



FINANCIAL STATEMENTS

WITH

REQUIRED SUPPLEMENTARY INFORMATION

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019

CPAs / ADVISORS



HIGHPOINT HEALTH

TABLE OF CONTENTS DECEMBER 31, 2019

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management's Discussion and Analysis (Unaudited)	MDA - i
Financial Statements	
Balance Sheet	3
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	8
Required Supplementary Information	
Schedule of Changes in Net Pension Liability and Related Ratios	30
Schedule of Contributions	31
Supplementary Information	
Combining Balance Sheet – Total Hospital	32
Combining Statement of Revenues, Expenses and Changes in Net Position – Total Hospital	33



Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Highpoint Health
Lawrenceburg, Indiana

We have audited the accompanying financial statements of Highpoint Health (the Hospital), a component unit of Dearborn County, and its discretely presented component unit, Highpoint Health Foundation, Inc., (the Foundation), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Trustees
Highpoint Health
Lawrenceburg, Indiana

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Hospital as of December 31, 2019, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages MDA-i through MDA-vi, and the schedules of the pension plan information on pages 30 and 31 be presented to supplement the basic financial statements. Such information, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 32 and 33 is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual entities, 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 supplementary 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
November 4, 2020

REQUIRED SUPPLEMENTARY INFORMATION

HIGHPOINT HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019

This section of Highpoint Health's (the Hospital) annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance. This MD&A does include a discussion and analysis of the activities and results of the Hospital's blended component units, Health Services Corporation of Southeastern Indiana (HSC) and Rising Sun Medical Center (RSMC), and results of the discrete component unit, Highpoint Health Foundation, Inc. (the Foundation). Please read it in conjunction with the Hospital's financial statements that follow this MD&A.

Financial Highlights

- The Hospital's total assets and deferred outflows decreased approximately \$12,571,000 or 7.7% during 2019. Total liabilities and deferred inflows increased \$6,241,000 or 10.1% during 2019.
- Current assets and current liabilities increased approximately \$23,106,000 and \$29,139,000, respectively, over 2018 mainly from the reclassification of assets whose use is limited to current assets and long-term debt to current liabilities due to the expiration of a bond purchase agreement in 2020.
- The Hospital's net position decreased approximately \$18,812,000 or 18.6% in 2019.
- The Hospital reported an operating loss of approximately \$22,437,000 for 2019, representing a decrease of \$11,073,000 in comparison to the 2018 results.
- The Hospital added capital assets of approximately \$5,511,000 during 2019 while capital assets with a net book value of \$6,197,000 were disposed during the year. Additions and disposals combined with depreciation expense of \$5,215,000 resulted in capital assets decreasing \$5,901,000 from 2018.
- The Hospital's assets whose use is limited classified as current and noncurrent assets decreased approximately \$6,064,000 from 2018 as a result of unfavorable operations.
- The Hospital has agreements to lease the operations of multiple long-term care facilities. The Hospital recognized approximately \$36,113,000 and \$36,735,000 of patient service revenue related to long-term care during 2019 and 2018, respectively.

Using This Annual Report

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

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

HIGHPOINT HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019

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

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

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

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

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

Table 1 – Balance Sheets

Total assets and deferred outflows decreased approximately \$12,571,000 during 2019. The significant change in the Hospital's assets was in assets whose use is limited classified as current and noncurrent assets which decreased \$6,064,000 in 2019 compared to 2018 mainly due to unfavorable operations. As of December 31, 2019, the Hospital's net capital assets decreased \$5,901,000 as a result of disposals of capital assets combined with depreciation expense.

Total liabilities and deferred inflows increased approximately \$6,241,000 during 2019 mainly related to an increase in accounts payable from 2018 to 2019.

Net position decreased by approximately \$18,812,000 from 2018 to 2019 based on unfavorable operations resulting from a decrease in operating revenues and an increase in operating expenses between years.

