



**FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2023 AND 2022**

*CPAs / ADVISORS*



**HANCOCK HEALTH**

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DECEMBER 31, 2023 AND 2022

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Hancock Health  
Greenfield, Indiana

### Report on the Audit of Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of Hancock Health (Hancock), a component unit of Hancock County, which comprise the statements of net position as of December 31, 2023 and 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hancock as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hancock and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management for the Financial Statements*

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hancock's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hancock's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hancock's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Required Supplementary Information*

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

Board of Trustees  
Hancock Health  
Greenfield, Indiana

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2024 on our consideration of Hancock's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hancock's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hancock's internal control over financial reporting and compliance.

**Blue & Co., LLC**

Indianapolis, Indiana  
October 3, 2024

**REQUIRED SUPPLEMENTARY INFORMATION**

# HANCOCK HEALTH

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2023 AND 2022

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This section of Hancock Health's (Hancock) annual financial statements presents background information and management's discussion and analysis (MD&A) of Hancock's financial performance during the years ended December 31, 2023 and 2022. This MD&A includes a discussion and analysis of the activities and results of Hancock's blended component units, Hancock Regional Hospital Foundation, Inc., Hancock Regional Surgery Center, LLC, Hancock Health Gateway Services, Inc., and Suburban Hospice, Inc. and should be read in conjunction with Hancock's financial statements that follow this MD&A. Please read it in conjunction with Hancock's financial statements, which begin on page 4. Unless otherwise indicated, amounts are in thousands and are approximates.

### FINANCIAL HIGHLIGHTS

- Hancock reported a decrease in net position of \$6,190 or 2% in 2023.
- Operating income (loss) in 2023 compared to 2022 decreased by \$21,328 or 188%.
- Nonoperating income (loss) in 2023 compared to 2022 increased by \$26,054 or 731%.
- Hancock recognized \$-0- and \$3,168 during 2023 and 2022, respectively, in nonoperating income from grants related to COVID-19.

### USING THIS ANNUAL REPORT

Hancock's financial statements consist of three statements—a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the activities of Hancock, including resources held by Hancock but restricted for specific purposes by contributors, grantors, or enabling legislation.

### THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

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

# HANCOCK HEALTH

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2023 AND 2022

### THE STATEMENT OF CASH FLOWS

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

### HANCOCK'S NET POSITION

Hancock's net position is the difference between its assets and liabilities reported in the statement of net position. Hancock's net position decreased in 2023 by \$6,189 (2%) as you can see from Table 1.

Table 1: Statements of Net Position

	2023	2022	2023 - 2022 \$ Change	2021
<b>Assets</b>				
Current assets	\$ 150,113	\$ 152,777	\$ (2,664)	\$ 156,702
Capital assets, net	145,455	137,070	8,385	131,355
Restricted and limited use assets	137,306	124,604	12,702	137,314
Other noncurrent assets	22,887	36,671	(13,784)	34,441
Total assets	<u>\$ 455,761</u>	<u>451,122</u>	<u>4,639</u>	<u>459,812</u>
<b>Liabilities</b>				
Current liabilities	\$ 111,394	\$ 99,939	11,455	\$ 91,896
Other noncurrent liabilities	1,750	2,376	(626)	1,967
Total liabilities	113,144	102,315	10,829	93,863
<b>Net Position</b>				
Net investment in capital assets	143,079	133,972	9,107	128,970
Donor restricted expendable	14,021	12,581	1,440	13,361
Restricted nonexpendable	2,361	3,956	(1,595)	3,762
Unrestricted	183,156	198,298	(15,142)	219,856
Total net position	342,617	348,807	(6,190)	365,949
Total liabilities and net position	<u>\$ 455,761</u>	<u>\$ 451,122</u>	<u>\$ 4,639</u>	<u>\$ 459,812</u>

A significant component in Hancock's assets increase in 2023 from 2022 is restricted and limited use assets, which increased in 2023 by \$12,702 or 10% due to investment return from positive market performance. Additionally, capital assets, net increased in 2023 by \$8,385 or 6% due to construction projects to expand Hancock's operations in Hancock County.

A significant component in Hancock's assets decrease in 2022 from 2021 is restricted and limited use assets, which decreased in 2022 by \$12,710 or 9% due to investment loss from negative market performance. Additionally, current assets decreased in 2022 by \$3,925 or 3% due to a usage of cash and cash equivalents discussed in Hancock's Cash Flows section on page vi.



## HANCOCK HEALTH

### MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2023 AND 2022

#### OPERATING RESULTS AND CHANGES IN HANCOCK'S NET POSITION

In 2023, Hancock's change in net position increased by \$10,952 compared to 2022 as shown in Table 2.

Table 2: Statements of Revenues, Expenses and Changes in Net Position

	2023	2022	2023 - 2022 \$ Change	2021
Operating Revenue				
Net patient service revenue	\$ 612,044	\$ 558,996	\$ 53,048	\$ 523,327
Other operating revenue	7,034	9,388	(2,354)	15,411
Total operating revenue	<u>619,078</u>	<u>568,384</u>	<u>50,694</u>	<u>538,738</u>
Operating expenses				
Salaries and benefits	121,300	88,438	32,862	80,711
Medical supplies and drugs	74,795	68,759	6,036	60,697
Purchased services and medical fees	403,684	374,995	28,689	338,475
Depreciation and amortization	19,689	18,940	749	18,380
Hospital assessment fee	9,554	8,605	949	7,198
Other operating expense	22,739	20,002	2,737	18,621
Total operating expense	<u>651,761</u>	<u>579,739</u>	<u>72,022</u>	<u>524,082</u>
Operating income (loss)	(32,683)	(11,355)	(21,328)	14,656
Nonoperating income (loss)				
Noncapital contributions	3,521	3,369	152	3,745
Other nonoperating income	516	8,886	(8,370)	1,901
COVID-19 grant revenue	-0-	3,168	(3,168)	2,102
Investment return	18,454	(18,986)	37,440	14,965
Total nonoperating income (loss)	<u>22,491</u>	<u>(3,563)</u>	<u>26,054</u>	<u>22,713</u>
Change in net position before other	(10,192)	(14,918)	4,726	37,369
Other				
Capital distributions	(3,962)	(2,224)	(1,738)	(1,908)
Transfers	7,964	-0-	7,964	-0-
Change in net position	(6,190)	(17,142)	10,952	35,461
Net position				
Beginning of year	<u>348,807</u>	<u>365,949</u>	<u>(17,142)</u>	<u>330,488</u>
End of year	<u>\$ 342,617</u>	<u>\$ 348,807</u>	<u>\$ (6,190)</u>	<u>\$ 365,949</u>

#### SOURCES OF REVENUE

During 2023, Hancock derived substantially all of its revenue from patient service and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

# HANCOCK HEALTH

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2023 AND 2022

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Table 3 presents the percentages of gross revenue for patient services by payor for Hancock's acute care operations.

Table 3: Sources of Revenue

	2023	2022	2021
Medicare	56%	54%	52%
Medicaid	13%	12%	12%
Commercial	28%	31%	33%
Self-pay	3%	3%	3%
	100%	100%	100%

Hancock provides care to patients under payment arrangements with Medicare, Medicaid, and various managed care programs. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs as defined. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment. Total operating revenue increased \$50,694 or 9% in 2023 compared to 2022. This increase was primarily the result of an increase in volumes. Disproportionate Share Hospital Payment (DSH) for years 2023 and 2022 was \$2,282.

### OPERATING INCOME (LOSS)

The first component of the overall change in Hancock's net position is its operating income (loss), generally the difference between net patient service and the expenses incurred to perform those services. In 2023 and 2022, Hancock reported an operating loss, due to increased labor and other operational expenses as a result of inflation and economic pressures. Hancock's operations began in 1951 as a county owned and operated hospital under Indiana Code 16-22. In 2021, Hancock reported operating income, which is consistent with Hancock's entire operating history.

The decrease in Hancock's operating income (loss) in 2023 of \$21,328 or 188% from 2022 was the result of the increase in operating expenses greater than the increase in operating revenues. Hancock increased gross charge rates by 5% for both 2023 and 2022, respectively. More importantly, Hancock's volumes increased during 2023. Total operating expenses increased \$72,022 or 12% in 2023 compared to 2022. The increase in operating expenses was the result of salaries and benefits, medical supplies and drugs, and purchased services and medical fees. These expenses increased due to growth in revenue and services provided, growth in full-time equivalents, increases in wage rates due to a competitive labor market, contracted staffing needs, and inflationary pressures.

