by the swap agreement. As of December 31, 2019 and 2018, no such adverse surety event has occurred.

A settlement of the fair value is required for the 2004 Swap upon the occurrence of various events, including a bond rating on the Series 2017 Bonds below Baa3 as determined by Moody's Investor's Service or BBB as determined by Standard & Poor's Rating Service.

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The table below presents certain information regarding the Corporation's 2004 interest rate swap agreement:

	2019	2018
Fair value of interest rate swap agreement	\$ (20,142)	\$ (17,246)
Change in fair value of 2004 Swap	(2,896)	3,496

The Corporation did not have any derivative instruments at December 31, 2019 and 2018, which were designated as hedging instruments.

Note 12: Functional Expenses

The Corporation provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services and general and administrative functional expense classifications based on the actual department in which the expense was incurred and is consistently applied. The following schedule presents the natural classification of expenses by function as follows:

	2019						
	Health Care Services			Support Activities			
	Acute	Ambulatory	Post Acute	Total Health Care Services	General and Administrative	Fund Raising	Total
Compensation, contract wages and benefits	\$ 32,064	\$ 105,631	\$ 26,634	\$ 164,329	\$ 52,930	\$ 516	\$ 217,775
Purchased and contracted services	11,058	9,306	2,056	22,420	792	26	23,238
Medical and professional fees	66	2,349	145	2,560	2,083	-	4,643
Medical and pharmacy supplies	2,196	55,190	6,447	63,833	(52)	-	63,781
Insurance	1,167	292	-	1,459	-	2	1,461
Other and allocated costs and gain disposal of property and equipment	5,106	6,512	3,497	15,115	10,936	62	26,113
Total expenses before interest and amortization of financing costs and depreciation and amortization expense	51,657	179,280	38,779	269,716	66,689	606	337,011
Interest and amortization of financing costs	3,769	-	740	4,509	1	-	4,510
Depreciation and amortization expense	6,291	13,852	2,040	22,183	79	1	22,263
Total expenses	<u>\$ 61,717</u>	<u>\$ 193,132</u>	<u>\$ 41,559</u>	<u>\$ 296,408</u>	<u>\$ 66,769</u>	<u>\$ 607</u>	<u>\$ 363,784</u>

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	2018						
	Health Care Services			Support Activities			
	Acute	Ambulatory	Post Acute	Total Health Care Services	General and Administrative	Fund Raising	Total
Compensation, contract wages and benefits	\$ 30,991	\$ 96,902	\$ 25,072	\$ 152,965	\$ 44,419	\$ 479	\$ 197,863
Purchased and contracted services	11,151	6,353	1,932	19,436	1,408	23	20,867
Medical and professional fees	105	2,338	170	2,613	1,816	-	4,429
Medical and pharmacy supplies	2,270	52,797	6,335	61,402	67	-	61,469
Insurance	1,807	452	-	2,259	-	2	2,261
Other and allocated costs and gain disposal of property and equipment	6,932	6,565	3,297	16,794	10,511	65	27,370
Total expenses before interest and amortization of financing costs and depreciation and amortization expense	53,256	165,407	36,806	255,469	58,221	569	314,259
Interest and amortization of financing costs	3,742	-	746	4,488	-	1	4,489
Depreciation and amortization expense	5,603	12,020	1,731	19,354	1,999	-	21,353
Total expenses	\$ 62,601	\$ 177,427	\$ 39,283	\$ 279,311	\$ 60,220	\$ 570	\$ 340,101

Note 13: Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2019 and 2018, are available for the following purpose or periods:

	2019	2018
Subject to expenditure for specified purpose		
Cancer center project	\$ 526	\$ 512
Findlay campus	1,758	2,042
Heart care	969	956
Indigent care	367	349
Long-term care services	693	679
Other health care services	4,390	4,032
Accumulated endowment earnings	<u>2,023</u>	<u>1,259</u>
	10,726	9,829
Endowment investments to be held in perpetuity, the income is to be used for the following purposes		
Indigent care	814	810
Equipment purchases	200	200
Cancer center project	886	874
Other health care services	<u>2,354</u>	<u>2,330</u>
Total endowment investments	4,254	4,214
Not subject to appropriation or expenditure		
Beneficial interest in perpetual trusts, the income is to be used for the indigent case and other health care services	<u>16,295</u>	<u>15,784</u>
	\$ <u>31,275</u>	\$ <u>29,827</u>

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The net assets released from restrictions were released for the following purposes:

	<u>2019</u>	<u>2018</u>
Health care services	\$ 1,012	\$ 299
Capital purchases	<u>942</u>	<u>1,333</u>
	<u>\$ 1,954</u>	<u>\$ 1,632</u>

Note 14: Defined Benefit Pension Plan

The Corporation has a noncontributory defined benefit pension plan (Plan) covering all employees who meet the eligibility requirements. The Corporation's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Corporation may determine to be appropriate from time to time. The Corporation expects to contribute approximately \$5,000 to the Plan in 2020.