HIGHPOINT HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019

	2019	2018	Change
Assets			
Current assets	\$ 82,300,449	\$ 59,194,622	\$ 23,105,827
Assets whose use is limited	26,320,756	56,691,464	(30,370,708)
Capital assets, net	35,689,255	41,590,209	(5,900,954)
Pension asset	2,655,476	426,458	2,229,018
Other assets	280,429	155,858	124,571
Total assets	147,246,365	158,058,611	(10,812,246)
Deferred outflows	3,080,782	4,839,058	(1,758,276)
Total assets and deferred outflows	<u>\$ 150,327,147</u>	<u>\$ 162,897,669</u>	<u>\$ (12,570,522)</u>
Liabilities			
Current liabilities	\$ 58,758,180	\$ 29,619,432	\$ 29,138,748
Long-term debt, net	5,301,874	28,753,531	(23,451,657)
Total liabilities	64,060,054	58,372,963	5,687,091
Deferred inflows	3,963,955	3,409,758	554,197
Total liabilities and deferred inflows	68,024,009	61,782,721	6,241,288
Net position			
Net investment in capital assets	4,696,883	11,452,769	(6,755,886)
Unrestricted	77,606,255	89,662,179	(12,055,924)
Total net position	82,303,138	101,114,948	(18,811,810)
Total liabilities, deferred inflows and net position	<u>\$ 150,327,147</u>	<u>\$ 162,897,669</u>	<u>\$ (12,570,522)</u>

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

The Hospital's performance in 2019 was unfavorable with a negative return on equity of 22.9% compared to a negative return in the prior year of 14.5%.

Total operating revenue decreased approximately \$5,754,000 as net patient service decreased \$5,617,000 in 2019 over 2018. Acute care services constituted the majority of the decrease in 2019.

Expenses increased by approximately \$5,319,000 between 2019 and 2018. While professional fees and contract services increased \$3,822,000 and depreciation decreased \$608,000.

HIGHPOINT HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019

Nonoperating revenues were approximately \$3,625,000 in 2019 compared to nonoperating expenses of \$3,265,000 in 2018. An increase in investment return of \$10,458,000 in 2019 over 2018 was offset by the loss associated with the Hospital's termination of its electronic health record conversion project of \$6,185,000 in 2019. Contributions were \$2,981,000 in 2019 compared to approximately \$165,000 in 2018 related to the Foundation's activity.

	2019	2018	Change
Operating revenues			
Net patient service revenue	\$ 156,955,486	\$ 162,572,408	\$ (5,616,922)
Other operating revenue	2,875,127	3,012,323	(137,196)
Total operating revenues	159,830,613	165,584,731	(5,754,118)
Operating expenses			
Salaries, wages and benefits	61,368,488	61,110,410	258,078
Professional fees and contract services	52,562,245	48,679,750	3,882,495
Supplies	19,534,920	18,804,661	730,259
Depreciation	5,215,074	5,822,722	(607,648)
Other	43,587,159	42,531,140	1,056,019
Total operating expenses	182,267,886	176,948,683	5,319,203
Operating loss	(22,437,273)	(11,363,952)	(11,073,321)
Nonoperating revenues (expenses)	3,625,463	(3,264,884)	6,890,347
Change in net position	(18,811,810)	(14,628,836)	(4,182,974)
Net position			
Beginning of year	101,114,948	115,743,784	(14,628,836)
End of year	<u>\$ 82,303,138</u>	<u>\$ 101,114,948</u>	<u>\$ (18,811,810)</u>

Table 3 – Statements 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, noncapital financing, capital and related financing and investing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balances during the reporting period?"

Total cash and cash equivalents decreased approximately \$6,443,000 in 2019. Operating activities decreased cash and cash equivalents by \$8,515,000 during 2019. Noncapital financing activities increased cash and cash equivalents by \$2,981,000 mainly due to contributions received during 2019. Capital and related financing decreased cash and cash equivalents by \$5,603,000 during 2019, mainly as the result of expenditures for property and equipment additions and debt service. Investing activities generated cash and cash equivalents of \$4,695,000 in 2019 as a result of investment activity.

HIGHPOINT HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019

The following is a summary of cash flows:

Cash flows data	2019	2018	Change
From operating activities	\$ (8,515,121)	\$ 5,398,617	\$ (13,913,738)
From noncapital financing activities	2,980,597	165,494	2,815,103
From capital and related financing activities	(5,603,270)	(3,579,872)	(2,023,398)
From investing activities	4,694,674	(3,882,595)	8,577,269
Change in cash and cash equivalents	<u>\$ (6,443,120)</u>	<u>\$ (1,898,356)</u>	<u>\$ (4,544,764)</u>

Capital Assets and Debt Administration

Capital Assets

The change in capital assets is outlined in the following table:

	2019	2018	Change
Land	\$ 1,408,112	\$ 1,408,112	\$ -0-
Land improvements	2,615,940	2,615,940	-0-
Buildings and improvements	75,034,198	74,554,397	479,801
Equipment	60,248,368	58,824,233	1,424,135
Construction in process	1,075,797	3,928,088	(2,852,291)
	<u>140,382,415</u>	<u>141,330,770</u>	<u>(948,355)</u>
Less accumulated depreciation	<u>104,693,160</u>	<u>99,740,561</u>	<u>4,952,599</u>
Capital assets, net	<u>\$ 35,689,255</u>	<u>\$ 41,590,209</u>	<u>\$ (5,900,954)</u>

During 2019, the Hospital invested approximately \$5,511,000 in capital assets while disposing of \$6,459,000 of capital assets. The majority of the disposals relate to the Hospital's termination of its electronic health record conversion project which was included in construction in process. Please refer to the notes to the financial statements for more detailed information on capital assets.