The decrease in Hancock's operating income (loss) in 2022 of \$26,011 or 177% from 2021 was the result of the increase in operating expenses greater than the increase in operating revenues. Hancock increased gross charge rates by 5% for both 2022 and 2021, respectively. More importantly, Hancock's volumes increased during 2022. Total operating expenses increased \$55,657 or 11% in 2022 compared to 2021. The increase in operating expenses was the result of salaries and benefits, medical supplies and drugs, and purchased services and medical fees. These expenses increased due to growth in revenue and services provided, growth in full-time equivalents, increases in wage rates due to a competitive labor market, contracted staffing needs, and inflationary pressures.

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# HANCOCK HEALTH

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2023 AND 2022

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Hancock experienced statistical changes in the following areas as shown in Table 4:

Table 4: Statistics

Statistic	2023	2022	2023 - 2022	2021
			% Increase / <Decrease>	
Patient Days	14,012	15,184	-7.72%	14,152
Diagnostic Imaging Procedures	63,537	61,194	3.83%	69,817
Laboratory Procedures	399,998	386,353	3.53%	343,659
Pharmaceutical Medication Units	405,212	399,591	1.41%	379,718
Rehab Procedures	49,662	52,135	-4.74%	49,383
Home Health Units of Service	20,755	18,298	13.43%	14,346
Outpatient Clinic Procedures	5,586	5,985	-6.67%	5,797

Excluded from net patient service revenue are charges for patient service waived under Hancock's uncompensated care policy. Uncompensated care represents unreimbursed charges, both charity care and bad debt, incurred by Hancock in providing uncompensated care to patients. Based on established rates, gross charges of \$3,785 were waived during 2023. This is an increase compared to the previous year.

Hancock sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for Hancock when it was established in 1951. Because there is no expectation of repayment, charity care is not reported as patient service revenues of Hancock.

### NONOPERATING RESULTS

Nonoperating income (loss) is the result of changes in Hancock's investment return and other non-capital grants and contributions. Hancock recognized \$-0- in 2023 from COVID-19 grant revenue compared to \$3,168 in 2022. Hancock's nonoperating income (loss) increased in 2023 by \$26,054 from 2022 primarily due to positive investment return.

### GRANTS AND CONTRIBUTIONS

Other than the COVID-19 grant revenue, Hancock receives other operating grants from various state and federal agencies for specific programs. Operating grants recognized as revenue in 2023 totaled \$1,024 compared to \$724 in 2022. Some of the significant grants recognized as revenue by Hancock were:

- Tobacco Cessation – From Indiana State Department of Health for prevention of tobacco use
- Rural Health Clinic – Knightstown from Indiana State Department of Health for rural health clinic operations in Knightstown
- Critical Needs Expansion – From Hancock Regional Hospital Foundation
- Women's Health Center – From Hancock Regional Hospital Foundation
- New Cancer Center Service line – From Hancock Regional Hospital Foundation
- Justice Navigation – From Hancock County

# HANCOCK HEALTH

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2023 AND 2022

### HANCOCK'S CASH FLOWS

Changes in Hancock's cash flows are consistent with changes in operating income (loss) and nonoperating income (loss) as discussed earlier. Table 5 is a summary of cash flows:

Table 5: Statements of Cash Flows

	2023	2022	2023 - 2022 \$ Change	2021
Net cash flows from				
Operating activities	\$ (14,750)	\$ 11,344	\$ (26,094)	\$ 7,849
Noncapital financing activities	4,086	15,463	(11,377)	7,763
Capital and related financing activities	(30,413)	(26,160)	(4,253)	(23,907)
Investing activities	25,572	(8,258)	33,830	(6,892)
Change in cash and cash equivalents	<u>\$ (15,505)</u>	<u>\$ (7,611)</u>	<u>\$ (7,894)</u>	<u>\$ (15,187)</u>

### CAPITAL ASSETS

During 2023, Hancock's net capital assets increased by approximately \$8,385. This compares to an increase of approximately \$5,715 for 2022 compared to 2021. The increases in 2023 and 2022 were due to construction projects to expand Hancock's operations in Hancock County. The change in capital assets is outlined in Table 6:

Table 6: Capital Assets

	2023	2022	2023 - 2022 \$ Change	2021
Non-depreciable capital assets	\$ 19,115	\$ 13,593	\$ 5,522	\$ 3,890
Depreciable capital assets, net	362,172	335,673	26,499	322,204
Intangible right-to-use assets, net	2,247	2,247	-0-	898
	<u>383,534</u>	<u>351,513</u>	<u>32,021</u>	<u>326,992</u>
Accumulated depreciation	(236,588)	(213,450)	(23,138)	(195,062)
Accumulated amortization	(1,491)	(993)	(498)	(575)
	<u>\$ 145,455</u>	<u>\$ 137,070</u>	<u>\$ 8,385</u>	<u>\$ 131,355</u>

Capital assets, net increased as additions exceeded disposals and depreciation. More detailed information about Hancock's capital assets is presented in the notes to the financial statements.

### DEBT

Hancock's debt consists of a note payable. Debt decreased \$230 in 2023 from 2022 and in 2022 from 2021 due to principal payments paid during 2023 and 2022. More detailed information about Hancock's long-term debt is presented in the notes to the financial statements.

# HANCOCK HEALTH

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2023 AND 2022

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### ECONOMIC FACTORS

Management believes that the health care industry's and Hancock's operating margins will continue to be under pressure due to a variety of factors including, but not limited to, uncertainty regarding health care reform, changes in payor and service mix, and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. In addition, the adoption of high-deductible health plans by employers continues to occur and patients are increasingly being held responsible for more of the cost of health care. Consequently, the health care marketplace has been increasingly more competitive. The ongoing challenge facing Hancock is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant factor affecting Hancock is finding balance in maintaining and controlling labor costs in the face of pressures on volume and pricing for its services in this increasingly competitive, retail-like environment.

### CONTACTING HANCOCK'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of Hancock's finances and to show Hancock's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hancock Chief Financial Officer's Office, 801 N State Street, Greenfield, IN 46140.

# HANCOCK HEALTH

## STATEMENTS OF NET POSITION DECEMBER 31, 2023 AND 2022

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	2023	2022
<b>Current assets</b>		
Cash and cash equivalents	\$ 37,067,213	\$ 52,572,014
Investments	4,735,562	4,009,620
Patient accounts receivable, net	70,120,772	67,401,617
Inventories and other current assets	38,189,659	28,793,369
Total current assets	<u>150,113,206</u>	<u>152,776,620</u>
<b>Assets whose use is limited</b>		
Board designated funds	123,285,242	112,023,032
Donor restricted funds	14,020,698	12,581,097
Total assets whose use is limited	<u>137,305,940</u>	<u>124,604,129</u>
<b>Capital assets</b>		
Non-depreciable capital assets	19,115,436	13,592,727
Depreciable capital assets, net	125,582,874	122,223,039
Intangible right-to-use assets, net	756,912	1,254,061
Capital assets, net	<u>145,455,222</u>	<u>137,069,827</u>
<b>Other assets</b>	<u>22,886,823</u>	<u>36,671,796</u>
Total assets	<u>\$ 455,761,191</u>	<u>\$ 451,122,372</u>

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See accompanying notes to financial statements.

# HANCOCK HEALTH

## STATEMENTS OF NET POSITION DECEMBER 31, 2023 AND 2022

### LIABILITIES AND NET POSITION

	2023	2022
<b>Current liabilities</b>		
Accounts payable and other liabilities	\$ 93,545,646	\$ 85,561,836
Accrued salaries and related liabilities	11,378,482	7,873,654
Estimated third-party settlements	5,843,820	5,781,919
Current portion of long-term debt	230,004	230,004
Current portion of lease liabilities	396,119	492,010
Total current liabilities	111,394,071	99,939,423
<b>Long-term debt, net of current portion</b>	1,360,817	1,590,821
<b>Long-term lease liabilities, net of current portion</b>	388,867	784,987
Total liabilities	113,143,755	102,315,231
<b>Net position</b>		
Net investment in capital assets	143,079,415	133,972,005
Donor restricted expendable	14,020,698	12,581,097
Restricted nonexpendable	2,360,920	3,956,391
Unrestricted	183,156,403	198,297,648
Total net position	342,617,436	348,807,141
Total liabilities and net position	\$ 455,761,191	\$ 451,122,372

See accompanying notes to financial statements.