Effective December 31, 2009, the Plan was amended to freeze all benefit accruals and will not permit any employees thereafter to become members of the Plan. As a result of the freeze, effective January 1, 2010, the employer match was increased in the defined contribution plan for all participants. Accordingly, the projected benefit obligation agrees to the accumulated benefit obligation as of December 31, 2019 and 2018.

The Corporation uses a December 31 measurement date for the Plan. Information about the Plan's funded status follows:

	<u>2019</u>	<u>2018</u>
Change in benefit obligations		
Beginning of year	\$ (111,358)	\$ (124,953)
Interest and service cost	(5,323)	(4,949)
Net actuarial gain (loss)	(17,324)	12,734
Benefits paid	5,328	5,108
Expenses	<u>661</u>	<u>702</u>
End of year	<u>(128,016)</u>	<u>(111,358)</u>
Change in fair value of plan assets		
Beginning of year	84,408	89,222
Actual return on plan assets	14,272	(4,004)
Employer contributions	5,000	5,000
Benefits paid	(5,328)	(5,108)
Expenses	<u>(661)</u>	<u>(702)</u>
End of year	<u>97,691</u>	<u>84,408</u>
Funded status at end of year	<u>\$ (30,325)</u>	<u>\$ (26,950)</u>

Liabilities recognized in the consolidated balance sheets are as follows:

	<u>2019</u>	<u>2018</u>
Noncurrent liabilities	<u>\$ (30,325)</u>	<u>\$ (26,950)</u>

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Amounts not yet recognized as components of net periodic benefit cost consist of:

	<u>2019</u>	<u>2018</u>
Net actuarial loss	\$ <u>49,093</u>	\$ <u>40,005</u>

The accumulated benefit obligation was \$128,016 and \$111,358 at December 31, 2019 and 2018, respectively.

Information for the pension plan with an accumulated benefit obligation in excess of Plan assets:

	<u>2019</u>	<u>2018</u>
Projected benefit obligation	\$ <u>(128,026)</u>	\$ <u>(111,358)</u>
Accumulated benefit obligation	\$ <u>(128,026)</u>	\$ <u>(111,358)</u>
Fair value of Plan assets	\$ <u>97,691</u>	\$ <u>84,408</u>

	<u>2019</u>	<u>2018</u>
Components of net periodic benefit costs		
Interest and service cost	\$ 5,323	\$ 4,948
Expected return on plan assets	(6,809)	(6,803)
Recognized net actuarial loss	<u>772</u>	<u>1,069</u>
Net periodic benefit gain	\$ <u>(714)</u>	\$ <u>(786)</u>
Other changes in Plan assets and benefit obligations recognized other changes in net assets without donor restrictions		
Amounts arising during period		
Net (gain) loss	\$ 9,861	\$ (1,927)
Amortization		
Net loss	<u>(772)</u>	<u>(1,069)</u>
Total recognized in other changes in net assets without donor restrictions	\$ <u>9,089</u>	\$ <u>(2,996)</u>

The components of net periodic benefit cost, other than the service cost component, were \$1,416 and \$1,449 for the years ended December 31, 2019 and 2018, respectively.

The net loss and prior service cost that is estimated to be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year are \$1,276 and \$0 for 2019, respectively. The net loss and prior service cost that is estimated to be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year are \$772 and \$0 for 2018, respectively.

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Significant assumptions include:

	<u>2019</u>	<u>2018</u>
Weighted-average assumptions used to determine benefit obligations		
Discount rate	3.25%	4.25%
Weighted-average assumptions used to determine benefit costs		
Discount rate	4.25%	3.50%
Expected return on Plan assets	7.50%	7.75%

The Corporation has estimated the long-term rate of return on Plan assets based primarily on historical returns on Plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The following benefit payments are expected to be paid as of December 31, 2019:

2020	\$	5,562
2021		5,738
2022		5,933
2023		6,072
2024		6,233
2025-2028		32,660

Plan assets are held by a bank-administered trust fund, which invests the Plan assets in accordance with the provisions of the Plan agreement. The Plan agreements permit investment in common stocks, corporate bonds and debentures, U.S. Government securities and other specified investments.

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the Plan to recognize potentially higher returns.