Debt Administration

The Hospital incurred additional debt during 2019 to fund certain capital expenditure projects. As a result, after principal payments, debt increased approximately \$855,000 in 2019 compared to 2018. More detailed information about the Hospital's debt is presented in the notes to the financial statements.

HIGHPOINT HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019

Economic Outlook

Subsequent to year end, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines.

Subsequent to year end, the Hospital amended its' defined benefit pension plan, Retirement Plan for Employees of Dearborn County Hospital (the Plan). Effective April 30, 2020, the Plan was frozen and no new benefit accruals were earned after this date. Employee who were not participants in the Plan as of April 30, 2020 are not be eligible to participate in the Plan.

Subsequent to year end, the Hospital entered into due diligence discussions regarding an asset acquisition agreement with Saint Elizabeth Medical Center, Inc. d/b/a Saint Elizabeth Healthcare (SEH). The asset acquisition agreement includes among other terms, conditions, and stipulations, SEH would acquire substantially all of the Hospital's assets and assume substantially all of the Hospital's liabilities, except for specific excluded assets and liabilities as identified in the asset acquisition agreement.

Management believes that the healthcare industry's and the Hospital's operating margins will continue to be under pressure as a result of COVID-19, the changes in payor mix and growth in operating expenses, that exceed any increases in contractually arranged and legally established payments received for services provided. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. This competitive market challenge will potentially be offset by the expected growth in the service area. The Hospital will still be faced with the challenge of providing quality services in an increasingly competitive environment, while at the same time managing costs. The Hospital will be affected by the increases in labor costs due to the competition for health care workers. The Hospital is also affected by the uncertainty of federal healthcare reform.

Contacting Hospital Management

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's financial condition. If you have any questions about this report, you may contact the Hospital's Administrative offices at 600 Wilson Creek Road, Lawrenceburg, Indiana 47025.

HIGHPOINT HEALTH

BALANCE SHEET DECEMBER 31, 2019

ASSETS AND DEFERRED OUTFLOWS

	Total Hospital	Foundation	Total Reporting Entity
Current assets			
Cash and cash equivalents	\$ 19,616,468	\$ 370,971	\$ 19,987,439
Patient accounts receivable, less allowance for uncollectible accounts of \$2,427,337	20,090,563	-0-	20,090,563
Inventory	1,409,098	-0-	1,409,098
Current portion of assets whose use is limited	25,690,498	-0-	25,690,498
Other current assets	15,122,851	-0-	15,122,851
Total current assets	81,929,478	370,971	82,300,449
Assets whose use is limited			
Internally designated, net of current portion	23,160,480	3,160,276	26,320,756
Capital assets			
Land	1,408,112	-0-	1,408,112
Depreciable capital assets	137,898,506	-0-	137,898,506
Construction in progress	1,075,797	-0-	1,075,797
	140,382,415	-0-	140,382,415
Less accumulated depreciation	104,693,160	-0-	104,693,160
Capital assets, net	35,689,255	-0-	35,689,255
Pension asset	2,655,476	-0-	2,655,476
Other assets	280,429	-0-	280,429
Total assets	143,715,118	3,531,247	147,246,365
Deferred outflows	3,080,782	-0-	3,080,782
Total assets and deferred outflows	\$ 146,795,900	\$ 3,531,247	\$ 150,327,147

See accompanying notes to financial statements.