## HANCOCK HEALTH

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
<b>Operating revenue</b>		
Net patient service revenue	\$ 612,044,065	\$ 558,995,633
Other operating revenue	7,033,973	9,387,623
Total operating revenue	619,078,038	568,383,256
<b>Operating expenses</b>		
Salaries and wages	99,287,211	72,151,422
Employee benefits	22,013,051	16,286,889
Professional medical fees	3,939,647	3,326,733
Supplies and drugs	74,795,238	68,758,920
Purchased services	399,744,649	371,668,228
Utilities and insurance	14,224,509	12,532,568
Depreciation and amortization	19,688,856	18,939,957
Hospital assessment fee	9,554,026	8,604,969
Other	8,513,109	7,470,568
Total operating expenses	651,760,296	579,740,254
Operating loss	(32,682,258)	(11,356,998)
<b>Nonoperating income (loss)</b>		
Noncapital contributions	3,520,653	3,368,778
Other nonoperating income	515,688	8,886,499
COVID-19 grant revenue	-0-	3,168,468
Investment return (loss)	18,453,874	(18,985,638)
Total nonoperating income (loss)	22,490,215	(3,561,893)
Change in net position before other	(10,192,043)	(14,918,891)
<b>Other</b>		
Capital distributions - noncontrolling interest	(3,961,733)	(2,223,617)
Transfers	7,964,071	-0-
Change in net position	(6,189,705)	(17,142,508)
<b>Net position</b>		
Beginning of year	348,807,141	365,949,649
End of year	\$ 342,617,436	\$ 348,807,141

See accompanying notes to financial statements.



# HANCOCK HEALTH

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
<b>Operating activities</b>		
Cash received from patients and third party payors	\$ 610,711,469	\$ 553,522,836
Cash paid to employees for wages and benefits	(120,387,227)	(87,812,909)
Cash paid to vendors for goods and services	(512,108,114)	(463,753,887)
Other operating receipts	7,033,973	9,387,623
Net cash from operating activities	(14,749,899)	11,343,663
<b>Noncapital financing activities</b>		
Noncapital contributions	3,520,653	3,368,778
Other nonoperating	565,515	8,925,924
COVID-19 grant funds	-0-	3,168,468
Net cash from noncapital financing activities	4,086,168	15,463,170
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(25,679,081)	(23,260,964)
Principal payments on long-term debt	(230,004)	(230,004)
Principal payments on lease liabilities	(492,011)	(405,816)
Interest paid on lease liabilities	(49,827)	(39,425)
Capital distributions - noncontrolling interest	(3,961,733)	(2,223,617)
Net cash from capital and related financing activities	(30,412,656)	(26,159,826)
<b>Investing activities</b>		
Other assets	13,784,973	(2,230,262)
Transfer of cash from the Network	6,760,492	-0-
Investment return (loss)	18,453,874	(18,985,638)
Other changes in assets whose use is limited, net	(13,427,753)	12,958,191
Net cash from investing activities	25,571,586	(8,257,709)
Net change in cash and cash equivalents	(15,504,801)	(7,610,702)
<b>Cash and cash equivalents</b>		
Beginning of year	52,572,014	60,182,716
End of year	\$ 37,067,213	\$ 52,572,014

See accompanying notes to financial statements.

## HANCOCK HEALTH

### STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
<b>Reconciliation of operating loss to net cash from operating activities</b>		
Operating loss	\$ (32,682,258)	\$ (11,356,998)
Adjustment to reconcile operating income to net cash from operating activities		
Depreciation and amortization	19,688,856	18,939,957
Bad debts	10,288,721	13,183,472
Changes in assets and liabilities		
Patient accounts receivable	(11,683,218)	(18,291,768)
Other current assets	(7,841,648)	1,174,011
Accounts payable and other liabilities	6,504,712	7,434,088
Accrued salaries and related liabilities	913,035	625,402
Refundable advances	-0-	(47,400)
Estimated third-party settlements	61,901	(317,101)
Net cash from operating activities	\$ (14,749,899)	\$ 11,343,663
<b>Reconciliation of cash and cash equivalents to the statements of net position</b>		
Cash and cash equivalents:		
In current assets	\$ 37,067,213	\$ 52,572,014
<b>Supplementary disclosure of cash flows information</b>		
Acquisition and construction of capital assets		
in accounts payable and other liabilities	\$ 88,702	\$ 45,270
Capital assets acquired with leases	\$ -0-	\$ 1,349,048
Capital assets transferred from the Network	\$ 2,306,468	\$ -0-

See accompanying notes to financial statements.

# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

Hancock Regional Hospital, doing business as Hancock Health (Hospital), is an acute-care hospital located in Greenfield, Indiana, organized for the purpose of providing healthcare services to the residents of Hancock County and the surrounding communities. Hospital also provides long-term healthcare services. Hospital is a county owned facility operated under the Indiana County Hospital Law, Indiana Code 16-22. The Board of County Commissioners of Hancock County appoints the Governing Board of Hospital and a financial benefit/burden relationship exists between Hancock County and Hospital. For these reasons, Hospital is considered a component unit of Hancock County.

Pursuant to the provision of long-term care, Hospital owns the operations of several long-term care facilities by way of an arrangement with the managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operations of the long-term care facilities are the property of Hospital and Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers shall be on behalf of Hospital and Hospital retains the authority and legal responsibility for the operations of the facilities.

Specifically, Hospital entered into lease agreements with the long-term care facilities to lease the facilities managed by their managers. Concurrently, Hospital entered into agreements with the managers to manage the leased facilities. As part of the agreements, Hospital will pay the managers a management fee to continue managing the facilities on behalf of Hospital in accordance with the terms of the agreements. The agreements expire at various times and are generally automatically extended for successive terms unless appropriately terminated. All parties involved can terminate the agreement without cause with a written notice.

Accounting principles generally accepted in the United States of America require that these financial statements present Hospital and its blended component units. The component units discussed below are included in Hospital's reporting entity because of the significance of their operation or financial relationship with Hospital. A blended component unit, although a legally separate entity is in substance part of the primary government unit's operations and exists solely or primarily to provide services to or for Hospital.

#### Blended Component Units

The accompanying financial statements include the accounts of the blended component units:

- Hancock Regional Hospital Foundation, Inc. (Foundation) was formed to support the operations of Hospital.
- Hancock Physician Network, LLC (Network) was formed for the purpose providing physician patient services to the community. Network owns and manages physician practices. Physician practices include but are not limited to: pediatrics, family practice, internal medicine, and mental health. Prior to January 1, 2023, Hospital owned 50% of Network. Effective January 1, 2023, Hospital acquired the remaining 50% of Network and became the 100% owner of Network. See Note 2.

# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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- Hancock Health Gateway Services, Inc. (Gateway) was formed for the purpose of owning and operating a multi-purpose facility that provides first-class immediate care and high-value, affordable lab and imaging services. Hospital's membership interest in Gateway is 100%.
- Suburban Hospice, Inc. (Hospice) was formed for the purpose of owning and operating an inpatient facility that provides high-quality, compassionate end of life care services for terminally ill patients. Hospital's membership interest in Hospice is 100%.
- Hancock Regional Surgery Center, LLC (Surgery) was formed for the purpose of owning and operating a multi-specialty ambulatory surgery facility that provides the medical, management and administrative support necessary for licensed physicians to perform non-emergency surgical procedures on an outpatient basis. Hospital's membership interest in Surgery is 71% as of December 31, 2023. Hospital maintains substantial participation in the operations of Surgery in addition to an economic interest in Surgery's financial position.

All significant intercompany transactions have been eliminated for financial reporting purposes. The separate financial statements for each of the entities discussed may be obtained through contacting management of Hospital. All entities contained in the financial statements are collectively referred to as "Hancock".

### Use of Estimates

The preparation of 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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Measurement Focus and Basis of Accounting

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

### Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid assets with maturity dates of 90 days or less when purchased. Hancock maintains its cash in accounts, which at times, may exceed federally insured limits. Hancock has not experienced any losses in such accounts. Hancock believes that it is not exposed to any significant credit risk on cash and cash equivalents.

### Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. Management estimates an allowance for doubtful accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to Hancock's customer base.

Hancock has agreements with third-party payors that provide for payments to Hancock at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge,

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## HANCOCK HEALTH

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. A summary of the payment arrangements with major third-party payors follows.

Hancock is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). Hancock is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG).

Hancock is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At Hancock's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

These programs have audited the year-end cost report filed with the Medicare program through 2020. There were no significant differences reflected as deductions from revenue during 2023 and 2022. Amounts for unresolved cost reports for 2021 through 2023 are reflected in estimated third-party settlements on the statements of net position.