Plan assets are re-balanced quarterly. At December 31, 2019 and 2018, Plan assets by category are as follows:

	<u>2019</u>	<u>2018</u>
Equity securities	54%	49%
Debt securities	27	29
Pooled investment and limited partnership funds	<u>19</u>	<u>22</u>
	<u>100%</u>	<u>100%</u>

Pension Plan Assets

Following is a description of the inputs and valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

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Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include money market mutual funds and exchange-traded mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include pooled investment and limited partnerships funds. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. There are no Level 3 plan assets.

The fair values of the Corporation's pension plan assets at December 31, 2019 and 2018, by asset category are as follows:

Asset Category	2019				
	Total Fair Value	Fair Value Measurements Using			Investments Measured at NAV
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)	
Money market mutual funds	\$ 80	\$ 80	\$ —	\$ —	\$ —
Domestic equity mutual funds	28,508	28,508	—	—	—
International equity mutual funds	23,849	23,849	—	—	—
Domestic fixed income mutual funds	24,461	24,461	—	—	—
International fixed income mutual funds	1,877	1,877	—	—	—
Pooled investment and limited partnership funds	18,916	—	—	—	18,916
Total	<u>\$ 97,691</u>	<u>\$ 78,775</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 18,916</u>

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Asset Category	2018				
	Total Fair Value	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)	Investments Measured at NAV
Money market mutual funds	\$ 81	\$ 81	\$ —	\$ —	\$ —
Domestic equity mutual funds	22,441	22,441	—	—	—
International equity mutual funds	19,292	19,292	—	—	—
Domestic fixed income mutual funds	22,589	22,589	—	—	—
International fixed income mutual funds	1,671	1,671	—	—	—
Pooled investment and limited partnership funds	18,334	—	—	—	18,334
Total	\$ 84,408	\$ 66,074	\$ 0	\$ 0	\$ 18,334

Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following tables present information regarding the nature and significant terms of the Corporation's pension plan assets invested in pooled investment and limited partnership funds at December 31, 2019 and 2018:

Investments	2019			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Eligible)	Redemption Notice Period
Limited partnerships (A)	\$ 879	\$ 85	None	N/A
Pooled investment funds (B)	18,037	—	Quarterly to annually	15-370 days

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2018

Investments	Fair Value	Unfunded Commitments	Redemption Frequency (if Eligible)	Redemption Notice Period
Limited partnerships (A)	\$ 1,031	\$ 165	None	N/A
Pooled investment funds (B)	17,303	—	Quarterly to annually	15-370 days

(A) This category includes several private equity funds that invest in early stage, high-growth private companies, growth equity financing, leverage buyouts, securities and other obligations of distressed businesses and financially troubled companies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the funds. These investments are planned to be held and it is estimated that the underlying assets of the funds will be liquidated in approximately nine years. The fair value of the investments in this category have been estimated using the Corporation's ownership interests in partners' capital.

(B) This category includes investments in hedge funds that invest primarily in other hedge funds, limited partnerships and investment companies. Management of these funds employs a variety of strategies and has the ability to shift investments based on market, economic, political and government driven events. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. These investments can be redeemed and currently there are no restrictions.

Note 15: Leases

Change in Accounting Principle

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

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The Corporation adopted Topic 842 on January 1, 2019 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Corporation elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. Also, the Corporation elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. The Corporation did not elect the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2019.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of approximately \$4,500, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. The Corporation had no capital leases (finance leases) at December 31, 2018. The standard did not significantly affect the consolidated statements of operations, change in net assets or cash flows.

Accounting Policies

The Corporation determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Corporation determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent and lease incentives. The Corporation uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Corporation uses its incremental borrowing rate based on information available at the lease commencement date to determine the present value of lease payments. Incremental borrowing rates used to determine the present value of lease payments were derived by reference to recent borrowings corresponding to the lease commencement date.

The lease term is the noncancelable period per the contract. Additionally, the lease term may include options to extend or to terminate the lease that the Corporation is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Corporation has elected not to record leases with an initial term of 12 months or less on the consolidated balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

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Quantitative Disclosures

At December 31, 2019, the Corporation recorded total right of use assets and liabilities of approximately \$4,900 and \$5,100, respectively. The Corporation has both finance and operating leases, consisting of two finance leases for equipment and operating leases for property and vehicles. The financing and operating leases have a weighted-average remaining lease term of 4 and 2 years, respectively, at December 31, 2019. The financing and operating leases have a weighted-average discount rate of 3.5 percent and 2.3 percent, respectively, at December 31, 2019.