HIGHPOINT HEALTH

BALANCE SHEET DECEMBER 31, 2019

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	Total Hospital	Foundation	Total Reporting Entity
Current liabilities			
Current portion of long-term debt	\$ 25,690,498	\$ -0-	\$ 25,690,498
Accounts payable	25,291,075	-0-	25,291,075
Accrued salaries, wages, and related liabilities	6,793,569	-0-	6,793,569
Estimated third-party payor settlements	983,038	-0-	983,038
Total current liabilities	58,758,180	-0-	58,758,180
Long-term debt, net of current portion	5,301,874	-0-	5,301,874
Total liabilities	64,060,054	-0-	64,060,054
Deferred inflows	3,963,955	-0-	3,963,955
Total liabilities and deferred inflows	68,024,009	-0-	68,024,009
Net position			
Net investment in capital assets	4,696,883	-0-	4,696,883
Unrestricted	74,075,008	3,531,247	77,606,255
Total net position	78,771,891	3,531,247	82,303,138
Total liabilities, deferred inflows and net position	\$ 146,795,900	\$ 3,531,247	\$ 150,327,147

See accompanying notes to financial statements.

HIGHPOINT HEALTH

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2019

	Total Hospital	Foundation	Total Reporting Entity
Operating revenues			
Net patient service revenue	\$ 156,955,486	\$ -0-	\$ 156,955,486
Other operating revenue	2,875,127	-0-	2,875,127
Total operating revenues	159,830,613	-0-	159,830,613
Operating expenses			
Salaries and wages	51,042,050	-0-	51,042,050
Employee benefits	10,326,438	-0-	10,326,438
Professional fees and contract services	52,562,245	-0-	52,562,245
Supplies	19,534,920	-0-	19,534,920
Insurance	1,281,667	-0-	1,281,667
Facility and equipment leases	8,761,567	-0-	8,761,567
Repairs and maintenance	2,887,096	-0-	2,887,096
Utilities	2,007,013	-0-	2,007,013
HAF and HIP programs	5,091,732	-0-	5,091,732
Depreciation	5,215,074	-0-	5,215,074
Other	23,558,084	-0-	23,558,084
Total operating expenses	182,267,886	-0-	182,267,886
Operating loss	(22,437,273)	-0-	(22,437,273)
Nonoperating revenues (expenses)			
Investment return	8,064,297	37,733	8,102,030
Interest expense	(946,970)	-0-	(946,970)
Contributions	-0-	2,980,597	2,980,597
Other	(6,227,696)	(282,498)	(6,510,194)
Total nonoperating revenues (expenses)	889,631	2,735,832	3,625,463
Change in net position	(21,547,642)	2,735,832	(18,811,810)
Net position			
Beginning of year	100,319,533	795,415	101,114,948
End of year	\$ 78,771,891	\$ 3,531,247	\$ 82,303,138

See accompanying notes to financial statements.

HIGHPOINT HEALTH

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2019

	Total Hospital	Foundation	Total Reporting Entity
Operating activities			
Cash received from patients and third-party payors	\$ 159,248,677	\$ -0-	\$ 159,248,677
Cash paid for employees' salaries, wages and benefits	(62,961,454)	-0-	(62,961,454)
Cash paid to vendors for goods and services	(107,677,471)	-0-	(107,677,471)
Other operating receipts, net	2,875,127	-0-	2,875,127
Net cash from operating activities	(8,515,121)	-0-	(8,515,121)
Noncapital financing activities			
Contributions	-0-	2,980,597	2,980,597
Capital and related financing activities			
Acquisition and construction of capital assets	(5,511,232)	-0-	(5,511,232)
Proceeds from issuance of long-term debt	2,668,918	-0-	2,668,918
Interest paid on debt	(946,970)	-0-	(946,970)
Principal payments on debt	(1,813,986)	-0-	(1,813,986)
Net cash from capital and related financing activities	(5,603,270)	-0-	(5,603,270)
Investing activities			
Investment income	8,064,297	37,733	8,102,030
Other nonoperating expenses	(30,584)	(282,498)	(313,082)
Purchase of investments	(1,634,708)	(1,459,566)	(3,094,274)
Net cash from investing activities	6,399,005	(1,704,331)	4,694,674
Net change in cash and cash equivalents	(7,719,386)	1,276,266	(6,443,120)
Cash and cash equivalents			
Beginning of year	29,073,035	691,686	29,764,721
End of year	\$ 21,353,649	\$ 1,967,952	\$ 23,321,601
Reconciliation of cash and cash equivalents to the balance sheet			
Cash and cash equivalents			
In current assets	\$ 19,616,468	\$ 370,971	\$ 19,987,439
In assets whose use is limited	1,737,181	1,596,981	3,334,162
Total cash and cash equivalents	\$ 21,353,649	\$ 1,967,952	\$ 23,321,601

See accompanying notes to financial statements.