Hancock participates in the Indiana Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in Hospital Assessment Fee reported in the statements of revenues, expenses and changes in net position. Previously, the State's share was funded by governmental entities through intergovernmental transfers.

The Medicaid enhanced payments relate to both fee for service and managed care claims. Under the HAF Program, the enhanced Medicaid payments follow the patients and are realized through increased Medicaid rates. During 2023 and 2022, Hancock recognized HAF Program expense of approximately \$9,554,000 and \$8,605,000, respectively. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the statements of revenues, expenses and changes in net position.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Hancock recognized revenue related to the Medicaid Disproportionate Share Hospital and the Upper Payment Limitation programs of approximately \$2,282,000 for the years ended December 31, 2023 and 2022. These amounts are reimbursements for providing care to the uninsured and underinsured and are included in net patient service revenue within the statements of revenues, expenses and changes in net position.

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

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# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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### Charity Care

Hancock provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because Hancock does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue.

Of Hancock's total expenses (excluding subsidiaries and long-term care operations) reported within the statements of revenues, expenses and changes in net position, an estimated \$1,317,000 and \$1,249,000 arose from providing services to charity patients during 2023 and 2022, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on Hancock's total expenses divided by gross patient service revenue.

### Inventories and Other Current Assets

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventory at year-end consists mainly of pharmaceuticals and medical supplies. Other current assets consist of prepaid expenses and various other items. These assets are classified as current as they are expected to be utilized during 2024.

### Assets Whose Use is Limited and Investments

Assets whose use is limited include investments designated by Hospital's Board of Trustees for internal purposes, investments and other assets restricted by donors for a specific purpose and investments held by trustees for debt service and continued construction projects. Assets whose use is limited and investments consist of money market funds, common stocks and mutual funds that are reported at fair value. Assets whose use is limited and investments also consist of certificates of deposit which are recorded at contract value. Interest, dividends, and gains and losses, both realized and unrealized, are included in nonoperating income (loss) when earned.

### Capital Assets

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities, which exceed \$1,000 and meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred. Hancock provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The ranges of useful lives in computing depreciation include the following:

Description	Range of Useful Lives
Land improvements	8-15 years
Buildings and improvements	5-40 years
Equipment	3-20 years

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# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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Intangible right-of use assets are recognized on the lease commencement date in an amount that represents the present value of the future lease payments over the lease term. Intangible right-to-use assets are amortized over the term of the current lease.

### Other Assets

Other assets primarily consist of investments in other entities and land held for investment and future use.

### Income Taxes

Hospital is a governmental instrumentality organized under Title 16, Article 22, of the Indiana statues and, accordingly, is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

Foundation, Gateway and Hospice are organized as not-for-profit corporations as described in Section 501(c)(3) of the IRC and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the IRC. However, Foundation, Gateway and Hospice are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. Surgery and Network are organized as limited liability companies, whereby net taxable income is taxed directly to the members of the limited liability company. Thus, the financial statements do not include any provision for federal or state income taxes related to Surgery or Network.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Hancock and recognize a tax liability if Hancock has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by Hancock and has concluded that as of December 31, 2023 and 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. Hancock is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

These entities have filed their federal and state income tax returns for periods through their most recent fiscal year ends. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

### Advertising and Community Relations

Hancock records advertising and promotion expense in the period incurred. Total expense for advertising and promotion was approximately \$5,673,000 and \$6,534,000 for 2023 and 2022, respectively.

### Compensated Absences

Hancock's employees earn time off at varying rates depending on years of service. The estimated amount of unused earned time off is reported as a liability in financial statements.

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# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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### Net Position

The net position of Hancock is classified in four components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Donor restricted net position includes donations to the Foundation that have been restricted by donors for a specific purpose. Generally, these donations are for Hospital operating expenses or additions to Hospital capital assets. Transfers are made to unrestricted funds as expenditures are made in accordance with the donor restrictions. Restricted nonexpendable net position includes the noncontrolling interests owned by external investors. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

### Operating Revenues and Expenses

Hancock's statements of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services which is Hancock's principal activity. Contributions, investment income, fund development costs and certain other non-healthcare activities are reported as nonoperating income (loss). Operating expenses are all expenses incurred to provide health care services, other than financing costs. Transactions with Hancock County and external investors are shown below nonoperating income (loss).

### Grants and Contributions

From time to time, Hancock receives contributions from government agencies, individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operation purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating income (loss). Amounts restricted to capital acquisitions are reported after nonoperating income (loss). Grants are recognized to the extent that Hancock meets the terms and conditions of the grant. To the extent Hancock has not met the terms and conditions of the grant, amounts are recorded as refundable advances within the statements of net position.

### Restricted Resources

When Hancock has both restricted and unrestricted resources available to finance a particular program, it is Hancock's policy to use restricted resources before unrestricted resources.

### Litigation

Hancock is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Hancock's future financial position, results from operations, and cash flows.



# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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### Risk Management

Hancock is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

### Accounting for Noncontrolling Interest

Hancock has classified the noncontrolling interest as a component of restricted nonexpendable net position in the statements of net position. Noncontrolling interests represent the portion of the net position that is attributable to investors that are external to and not included in Hancock's financial statements.

### Subsequent Events

Hancock evaluated events or transactions occurring subsequent to the statement of net position date for recognition and disclosure in the accompanying financial statements through the date the financial statements were available to be issued which is October 3, 2024.

## **2. TRANSFER OF OPERATIONS**

Effective January 1, 2023, a transfer of operations occurred as Hospital assumed the remaining 50% ownership in Network. The transfer of operations allows Hospital to control the activity and future operations of Network while presenting viable options for growth. Consideration for the transfer of operations was insignificant, cash of \$1. Hancock recognized a transfer of operations of approximately \$7,964,000, included within transfers in the statements of revenues, expenses and changes in net position. The following table represents transferred assets, liabilities, and net position of Network to Hospital:

Current assets	
Cash and cash equivalents	\$ 6,760,492
Patient accounts receivable, net	1,324,658
Other receivables	1,207,462
Prepaid expenses	347,180
Total current assets	<u>9,639,792</u>
Capital assets, net	<u>2,306,468</u>
Total assets	<u>11,946,260</u>
Current liabilities	
Accounts payable and other liabilities	1,390,396
Accrued salaries and related liabilities	2,591,793
Total liabilities	<u>3,982,189</u>
Net position	
Net investment in capital assets	2,306,468
Unrestricted	5,657,603
Total net position	<u>\$ 7,964,071</u>

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## HANCOCK HEALTH

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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#### 3. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

The following represents assets whose use is limited and investments as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Board designated funds	\$ 123,285,242	\$ 112,023,032
Donor restricted funds	<u>14,020,698</u>	<u>12,581,097</u>
Total assets whose use is limited	137,305,940	124,604,129
Investments	<u>4,735,562</u>	<u>4,009,620</u>
	<u>\$ 142,041,502</u>	<u>\$ 128,613,749</u>

*Board Designated Funds:* Hancock funds depreciation expense to meet the capital equipment needs of the facility. Depreciation is funded totally, with expenditures for capital equipment and debt principal payments reducing the funded depreciation balance. Hancock designates other investments to fund specific projects. All interest earned by the funded depreciation and other board designated investment accounts are left to accumulate as an addition to the funds.

*Donor Restricted Funds:* Hancock has assets, which have been donated for a specific purpose.

The following represents the makeup of assets whose use is limited and investments as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Money market funds	\$ 2,881,700	\$ 5,544,466
Certificates of deposit	1,488,039	494,665
US Government securities	-0-	5,196,337
Common stocks	4,631,996	4,776,320
Mutual funds - equities	86,707,423	69,109,541
Mutual funds - fixed income	<u>46,332,344</u>	<u>43,492,420</u>
	<u>\$ 142,041,502</u>	<u>\$ 128,613,749</u>

#### 4. DEPOSITS AND INVESTMENTS

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

Investments and assets whose use is limited are carried at fair market value except for certificates of deposit, which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. As of December 31, 2023 and 2022, Hancock had the following investments and maturities, all of which were held in Hancock's name by custodial financial institutions that are agents of Hancock.