Future minimum lease payments and reconciliation to the consolidated balance sheet at December 31, 2019, are as follows:

	Finance Leases	Variable Leases	Operating Leases
2020	\$ 498	\$ 1,619	\$ 2,117
2021	492	842	1,334
2022	492	404	896
2023	492	207	699
2024	144	9	153
Thereafter	-	-	-
Total lease payments to be paid	2,118	3,081	5,199
Less future interest expense	(134)	-	(134)
Lease liabilities	<u>\$ 1,984</u>	<u>\$ 3,081</u>	<u>\$ 5,065</u>

Note 16: Defined Contribution Pension Plan

The Corporation has a defined contribution pension plan for all qualified employees. The plan provides employer matching contributions based on employee contribution levels. The Corporation expensed approximately \$5,047 and \$4,742 in 2019 and 2018, respectively. The Corporation has no liability with respect to vested benefits under the plan.

Note 17: Related Party Transactions

The Blanchard Valley Regional Health Center Auxiliary and the Bluffton Hospital Auxiliary are unincorporated nonprofit associations and are organized to conduct fundraising and promotional activities for the benefit of the Health Center. These Auxiliaries' bylaws provide that funds raised, net of expenses, be transferred to the Health Center for the specific purpose of acquiring equipment and related improvements. These Auxiliaries' bylaws also provide that amendments may be made only with the express approval of the Board of Trustees of the Corporation. Activities and management of the Auxiliaries are conducted by officers and committees elected and appointed by their members. These Auxiliaries contributed approximately \$175 and \$127 in 2019 and 2018, respectively, to the Health Center.

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The Corporation maintains certain cash, investments and debt instruments at Fifth Third Bank, an institution where a Board member is an officer.

Note 18: Investments in Equity Investees

Continuing Care Services has a 50 percent equity ownership joint venture in an assisted living project with Sunrise Assisted Living (Sunrise). As of December 31, 2019 and 2018, Continuing Care Services has a net book value related to this investment of \$0 and a liability related to cash distributions in excess of equity of \$1,052 and \$1,059, respectively. Birchaven does not guarantee the debt of Sunrise. Birchaven has recognized a gain of approximately \$7 and \$52 for its share of the 2019 and 2018 operating results, respectively.

The Health Center owns a 40 percent interest in a joint venture with area physicians to operate an ambulatory surgical center (Findlay Surgery). The Health Center recognized a gain (net of income taxes paid) of \$397 of \$967 on its share of the 2019 and 2018 operating results, respectively.

The Corporation and its subsidiaries have minority ownership in a few additional joint ventures. The Corporation and its subsidiaries recognized a net gain of \$108 and \$199 in 2019 and 2018, respectively, on their share of the operating results.

A summary of joint venture investments at December 31 is as follows:

	<u>2019</u>	<u>2018</u>
Sunrise	\$ —	\$ —
Findlay Surgery	313	534
Other	<u>484</u>	<u>489</u>
	<u>\$ 797</u>	<u>\$ 1,023</u>

Summary financial position information at December 31 for equity investees was as follows:

	<u>2019</u>	<u>2018</u>
Cash and investments	\$ 2,299	\$ 2,922
Accounts receivable	1,757	1,377
Property and equipment, net	19,841	20,190
Other assets	<u>1,546</u>	<u>1,477</u>
	<u>\$ 25,443</u>	<u>\$ 25,966</u>
Accounts payable	\$ 2,276	\$ 2,546
Long-term debt	<u>15,252</u>	<u>15,813</u>
	17,528	18,359
Net assets	<u>7,915</u>	<u>7,607</u>
	<u>\$ 25,443</u>	<u>\$ 25,966</u>

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Note 19: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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(Dollar Amounts in Thousands)

Recurring Measurements

The following tables present the fair value measurements of financial assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

	<u>Fair Value Measurements Using</u>				Investments Measured at NAV (A)
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2019					
Assets					
Assets limited as to use					
Money market mutual funds	\$ 2,607	\$ 2,607	\$ —	\$ —	\$ —
Domestic equity mutual funds	124,935	124,935	—	—	—
International equity mutual funds	86,313	86,313	—	—	—
Domestic fixed income mutual funds	107,379	107,379	—	—	—
International fixed income mutual funds	9,271	9,271	—	—	—
Municipal bonds	24	—	24	—	—
Corporate bonds	4,140	—	4,140	—	—
Pooled investment and limited partnership funds	71,914	—	—	—	71,914
Beneficial interest in perpetual trusts	16,295	—	16,295	—	—
Liabilities					
Interest rate swap agreement	(20,142)	—	(20,142)	—	—

Blanchard Valley Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollar Amounts in Thousands)

	Fair Value Measurements Using				Investments Measured at NAV (A)
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2018					
Assets					
Assets limited as to use					
Money market mutual funds	\$ 3,058	\$ 3,058	\$ —	\$ —	\$ —
Domestic equity mutual funds	98,428	98,428	—	—	—
International equity mutual funds	68,455	68,455	—	—	—
Domestic fixed income mutual funds	96,974	96,974	—	—	—
International fixed income mutual funds	8,212	8,212	—	—	—
Municipal bonds	29	—	29	—	—
Corporate bonds	4,955	—	4,955	—	—
Pooled investment and limited partnership funds	63,742	—	—	—	63,742
Beneficial interest in perpetual trusts	15,784	—	15,784	—	—
Liabilities					
Interest rate swap agreement	(17,246)	—	(17,246)	—	—

- (A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2019. There are no assets classified within Level 3 of the fair value hierarchy.