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## HANCOCK HEALTH

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

December 31, 2023					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Money market funds	\$ 2,881,700	\$ 2,881,700	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	1,488,039	1,488,039	-0-	-0-	-0-
Common stocks	4,631,996	4,631,996	-0-	-0-	-0-
Mutual funds - equities	86,707,423	86,707,423	-0-	-0-	-0-
Mutual funds - fixed income	46,332,344	46,332,344	-0-	-0-	-0-
	<u>\$ 142,041,502</u>	<u>\$ 142,041,502</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
December 31, 2022					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Money market funds	\$ 5,544,466	\$ 5,544,466	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	494,665	494,665	-0-	-0-	-0-
US Government securities	5,196,337	5,196,337	-0-	-0-	-0-
Common stocks	4,776,320	4,776,320	-0-	-0-	-0-
Mutual funds - equities	69,109,541	69,109,541	-0-	-0-	-0-
Mutual funds - fixed income	43,492,420	43,492,420	-0-	-0-	-0-
	<u>\$ 128,613,749</u>	<u>\$ 128,613,749</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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

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

*Concentration of credit risk* - Hancock places no limit on the amount it may invest in any one issuer. Hancock maintains its investments, which at times may exceed federally insured limits. Hancock has not experienced any losses in such accounts. Hancock believes that it is not exposed to any significant credit risk on investments. Hancock does have a formal policy regarding credit and concentration of credit risks.

# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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Deposits and investments consist of the following as of December 31, 2023 and 2022:

	2023	2022
Carrying amount		
Deposits	\$ 37,067,213	\$ 52,572,014
Investments	142,041,502	128,613,749
	<u>\$ 179,108,715</u>	<u>\$ 181,185,763</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 37,067,213	\$ 52,572,014
Investments	4,735,562	4,009,620
Board designated funds	123,285,242	112,023,032
Donor restricted funds	14,020,698	12,581,097
	<u>\$ 179,108,715</u>	<u>\$ 181,185,763</u>

### 5. FAIR VALUE MEASUREMENTS

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

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Hancock's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels during 2023 and 2022. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2023 and 2022.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by Hancock are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by Hancock are deemed to be actively traded.

# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

The following table set forth by level, within the hierarchy, Hancock's assets and liabilities measured at fair value on a recurring basis as of December 31, 2023.

	December 31, 2023			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments and assets whose use is limited				
Mutual funds - equities				
Large blend	\$ 39,639,912	\$ 39,639,912	\$ -0-	\$ -0-
Large growth	32,277,286	32,277,286	-0-	-0-
Large value	10,900,658	10,900,658	-0-	-0-
Medium blend	1,640,947	1,640,947	-0-	-0-
Medium growth	628,878	628,878	-0-	-0-
Medium value	642,049	642,049	-0-	-0-
Small blend	459,158	459,158	-0-	-0-
Small growth	518,535	518,535	-0-	-0-
Total mutual funds - equities	86,707,423	86,707,423	-0-	-0-
Mutual funds - fixed income				
Intermediate-term bond	41,988,642	41,988,642	-0-	-0-
Short-term bond	4,343,702	4,343,702	-0-	-0-
Total mutual funds - fixed income	46,332,344	46,332,344	-0-	-0-
Common stocks				
Consumer goods	771,758	771,758	-0-	-0-
Financial	286,148	286,148	-0-	-0-
Healthcare	769,815	769,815	-0-	-0-
Industrials	229,968	229,968	-0-	-0-
Services	470,286	470,286	-0-	-0-
Technology	1,737,360	1,737,360	-0-	-0-
Utilities	217,414	217,414	-0-	-0-
Other	149,247	149,247	-0-	-0-
Total common stocks	4,631,996	4,631,996	-0-	-0-
Money market funds	2,881,700	-0-	2,881,700	-0-
		\$ 137,671,763	\$ 2,881,700	\$ -0-
Certificates of deposit *	1,488,039			
	\$ 142,041,502			

# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

The following table set forth by level, within the hierarchy, Hancock's assets and liabilities measured at fair value on a recurring basis as of December 31, 2022.

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments and assets whose use is limited				
Mutual funds - equities				
Large blend	\$ 34,240,756	\$ 34,240,756	\$ -0-	\$ -0-
Large growth	19,561,553	19,561,553	-0-	-0-
Large value	11,395,576	11,395,576	-0-	-0-
Medium blend	1,853,569	1,853,569	-0-	-0-
Medium growth	639,069	639,069	-0-	-0-
Medium value	552,839	552,839	-0-	-0-
Small blend	442,550	442,550	-0-	-0-
Small growth	423,629	423,629	-0-	-0-
Total mutual funds - equities	69,109,541	69,109,541	-0-	-0-
Mutual funds - fixed income				
Intermediate-term bond	37,152,814	37,152,814	-0-	-0-
Short-term bond	6,339,606	6,339,606	-0-	-0-
Total mutual funds - fixed income	43,492,420	43,492,420	-0-	-0-
Common stocks				
Consumer goods	673,826	673,826	-0-	-0-
Financial	177,055	177,055	-0-	-0-
Healthcare	884,312	884,312	-0-	-0-
Services	509,848	509,848	-0-	-0-
Technology	1,655,873	1,655,873	-0-	-0-
Utilities	337,690	337,690	-0-	-0-
Other	537,716	537,716	-0-	-0-
Total common stocks	4,776,320	4,776,320	-0-	-0-
US Government Securities				
Federal home loan mortgage	4,949,052	-0-	4,949,052	-0-
Treasury bills	247,285	-0-	247,285	-0-
Total US Government securities	5,196,337	-0-	5,196,337	-0-
Money market funds	5,544,466	-0-	5,544,466	-0-
		\$ 117,378,281	\$ 10,740,803	\$ -0-
Certificates of deposit *	494,665			
	\$ 128,613,749			

\* Certificates of deposit are reported at contract value

## HANCOCK HEALTH

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

#### 6. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities as of December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 43,715,981	\$ 42,359,709
Receivable from Medicare	42,945,855	33,764,535
Receivable from Medicaid	11,279,921	8,910,719
Receivable from long-term care operations	45,165,155	46,157,117
Total patient accounts receivable	<u>143,106,912</u>	<u>131,192,080</u>
Less contractual allowances	(57,101,742)	(46,385,760)
Less allowance for uncollectible amounts	(15,884,398)	(17,404,703)
Patient accounts receivable, net	<u>\$ 70,120,772</u>	<u>\$ 67,401,617</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	\$ 11,378,482	\$ 7,873,654
Payable to suppliers and other accrued expenses	93,545,646	85,561,836
Total accounts payable and accrued expenses	<u>\$ 104,924,128</u>	<u>\$ 93,435,490</u>

#### 7. INVESTMENTS IN AFFILIATES

Prior to January 1, 2023, Hospital owned 50% of Network and had recorded the investment on the equity method of accounting in the amount of approximately \$3,982,000 as of December 31, 2022. This investment was included within other assets in the financial statements. Hospital paid Network approximately \$3,073,000 during 2022 for management and other operating expenses. Hospital received approximately \$5,009,000 during 2022 from Network for rental, housecleaning and related income. Hospital contributed capital of approximately \$7,827,000 to Network during 2022. Hospital had a receivable from Network of approximately \$556,000 as of December 31, 2022. Hospital had a payable to Network of approximately \$960,000 as of December 31, 2022.

Hospital owns 50% of a Physician Hospital Organization (PHO), approximately 30% of Suburban Home Health, LLC, and approximately 49% of Parkway, LLC. Hospital has recorded these investments in affiliates on the equity method of accounting within other assets in the financial statements. Hospital also owns 2% of St. Vincent Heart Center of Indiana, Inc. The separate financial statements for each of the entities above may be obtained through contacting management of Hospital.

# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

### 8. CAPITAL ASSETS

A summary of capital assets including assets under leases for 2023 and restated 2022 follows. Additionally, the December 31, 2020 balances are restated:

	December 31, 2022	Additions	Retirements	Transfers	December 31, 2023
<b>Non-depreciable capital assets</b>					
Land	\$ 2,494,664	\$ -0-	\$ -0-	\$ -0-	\$ 2,494,664
Construction in progress	11,098,063	5,427,285	-0-	95,424	16,620,772
Total non-depreciable capital assets	13,592,727	5,427,285	-0-	95,424	19,115,436
<b>Depreciable capital assets</b>					
Land improvements	27,178,872	64,987	-0-	-0-	27,243,859
Buildings and improvements	177,901,026	8,620,834	-0-	3,787,621	190,309,481
Equipment	130,593,057	11,654,677	(665,643)	3,036,740	144,618,831
Total depreciable capital assets	335,672,955	20,340,498	(665,643)	6,824,361	362,172,171
<b>Accumulated depreciation</b>					
Land improvements	(16,293,644)	(3,498,926)	-0-	-0-	(19,792,570)
Buildings and improvements	(102,754,647)	(6,229,848)	-0-	(2,459,986)	(111,444,481)
Equipment	(94,401,625)	(9,462,933)	665,643	(2,153,331)	(105,352,246)
Total accumulated depreciation	(213,449,916)	(19,191,707)	665,643	(4,613,317)	(236,589,297)
Total depreciable capital assets, net	122,223,039	1,148,791	-0-	2,211,044	125,582,874
<b>Intangible right-to-use assets</b>					
Leased equipment	2,247,438	-0-	-0-	-0-	2,247,438
<b>Accumulated amortization</b>					
Leased equipment	(993,377)	(497,149)	-0-	-0-	(1,490,526)
Total intangible right-to-use assets, net	1,254,061	(497,149)	-0-	-0-	756,912
Capital assets, net	\$ 137,069,827	\$ 6,078,927	\$ -0-	\$ 2,306,468	\$ 145,455,222
<b>December 31, 2021</b>					
	December 31, 2021	Additions	Retirements	Transfers	December 31, 2022
<b>Non-depreciable capital assets</b>					
Land	\$ 2,494,664	\$ -0-	\$ -0-	\$ -0-	\$ 2,494,664
Construction in progress	1,395,400	9,702,663	-0-	-0-	11,098,063
Total non-depreciable capital assets	3,890,064	9,702,663	-0-	-0-	13,592,727
<b>Depreciable capital assets</b>					
Land improvements	26,453,388	725,484	-0-	-0-	27,178,872
Buildings and improvements	173,797,168	4,103,858	-0-	-0-	177,901,026
Equipment	121,952,518	8,774,229	(133,690)	-0-	130,593,057
Total depreciable capital assets	322,203,074	13,603,571	(133,690)	-0-	335,672,955
<b>Accumulated depreciation</b>					
Land improvements	(12,131,399)	(4,162,245)	-0-	-0-	(16,293,644)
Buildings and improvements	(96,193,342)	(6,561,305)	-0-	-0-	(102,754,647)
Equipment	(86,737,472)	(7,797,843)	133,690	-0-	(94,401,625)
Total accumulated depreciation	(195,062,213)	(18,521,393)	133,690	-0-	(213,449,916)
Total depreciable capital assets, net	127,140,861	(4,917,822)	-0-	-0-	122,223,039
<b>Intangible right-to-use assets</b>					
Leased equipment	898,390	1,349,048	-0-	-0-	2,247,438
<b>Accumulated amortization</b>					
Leased equipment	(574,813)	(418,564)	-0-	-0-	(993,377)
Total intangible right-to-use assets, net	323,577	930,484	-0-	-0-	1,254,061
Capital assets, net	\$ 131,354,502	\$ 5,715,325	\$ -0-	\$ -0-	\$ 137,069,827



# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

At December 31, 2023, Hancock has remaining commitments of approximately \$4,200,000 primarily for updates and renovations to immediate care department and McCordsville location, as well as general patient monitoring and medical equipment which are being financed internally.

### Intangible Right-to-Use Assets

As of December 31, 2023 and 2022, Hancock had five lease agreements in place for medical equipment. The values of the equipment intangible right-to-use assets are amortized over the lease terms including renewable periods Hancock are reasonably certain to exercise. The amortization periods extend through lease expiration which are 2024 through 2026. The terms of the lease agreements are addressed in Note 9.

### 9. LONG-TERM DEBT

During 2020, Hancock obtained a \$2,300,000 interest free note payable with a local institution related to utility infrastructure at the Gateway site. The note payable is due in monthly installments of \$19,167 through November 2030. The note payable is not secured and does not contain restrictive financial covenants. Hancock determined that imputed interest expense would be insignificant to the financial statements. The following represents a progression of long-term debt for Hancock for the years ended December 31, 2023 and 2022

	Balance December 31, 2022	Additional Borrowings	Payments	Balance December 31, 2023	Current Portion	Long-term Portion
Long-term debt						
Direct borrowings						
Gateway site note payable	\$ 1,820,825	\$ -0-	\$ (230,004)	\$ 1,590,821	\$ 230,004	\$ 1,360,817
	Balance December 31, 2021	Additional Borrowings	Payments	Balance December 31, 2022	Current Portion	Long-term Portion
Long-term debt						
Direct borrowings						
Gateway site note payable	\$ 2,050,829	\$ -0-	\$ (230,004)	\$ 1,820,825	\$ 230,004	\$ 1,590,821

Aggregate maturities of long-term debt are as follows:

Year ending December 31,	Principal
2024	\$ 230,004
2025	230,004
2026	230,004
2027	230,004
2028	230,004
2029-2030	440,801
	<u>\$ 1,590,821</u>

## HANCOCK HEALTH

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

#### 10. LEASE LIABILITIES

##### Equipment Leases

Hancock leases medical equipment under lease agreements that run from 2024 through 2026. The lease agreements have monthly payments range from approximately \$5,000 to \$12,000. The present value of each lease was determined using a discount rate based on Hancock's incremental borrowing rates ranging from 3.50% to 7.25%. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 7. The progressions for lease liabilities for 2023 and 2022 are as follows:

	December 31, 2022	Additions	Reductions	December 31, 2023	Current Portion	Long-term Portion
Lease liabilities						
Leased equipment	\$ 1,276,997	\$ -0-	\$ (492,011)	\$ 784,986	\$ 396,119	\$ 388,867

  

	December 31, 2021	Additions	Reductions	December 31, 2022	Current Portion	Long-term Portion
Lease liabilities						
Leased equipment	\$ 333,765	\$ 1,349,048	\$ (405,816)	\$ 1,276,997	\$ 492,010	\$ 784,987

There were no remeasurements of leases during 2023 and 2022. Scheduled principal and interest payments on lease liabilities for the years succeeding December 31, 2023 are as follows:

December 31,	Leased Equipment	
	Principal	Interest
2024	\$ 396,119	\$ 30,111
2025	247,459	14,010
2026	141,408	3,364
	<u>\$ 784,986</u>	<u>\$ 47,485</u>

#### 11. PATIENT SERVICE REVENUE

Patient service revenue for 2023 and 2022 consists of the following:

	2023	2022
Inpatient	\$ 81,049,442	\$ 75,912,985
Outpatient	576,342,363	490,065,188
Long-term care	405,864,995	380,883,460
Patient service revenue	1,063,256,800	946,861,633
Contractual allowance	437,139,112	371,312,587
Bad debts	10,288,721	13,183,472
Charity care	3,784,902	3,369,941
Deductions from revenue	451,212,735	387,866,000
Net patient service revenue	<u>\$ 612,044,065</u>	<u>\$ 558,995,633</u>

# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

### 12. PENSION PLANS

#### Plan Descriptions

Hancock Regional Hospital 403(b) Plan (HRH 403(b) Plan) and Hancock Regional Hospital Employee 457(b) Plan (HRH 457(b) Plan) are defined contribution pension plans, as authorized by Indiana Code 16-22-3-11, administered by Empower Annuity Insurance Company of America. Hancock Physician Network 403(b) Plan (HPN 403(b) Plan) is a defined contribution subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The plans cover all employees who meet eligibility requirements as to age and length of service. The plans provide retirement, disability, and death benefits to plan participants and beneficiaries. The HRH 403(b) Plan and HRH 457(b) Plan were established by written agreements between Hospital's Board of Trustees and the plan administrator. The HPN 403(b) Plan was established by written agreements between Network's Board of Directors and the plan administrator.

#### Funding Policies

The contribution requirements of plan participants are established by the written agreements between the those charged with governance defined above and the plan administrator. The contribution requirements of participants of the plans are established and can be amended by written agreement. HRH 403(b) Plan and HRH 457(b) Plan participants may contribute a portion of their annual covered salary. Hospital matches 50% of the participants' HRH 403(b) Plan contribution up to 4% of the participants' eligible wages. Hospital's matching contributions to the HRH 403(b) Plan for 2023 and 2022 were approximately \$3,027,000 and \$2,981,000, respectively. Hospital is not permitted to contribute to the 457(b) Plan. HPN 403(b) Plan participants may contribute a portion of their annual covered salary. Network matches 50% of the participants' HPN 403(b) Plan contribution up to 6% of the participants' eligible wages. Network's matching contributions to the HPN 403(b) Plan for 2023 was approximately \$519,000.

### 13. CONCENTRATION OF CREDIT RISK

Hancock is located in Greenfield, Indiana. Hancock grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The acute care mix of gross patient accounts receivable and gross revenue from patients and third-party payors at December 31 was as follows:

	Receivables		Revenue	
	2023	2022	2023	2022
Medicare	47%	39%	56%	54%
Medicaid	12%	10%	13%	12%
Commercial	23%	29%	28%	31%
Self pay and other	18%	22%	3%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The majority of the patient accounts receivable and related revenues from long-term care operations are concentrated in Medicare and Medicaid.

## HANCOCK HEALTH

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

#### 14. ACCOUNTING FOR NONCONTROLLING INTEREST

The following depicts the changes in net position attributable to the controlling financial interest of Hancock and the noncontrolling interest as of December 31, 2023 and 2022:

	Controlling interest	Noncontrolling interest	Total
Net position			
December 31, 2021	\$ 362,187,530	\$ 3,762,119	\$ 365,949,649
Change in net position before capital distributions	(17,336,780)	2,417,889	(14,918,891)
Capital distributions	-0-	(2,223,617)	(2,223,617)
Change in net position	(17,336,780)	194,272	(17,142,508)
December 31, 2022	344,850,750	3,956,391	348,807,141
Change in net position before capital distributions and transfers	(12,558,305)	2,366,262	(10,192,043)
Capital distributions	-0-	(3,961,733)	(3,961,733)
Transfers	7,964,071	-0-	7,964,071
Change in net position	(4,594,234)	(1,595,471)	(6,189,705)
December 31, 2023	\$ 340,256,516	\$ 2,360,920	\$ 342,617,436

#### 15. SELF-INSURED HEALTH CLAIMS

Hancock is self-insured for employee health claims. A third party administrator processes the claims for Hancock. Hancock maintains an estimated liability for the amount of claims incurred but not reported. Hancock maintains reinsurance including a stop loss for specific incident claims generally over \$300,000. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$11,836,000 and \$12,283,000 for 2023 and 2022, respectively.

Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Hancock has recorded the accrual for the unpaid claims estimate within accrued salaries and related liabilities on the financial statements. Changes in the accrual for unpaid claims for 2023 and 2022 are as follows:

	2023	2022
Unpaid claims estimate, beginning of year	\$ 824,763	\$ 691,101
Incurred claims and changes in estimates	11,835,780	12,283,118
Claims payments	(11,835,779)	(12,149,456)
Unpaid claims estimate, end of year	\$ 824,764	\$ 824,763

# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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### 16. COMMITMENTS AND CONTINGENCIES

#### Malpractice Insurance

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, Hancock has the option to purchase insurance for claims having occurred during its term but reported subsequently.

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,800,000 for an occurrence of malpractice. The Act requires Hancock to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 in the annual aggregate based on hospital bed size). The Act also requires Hancock to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon Hancock's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Hancock is a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund Hancock's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage.

### 17. COVID-19

During 2022 Provider Relief Fund (PRF) grants authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan Act (ARP) were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic primarily under Federal Assistance Listing Number (FALN) #93.498. Revenues from PRF grants can be recognized to the extent of expenses incurred specific to responding to the COVID-19 pandemic. Eligible expenses must not be reimbursed from another source and not obligated to be reimbursed from another source. PRF grants that are not fully expended on eligible expenses can then be applied to lost revenues as defined by the guidance issued by the grantor.

Hancock received PRF grants of approximately \$3,121,000 during 2022. PRF funds are subject to recoupment by the grantor in the event that the conditions for recognition are not satisfied. Hancock recognized PRF grants of approximately \$3,168,000 in 2022 which are included in COVID-19 grant revenue within nonoperating income (loss) in the statements of revenues, expenses and changes in net position. Amounts received prior to incurring qualifying expenditures or lost revenues are reported as refundable advances in the statements of net position. As of December 31, 2022, no amounts were recorded as refundable advances.

# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Under terms and conditions of PRF under the CARES and ARP Acts, Hancock is required to report COVID-19 related expenses and lost revenue to the U.S. Department of Health and Human Services (HHS). Guidance from HHS has required the reporting of the COVID-19 related expenses and lost revenue in certain reporting periods based on when the funds were received. HHS requires PRF amounts received during 2022 to be reported on the 2023 Schedule of Expenditures of Federal Awards (SEFA), rather than the 2022 SEFA.

### 18. BLENDED COMPONENT UNITS

Below is condensed, combining financial information of the blended component units as of and for the year ended December 31, 2023:

	2023					
	Foundation	Network	Gateway	Hospice	Surgery	Total
<b>Assets</b>						
Current assets	\$ 7,636,348	\$ 5,508,287	\$ 1,568,146	\$ 2,485,293	\$ 7,683,039	\$ 24,881,113
Capital assets	-0-	1,821,225	620,786	-0-	5,392,185	7,834,196
Assets whose use is limited	14,020,698	-0-	-0-	-0-	-0-	14,020,698
Total assets	<u>\$ 21,657,046</u>	<u>\$ 7,329,512</u>	<u>\$ 2,188,932</u>	<u>\$ 2,485,293</u>	<u>\$ 13,075,224</u>	<u>\$ 46,736,007</u>
<b>Liabilities</b>						
Accounts payable and other liabilities	\$ 389,776	\$ 3,742,053	\$ 9,189,501	\$ 2,510,394	\$ 892,737	\$ 16,724,461
Lease liabilities	-0-	-0-	-0-	-0-	4,720,895	4,720,895
Total liabilities	<u>389,776</u>	<u>3,742,053</u>	<u>9,189,501</u>	<u>2,510,394</u>	<u>5,613,632</u>	<u>21,445,356</u>
<b>Net position</b>						
Net investment in capital assets	-0-	1,821,225	620,786	-0-	671,290	3,113,301
Donor restricted expendable	14,020,698	-0-	-0-	-0-	-0-	14,020,698
Restricted nonexpendable	-0-	-0-	-0-	-0-	2,360,920	2,360,920
Unrestricted	7,246,572	1,766,234	(7,621,355)	(25,101)	4,429,382	5,795,732
Total net position	<u>21,267,270</u>	<u>3,587,459</u>	<u>(7,000,569)</u>	<u>(25,101)</u>	<u>7,461,592</u>	<u>25,290,651</u>
Total liabilities and net position	<u>\$ 21,657,046</u>	<u>\$ 7,329,512</u>	<u>\$ 2,188,932</u>	<u>\$ 2,485,293</u>	<u>\$ 13,075,224</u>	<u>\$ 46,736,007</u>
Operating revenues (patient and other)	\$ -0-	\$ 21,531,972	\$ 3,164,409	\$ 4,074,820	\$ 21,969,331	\$ 50,740,532
<b>Expenses</b>						
Depreciation	-0-	524,922	461,609	310	170,823	1,157,664
Other expenses	-0-	34,566,429	4,757,003	3,659,804	16,455,585	59,438,821
Total expenses	<u>-0-</u>	<u>35,091,351</u>	<u>5,218,612</u>	<u>3,660,114</u>	<u>16,626,408</u>	<u>60,596,485</u>
Operating income (loss)	-0-	(13,559,379)	(2,054,203)	414,706	5,342,923	(9,855,953)
Nonoperating income (loss), net	3,307,475	75,680	-0-	-0-	147,172	3,530,327
Capital distributions	-0-	-0-	-0-	-0-	(6,561,919)	(6,561,919)
Capital contributions	-0-	9,107,087	-0-	-0-	1,438,155	10,545,242
Transfers	-0-	7,964,071	-0-	-0-	-0-	7,964,071
Change in net position	3,307,475	3,587,459	(2,054,203)	414,706	366,331	5,621,768
Net position, beginning of year	17,959,795	-0-	(4,946,366)	(439,807)	7,095,261	19,668,883
Net position, end of year	<u>\$ 21,267,270</u>	<u>\$ 3,587,459</u>	<u>\$ (7,000,569)</u>	<u>\$ (25,101)</u>	<u>\$ 7,461,592</u>	<u>\$ 25,290,651</u>
<b>Net cash flows from</b>						
Operating activities	\$ -0-	\$ (13,034,457)	\$ (1,592,594)	\$ 415,016	\$ 5,513,746	\$ (8,698,289)
Noncapital financing activities	905,797	-0-	-0-	-0-	-0-	905,797
Capital and related financing activities	-0-	13,689,810	2,261,869	50,729	(4,843,765)	11,158,643
Investing activities	(1,346,843)	-0-	-0-	-0-	(147,172)	(1,494,015)
Total	<u>(441,046)</u>	<u>655,353</u>	<u>669,275</u>	<u>465,745</u>	<u>522,809</u>	<u>1,872,136</u>
<b>Cash and cash equivalents:</b>						
Beginning of year	1,673,408	-0-	450,535	1,586,923	4,592,491	8,303,357
End of year	<u>\$ 1,232,362</u>	<u>\$ 655,353</u>	<u>\$ 1,119,810</u>	<u>\$ 2,052,668</u>	<u>\$ 5,115,300</u>	<u>\$ 10,175,493</u>