Blanchard Valley Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollar Amounts in Thousands)

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There are no Level 3 securities.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the Corporation expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2.

Beneficial Interest in Perpetual Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Interest Rate Swap Agreement

The fair value is estimated using forward looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Note 20: The Fair Value Option

As permitted by Topic 825, the Corporation has elected to measure pooled investment and limited partnership funds at fair value. Management has elected the fair value option for these items because they believe this provides a better matching of reported unrealized gains and losses on these investments to the periods in which the unrealized gains or losses occur.

See Note 5 for additional disclosures regarding fair value of each of the consolidated balance sheets line items listed in the preceding paragraph.

Blanchard Valley Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollar Amounts in Thousands)

Litigation

In the normal course of business, the Corporation is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Corporation's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Corporation evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Pension Benefit Obligations

The Corporation has a noncontributory defined benefit pension plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Investments

The Corporation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

Note 22: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2019	2018
Cash and cash equivalents	\$ 6,025	\$ 14,527
Contributions receivable	548	810
Accounts receivable	56,128	53,827
Investments	378,863	320,122
Distributions from perpetual trusts	988	1,435
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 442,552</u>	<u>\$ 390,721</u>

The Corporation's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes. Donor-restricted endowment funds are not available for general expenditure. There are no Board-designated endowments.

Blanchard Valley Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollar Amounts in Thousands)

Note 23: Subsequent Events

Subsequent events have been evaluated through April 28, 2020, which is the date the consolidated financial statements were issued.

There has been significant volatility in the investment markets both nationally and globally since December 31, 2019, resulting in an overall market decline which has resulted in a substantial decline in the value of our investment portfolio.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen, which may negatively affect the consolidated financial position, consolidated results of operations and cash flows of the Corporation. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Subsequent to year end, the Corporation entered into a line of credit with an available balance of \$60,000. The Corporation has not drawn on the line of credit through the date the consolidated financial statements were issued.

Supplementary Information

Independent Auditor's Report on Supplementary Information

Board of Trustees
Blanchard Valley Health System and Subsidiaries
Findlay, Ohio

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The hospital statistics (unaudited) – Blanchard Valley Regional Health Center listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Fort Wayne, Indiana
April 28, 2020

Blanchard Valley Health System and Subsidiaries
Consolidating Information – Balance Sheet
December 31, 2019
(Dollar Amounts in Thousands)

	Corporate	Blanchard Valley Regional Health Center	Blanchard Valley Health Foundation	Blanchard Valley Continuing Care Services, Inc.	Blanchard Valley Medical Practice, LLC	CITAS, Inc.	Eliminations	Consolidated
Assets								
Current Assets								
Cash and cash equivalents	\$ 4,169	\$ 1,334	\$ —	\$ 522	\$ —	\$ —	\$ —	\$ 6,025
Accounts receivable								
Patient	502	33,687	—	6,212	5,867	—	—	46,268
Other	8,856	1,004	—	—	—	—	—	9,860
Contributions receivable	—	—	573	—	—	—	—	573
Inventories	37	6,985	—	1,901	—	—	—	8,923
Prepaid expenses	3,297	—	—	—	—	—	—	3,297
Advances to affiliated organizations	—	105,786	—	—	—	—	(105,786)	—
Total current assets	<u>16,861</u>	<u>148,796</u>	<u>573</u>	<u>8,635</u>	<u>5,867</u>	<u>—</u>	<u>(105,786)</u>	<u>74,946</u>
Assets Limited as to Use								
Internally designated	29,187	304,056	9,263	35,440	302	—	—	378,248
Externally restricted by donors	540	1,626	11,251	119	—	—	—	13,536
Held by trustee primarily under bond indenture agreements	780	—	—	—	—	35	—	815
Held by trustee primarily under medical malpractice trust	14,144	—	—	—	—	—	—	14,144
	<u>44,651</u>	<u>305,682</u>	<u>20,514</u>	<u>35,559</u>	<u>302</u>	<u>35</u>	<u>—</u>	<u>406,743</u>
Property and Equipment								
	49,795	286,452	40	60,665	13,105	—	—	410,057
Less accumulated depreciation	(27,070)	(177,288)	(39)	(27,555)	(1,555)	—	—	(233,507)
	<u>22,725</u>	<u>109,164</u>	<u>1</u>	<u>33,110</u>	<u>11,550</u>	<u>—</u>	<u>—</u>	<u>176,550</u>
Other Assets								
Contributions receivable, less current portion	—	—	930	—	—	—	—	930
Investments in equity investees	9	361	—	255	172	—	—	797
Right of use assets	1,430	1,798	—	1,109	527	—	—	4,864
Beneficial interest in perpetual trusts	—	16,295	—	—	—	—	—	16,295
Investment in subsidiary	5,770	—	—	—	—	—	(5,770)	—
Intangible assets, net	9,363	—	—	—	—	—	—	9,363
Other	—	—	—	—	40	—	—	40
	<u>16,572</u>	<u>18,454</u>	<u>930</u>	<u>1,364</u>	<u>739</u>	<u>—</u>	<u>(5,770)</u>	<u>32,289</u>
Total assets	<u>\$ 100,809</u>	<u>\$ 582,096</u>	<u>\$ 22,018</u>	<u>\$ 78,668</u>	<u>\$ 18,458</u>	<u>\$ 35</u>	<u>\$ (111,556)</u>	<u>\$ 690,528</u>