# HANCOCK HEALTH

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Below is condensed, combining financial information of the blended component units as of and for the year ended December 31, 2022:

	2022				Total
	Foundation	Gateway	Hospice	Surgery	
<b>Assets</b>					
Current assets	\$ 5,926,640	\$ 859,257	\$ 1,910,861	\$ 7,288,673	\$ 15,985,431
Capital assets	-0-	1,082,395	-0-	5,389,526	6,471,921
Assets whose use is limited	12,581,097	-0-	-0-	-0-	12,581,097
Total assets	<u>\$ 18,507,737</u>	<u>\$ 1,941,652</u>	<u>\$ 1,910,861</u>	<u>\$ 12,678,199</u>	<u>\$ 35,038,449</u>
<b>Liabilities</b>					
Accounts payable and other liabilities	\$ 547,942	\$ 6,888,018	\$ 2,350,668	\$ 715,437	\$ 10,502,065
Lease liabilities	-0-	-0-	-0-	4,867,501	4,867,501
Total liabilities	547,942	6,888,018	2,350,668	5,582,938	15,369,566
<b>Net position</b>					
Net investment in capital assets	-0-	1,082,395	-0-	522,025	1,604,420
Donor restricted expendable	12,581,097	-0-	-0-	-0-	12,581,097
Restricted nonexpendable	-0-	-0-	-0-	3,956,391	3,956,391
Unrestricted	5,378,698	(6,028,761)	(439,807)	2,616,845	1,526,975
Total net position	<u>17,959,795</u>	<u>(4,946,366)</u>	<u>(439,807)</u>	<u>7,095,261</u>	<u>19,668,883</u>
Total liabilities and net position	<u>\$ 18,507,737</u>	<u>\$ 1,941,652</u>	<u>\$ 1,910,861</u>	<u>\$ 12,678,199</u>	<u>\$ 35,038,449</u>
Operating revenues (patient and other)	\$ -0-	\$ 2,705,965	\$ 3,398,206	\$ 19,633,679	\$ 25,737,850
<b>Expenses</b>					
Depreciation	-0-	538,101	2,237	145,439	685,777
Other expenses	-0-	4,694,014	2,976,921	14,757,586	22,428,521
Total expenses	-0-	5,232,115	2,979,158	14,903,025	23,114,298
Operating income (loss)	-0-	(2,526,150)	419,048	4,730,654	2,623,552
Nonoperating income, net	(1,931,528)	-0-	-0-	13,969	(1,917,559)
Capital distributions	-0-	-0-	-0-	(4,537,995)	(4,537,995)
Change in net position	(1,931,528)	(2,526,150)	419,048	206,628	(3,832,002)
Net position, beginning of year	19,891,323	(2,420,216)	(858,855)	6,888,633	23,500,885
Net position, end of year	<u>\$ 17,959,795</u>	<u>\$ (4,946,366)</u>	<u>\$ (439,807)</u>	<u>\$ 7,095,261</u>	<u>\$ 19,668,883</u>
<b>Net cash flows from</b>					
Operating activities	\$ -0-	\$ (1,988,049)	\$ 421,285	\$ 4,876,093	\$ 3,309,329
Noncapital financing activities	683,467	-0-	-0-	-0-	683,467
Capital and related financing activities	-0-	1,809,818	152,711	(5,470,806)	(3,508,277)
Investing activities	(1,082,854)	-0-	-0-	(13,969)	(1,096,823)
Total	(399,387)	(178,231)	573,996	(608,682)	(612,304)
<b>Cash and cash equivalents:</b>					
Beginning of year	2,072,795	628,766	1,012,927	5,201,173	8,915,661
End of year	<u>\$ 1,673,408</u>	<u>\$ 450,535</u>	<u>\$ 1,586,923</u>	<u>\$ 4,592,491</u>	<u>\$ 8,303,357</u>

The separate financial statements for each of the entities above may be obtained through contacting management of Hancock.

### 19. SUBSEQUENT EVENT

During 2024, Hancock entered into an asset purchase agreement to sell Suburban Hospice, Inc. to Suburban Health at Home, Inc. The sale encompasses various healthcare facilities and related assets located in Greenfield, Indiana. Hancock anticipates closing on the transaction during October 2024.



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

Board of Trustees  
 Hancock Health  
 Greenfield, Indiana

Report on Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hancock Health (Hancock), a component unit of Hancock County, which comprise the statement of net position as of December 31, 2023, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 3, 2024.

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Hancock's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.



Board of Trustees  
Hancock Health  
Greenfield, Indiana

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hancock’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

**Blue & Co., LLC**

Indianapolis, Indiana  
October 3, 2024



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**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
 ON INTERNAL CONTROL OVER COMPLIANCE AND SCHEDULE OF EXPENDITURES OF FEDERAL  
 AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees  
 Hancock Health  
 Greenfield, Indiana

Report on Compliance for Each Major Federal Program

*Opinion on Each Major Federal Program*

We have audited Hancock Health's (Hancock) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of Hancock's major federal programs for the year ended December 31, 2023. Hancock's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Hancock complied, in all material respects, with the compliance requirements referred to above is that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

*Basis for Opinion on Each Major Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Hancock and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of Hancock's compliance with the compliance requirements referred to above.

*Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Hancock's federal programs.

### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Hancock's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about Hancock's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Hancock's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Hancock's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Hancock's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Board of Trustees  
Hancock Health  
Greenfield, Indiana

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Hancock as of and for the year ended December 31, 2023 and have issued our report thereon dated October 3, 2024, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by the Uniform Guidance, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Blue & Co., LLC**

Indianapolis, Indiana  
October 3, 2024

**HANCOCK HEALTH**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2023

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<u>Grantor/Program</u>	<u>Grant ID Number</u>	<u>Federal Assistance Listing Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services COVID-19 - Provider Relief Fund	N/A	93.498	<u>\$ 3,121,368</u>

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See report on schedule of expenditures of federal awards as required by the Uniform Guidance on page 34.  
See notes to schedule of expenditures of federal awards on page 36.

# HANCOCK HEALTH

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2023

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### **1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of Hancock Health (Hancock) under programs of the federal government for the year ended December 31, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of Hancock, it is not intended to and does not present the financial position, changes in net position, or cash flows of Hancock.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Hancock has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

### **3. SUB-RECIPIENT PASS THROUGH**

There were no entities that received pass-through federal awards from Hancock during the year ended December 31, 2023.

### **4. PROVIDER RELIEF FUNDS**

Under terms and conditions of the Provider Relief Funds (PRF) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan (ARP) Act, Hancock is required to report COVID-19 related expenses and lost revenue to the U.S. Department of Health and Human Services (HHS). Guidance from HHS has required the reporting of the COVID-19 related expenses and lost revenue in certain reporting periods based on when the funds were received. The 2023 SEFA includes PRF of approximately \$3,121,000 which was received by Hancock between January 1, 2022 and December 31, 2022. HHS required these PRF amounts be reported on the 2023 SEFA rather than the 2022 SEFA. Hancock recognized approximately \$3,168,000 as revenue in its 2022 statement of revenues, expenses and changes in net position as the terms and conditions of the PRF grant were satisfied by Hancock during 2022. As of December 31, 2022, there was no refundable advance liability on the statement of net position.

### **5. FAIR MARKET VALUE OF DONATED PERSONAL PROTECTIVE EQUIPMENT (UNAUDTED)**

Hancock has determined that the fair value of donated personal protective equipment (PPE) received during 2023 was immaterial to the financial statements. The donated PPE was not considered for purposes of determining the threshold for Uniform Guidance determination of major programs and is not required to be audited as a major program.

# HANCOCK HEALTH

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED DECEMBER 31, 2023

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### Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

#### Federal Awards

Internal controls over major programs:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported as defined by Uniform Guidance [2 CFR 200.516(a)]?  yes  no

#### Identification of major programs:

<u>Federal Assistance Listing Number</u>	<u>Name of Federal Programs or Clusters</u>
93.498	U.S. Department of Health and Human Services COVID-19 - Provider Relief Fund

Dollar threshold used to distinguish between type A and B programs: \$ 750,000

Auditee qualified as low-risk auditee?  yes  no

### **Section II – Findings related to financial statements reported in accordance with Government Auditing Standards:**

No matters reported

### **Section III – Findings and questioned costs relating to Federal awards:**

No matters reported

### **Section IV – Summary schedule of prior audit findings:**

No matters reported

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