Blanchard Valley Health System and Subsidiaries
Consolidating Information – Balance Sheet
December 31, 2019
(Dollar Amounts in Thousands)

	Corporate	Blanchard Valley Regional Health Center	Blanchard Valley Health Foundation	Blanchard Valley Continuing Care Services, Inc.	Blanchard Valley Medical Practice, LLC	CITAS, Inc.	Eliminations	Consolidated
Liabilities and Net Assets								
Current Liabilities								
Current maturities of long-term debt	\$ —	\$ 4,700	\$ —	\$ 2,080	\$ —	\$ —	\$ —	\$ 6,780
Current portion of right of use liability	754	496	—	533	317	—	—	2,100
Accounts payable and accrued expenses	11,404	5,663	—	(125)	85	—	—	17,027
Accrued wages, withholdings and payroll taxes	20,354	—	—	—	—	35	—	20,389
Advances from affiliated organizations	56,308	—	9,548	21,989	17,846	95	(105,786)	—
Estimated amounts due to third-party payers	—	1,252	—	—	—	—	—	1,252
Other	—	—	—	1,052	—	—	—	1,052
Total current liabilities	<u>88,820</u>	<u>12,111</u>	<u>9,548</u>	<u>25,529</u>	<u>18,248</u>	<u>130</u>	<u>(105,786)</u>	<u>48,600</u>
Other Liabilities								
Long-term debt	—	99,724	—	21,952	—	—	—	121,676
Deferred revenue	67	40	—	310	—	—	—	417
Lease liability	686	1,503	—	576	210	—	—	2,975
Pension liability	—	30,325	—	—	—	—	—	30,325
Interest rate swap agreement	—	20,142	—	—	—	—	—	20,142
Other long-term obligations	<u>10,671</u>	<u>286</u>	<u>89</u>	<u>79</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,125</u>
Total other liabilities	<u>11,424</u>	<u>152,020</u>	<u>89</u>	<u>22,917</u>	<u>210</u>	<u>—</u>	<u>—</u>	<u>186,660</u>
Total liabilities	<u>100,244</u>	<u>164,131</u>	<u>9,637</u>	<u>48,446</u>	<u>18,458</u>	<u>130</u>	<u>(105,786)</u>	<u>235,260</u>
Stockholder's Equity								
Common stock, without par value issued and outstanding, 700 shares (authorized, 750 shares)	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>(2)</u>	<u>—</u>
Net Assets								
Without donor restrictions								
Blanchard Valley Health System and Subsidiaries	—	401,414	(289)	29,195	—	(96)	(5,768)	424,456
Noncontrolling interest	—	(1,371)	—	908	—	—	—	(463)
With donor restrictions								
Perpetual in nature	433	16,830	3,286	—	—	—	—	20,549
Time-restricted for future periods	<u>131</u>	<u>1,092</u>	<u>9,384</u>	<u>119</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,726</u>
Total net assets	<u>564</u>	<u>417,965</u>	<u>12,381</u>	<u>30,222</u>	<u>—</u>	<u>(96)</u>	<u>(5,768)</u>	<u>455,268</u>
Total liabilities and net assets	<u>\$ 100,809</u>	<u>\$ 582,096</u>	<u>\$ 22,018</u>	<u>\$ 78,668</u>	<u>\$ 18,458</u>	<u>\$ 35</u>	<u>\$ (111,556)</u>	<u>\$ 690,528</u>

Blanchard Valley Health System and Subsidiaries
Consolidating Information – Results of Operations and Changes in Net Assets
Year Ended December 31, 2019
(Dollar Amounts in Thousands)

	Corporate	Blanchard Valley Regional Health Center	Blanchard Valley Health Foundation	Blanchard Valley Continuing Care Services, Inc.	Blanchard Valley Medical Practice, LLC	CITAS, Inc.	Eliminations	Consolidated
Revenues, Gains and Other Support Without Donor Restrictions								
Patient service revenue	\$ 4,366	\$ 271,565	\$ —	\$ 47,529	\$ 42,214	\$ —	\$ —	\$ 365,674
Rental revenue	59	63	—	40	47	—	—	209
Other revenue	1,994	4,626	112	580	962	—	—	8,274
Net assets released from restrictions used for operations	—	1,012	—	—	—	—	—	1,012
Total revenues, gains and other support without donor restrictions	<u>6,419</u>	<u>277,266</u>	<u>112</u>	<u>48,149</u>	<u>43,223</u>	<u>—</u>	<u>—</u>	<u>375,169</u>
Expenses and Losses								
Compensation, contract wages and benefits	25,199	102,626	516	33,966	55,468	—	—	217,775
Purchased and contracted services	(1,532)	19,200	28	2,698	2,844	—	—	23,238
Medical and professional fees	1,916	2,304	2	185	236	—	—	4,643
Medical and pharmacy supplies	300	54,140	—	6,270	3,071	—	—	63,781
Insurance	696	463	2	200	100	—	—	1,461
Depreciation and amortization	6,977	12,805	1	1,941	539	—	—	22,263
Interest	—	3,770	—	740	—	—	—	4,510
Other and allocated costs	7,417	12,688	(439)	4,780	1,880	—	—	26,326
Gain on disposal of property and equipment	(174)	(38)	—	(1)	—	—	—	(213)
Total expenses and losses	<u>40,799</u>	<u>207,958</u>	<u>110</u>	<u>50,779</u>	<u>64,138</u>	<u>—</u>	<u>—</u>	<u>363,784</u>
Operating Income (Loss)	<u>(34,380)</u>	<u>69,308</u>	<u>2</u>	<u>(2,630)</u>	<u>(20,915)</u>	<u>—</u>	<u>—</u>	<u>11,385</u>
Nonoperating Gains and Other								
Investment return	4,417	42,729	1,349	5,310	68	—	—	53,873
Gain (losses) on investment in equity investee	(83)	488	—	107	—	—	—	512
Change in fair value of interest rate swap agreements	—	(2,897)	—	—	—	—	—	(2,897)
Net periodic benefit cost other than service cost	—	1,416	—	—	—	—	—	1,416
Other	605	—	(515)	—	—	—	—	90
Total nonoperating gains and other	<u>4,939</u>	<u>41,736</u>	<u>834</u>	<u>5,417</u>	<u>68</u>	<u>—</u>	<u>—</u>	<u>52,994</u>
Excess (Deficiency) of Revenue Over Expenses	(29,441)	111,044	836	2,787	(20,847)	—	—	64,379
Deficiency of revenue over expense attributable to noncontrolling interest	—	(4,311)	—	(100)	—	—	—	(4,411)
Excess (Deficiency) of Revenue Over Expenses Attributable to Blanchard Valley Health Center and Subsidiaries	(29,441)	106,733	836	2,687	(20,847)	—	—	59,968
Other Changes in Net Assets Without Donor Restrictions								
Net assets released from restriction used for purchase of property and equipment	—	823	—	101	18	—	—	942
Defined benefit pension plan	—	(9,089)	—	—	—	—	—	(9,089)
Change in gains and losses and prior service cost	—	952	—	99	—	—	—	1,051
Transfers to (from) affiliates	29,441	(50,270)	—	—	20,829	—	—	—
Other changes in net assets	—	—	—	—	—	—	—	—
Total other changes in net assets without donor restrictions	<u>29,441</u>	<u>(57,584)</u>	<u>—</u>	<u>200</u>	<u>20,847</u>	<u>—</u>	<u>—</u>	<u>(7,096)</u>

Blanchard Valley Health System and Subsidiaries
Consolidating Information – Results of Operations and Changes in Net Assets
Year Ended December 31, 2019
(Dollar Amounts in Thousands)

	Corporate	Blanchard Valley Regional Health Center	Blanchard Valley Health Foundation	Blanchard Valley Continuing Care Services, Inc.	Blanchard Valley Medical Practice, LLC	CITAS, Inc.	Eliminations	Consolidated
Change in Net Assets Without Donor Restrictions								
Excess (deficiency) of revenue over expenses attributable to Blanchard Valley Health System and subsidiaries	\$ (29,441)	\$ 106,733	\$ 836	\$ 2,687	\$ (20,847)	\$ —	\$ —	\$ 59,968
Net assets released from restriction used for purchase of property and equipment	—	823	—	101	18	—	—	942
Defined benefit pension plan	—	(9,089)	—	—	—	—	—	(9,089)
Change in noncontrolling interest	—	952	—	99	—	—	—	1,051
Transfers to (from) affiliates	29,441	(50,270)	—	—	20,829	—	—	—
Other changes in net assets	—	—	—	—	—	—	—	—
Increase in net assets without donor restrictions	—	49,149	836	2,887	—	—	—	52,872
Net Assets With Donor Restrictions								
Donations	—	—	1,935	—	—	—	—	1,935
Investment return	94	227	635	—	—	—	—	956
Change in beneficial interest in perpetual trusts	—	511	—	—	—	—	—	511
Net assets released from restrictions	—	(54)	(1,900)	—	—	—	—	(1,954)
Increase in net assets with donor restrictions	94	684	670	—	—	—	—	1,448
Change in Net Assets	<u>\$ 94</u>	<u>\$ 49,833</u>	<u>\$ 1,506</u>	<u>\$ 2,887</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 54,320</u>

Blanchard Valley Health System and Subsidiaries
Hospital Statistics (Unaudited) – Blanchard Valley Regional Health Center
Year Ended December 31, 2019

	Year Ended									
	2019*	2018*	2017*	2016**	2015	2014	2013	2012	2011	2010
Admissions										
Adults and pediatrics	8,656	7,328	7,713	7,615	7,627	7,624	7,214	7,093	7,657	7,319
Newborn infants	<u>1,392</u>	<u>1,342</u>	<u>1,460</u>	<u>1,520</u>	<u>1,621</u>	<u>1,692</u>	<u>1,695</u>	<u>1,490</u>	<u>1,352</u>	<u>1,367</u>
	10,048	8,670	9,173	9,135	9,248	9,316	8,909	8,583	9,009	8,686
Births	1,337	1,352	1,504	1,483	1,587	1,660	1,661	1,457	1,326	1,344
Days of care										
Adults and pediatrics	28,474	26,919	24,324	24,787	25,735	25,680	25,401	24,680	26,912	24,956
Newborn infants	<u>3,463</u>	<u>3,574</u>	<u>4,141</u>	<u>3,656</u>	<u>4,042</u>	<u>4,041</u>	<u>3,878</u>	<u>3,926</u>	<u>3,432</u>	<u>3,542</u>
	31,937	30,493	28,465	28,443	29,777	29,721	29,279	28,606	30,344	28,498
Average daily census										
Adults and pediatrics	78.0	73.8	66.6	67.7	70.3	70.2	69.4	67.4	73.7	68.4
Newborn infants	9.5	9.8	11.3	10.0	11	11.1	10.6	10.7	9.4	9.7
Percent of occupancy, adults and pediatrics	44.6%	42.1%	38.1%	38.7%	40.2%	40.1%	39.7%	38.5%	42.1%	39.1%
Average length of stay (discharges)										
Adults and pediatrics	3.3	3.7	3.2	3.3	3.4	3.4	3.5	3.5	3.5	3.4
Newborn infants	2.5	2.7	2.8	2.4	2.5	2.4	2.3	2.6	2.5	2.6
Average number of personnel on payroll each month (includes part-time hours converted to equivalent full-time personnel) based on hours worked	1,353.0	1,295.0	1,301.0	1,292.0	1,216.0	1,186.0	1,161.0	1,167.0	1,154.0	1,113.5
Ratio of employee to patients (based on adult and pediatrics census only)										
Unadjusted for outpatient	17.34	17.56	19.52	19.08	17.29	16.90	16.73	17.31	15.65	16.29
Adjusted for outpatient	6.14	6.27	7.16	6.69	6.61	5.99	6.05	6.38	5.93	6.17
Outpatient	272,682	271,231	254,538	314,320	345,431	328,935	320,518	304,188	298,991	287,676
Observation	<u>5,978</u>	<u>5,430</u>	<u>5,022</u>	<u>3,955</u>	<u>3,772</u>	<u>3,672</u>	<u>3,491</u>	<u>3,204</u>	<u>3,258</u>	<u>3,012</u>
Total outpatient utilization	<u>278,660</u>	<u>276,661</u>	<u>259,560</u>	<u>318,275</u>	<u>349,203</u>	<u>332,607</u>	<u>324,009</u>	<u>307,392</u>	<u>302,249</u>	<u>290,688</u>

*The Corporation converted the electronic medical record system from Meditech to Cerner in 2017. As a result certain statistics are calculated differently as presented above.

**Due to delays in obtaining volume data for November and December 2016, these amounts are annualized based on data through October 2016.