HIGHPOINT HEALTH

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2019

	Total Hospital	Foundation	Total Reporting Entity
Reconciliation of operating loss to net cash from operating activities			
Operating loss	\$ (22,437,273)	\$ -0-	\$ (22,437,273)
Adjustments to reconcile operating loss to net cash from operating activities			
Depreciation	5,215,074	-0-	5,215,074
Provision for bad debts	5,189,806	-0-	5,189,806
Changes in operating assets and liabilities			
Patient accounts receivable	(3,075,227)	-0-	(3,075,227)
Inventory	116,553	-0-	116,553
Other current assets	(4,121,793)	-0-	(4,121,793)
Pension asset	(2,229,018)	-0-	(2,229,018)
Other assets	(154,171)	-0-	(154,171)
Deferred outflows	1,758,276	-0-	1,758,276
Accounts payable	9,853,791	-0-	9,853,791
Accrued salaries, wages, and related liabilities	636,052	-0-	636,052
Deferred inflows	554,197	-0-	554,197
Estimated third-party payor settlements	178,612	-0-	178,612
Net cash flows from operating activities	<u>\$ (8,515,121)</u>	<u>\$ -0-</u>	<u>\$ (8,515,121)</u>

See accompanying notes to financial statements.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

The financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital and its component units. They do not purport to, and do not, present the financial position of the County as of December 31, 2019 and the changes in its financial position or its cash flows for the year then ended.

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

Blended and Discrete Component Units

The accompanying financial statements include the accounts of the blended component units, Health Services Corporation of Southeastern Indiana (HSC) and Rising Sun Medical Center (RSMC). The Hospital appoints the majority of HSC's and RSMC's boards. In addition, there is a financial benefit/burden relationship between the Hospital and the blended component units. Although HSC and RSMC are legally separate from the Hospital, they are reported as if they were a part of the Hospital because they provide services entirely or almost entirely to the Hospital.

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

All significant intercompany transactions have been eliminated in the financial statements.

The Hospital, HSC, RSMC and the Foundation are collectively referred to as "the Hospital" for the remainder of the financial statements notes where appropriate.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

The separate financial statement for each of the entities discussed above may be obtained through contacting management of the Hospital.

Long-Term Care Operations

The Hospital owns the operations of multiple long-term care facilities by way of an arrangement with the managers of those facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

The Hospital has entered into lease agreements with the long-term care facilities, collectively referred to as the lessors, to lease the facilities managed by the managers. Concurrently, the Hospital entered into agreements with the managers to manage the above leased facilities. As part of the agreements, the Hospital pays the managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees and incentive management fees. The agreements expire at various times through October 2020; however, the terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

While the management and related lease agreements are in effect, the performance of all activities of the managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

Use of Estimates

The preparation of the financial statements includes only the financial position, results of operations, changes in net position and cash flows of the Hospital in conformity with accounting principles generally accepted in the United States of America. The financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and 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.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, money market mutual funds and investments in highly liquid debt instruments with an original maturity date of three months or less. The Hospital maintains its cash in accounts, which at times, may exceed federally insured limits. As a supplement to federally insured limits, the Hospital's practice is to maintain its cash accounts at Indiana Public Deposit Insurance Fund approved financial institutions. The Hospital has not experienced any losses in such accounts. The Hospital 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. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program.

These programs have audited the year-end cost report filed with the Medicare program through December 31, 2016 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2017 through 2019 are reflected in estimated third-party settlements on the balance sheet. During 2019, the Hospital did not recognize any amounts in change in net position in the statement of revenues, expenses and changes in net position due to differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies. Patient charges under these programs, on which no interim payments have been received, are included in patient accounts receivable at the estimated net realizable value of such charges.

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

Inventory

Inventory is valued at the lower of cost or net realizable value with cost being determined on the first-in, first-out method. Inventory consists of medical supplies and pharmaceuticals.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

Other Current Assets

Other current assets consist of prepaid expenses, other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized during 2020.

Assets Whose Use is Limited

Assets whose use is limited are stated at fair market value in the financial statements. These assets include investments designated by the Hospital Board for internal purposes and investments designated by the Foundation Board for internal purposes. These investments consist primarily of cash and cash equivalents, fixed income and mutual funds. Investment interest, dividends, gains and losses, both realized and unrealized, are included in nonoperating revenues (expenses) in the statement of revenues, expenses and changes in net position.

Capital Assets and Depreciation

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at historical cost. Contributed or donated assets are reported at estimated fair value at the time received. The capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) is \$2,500 per item, or a group of items with an aggregate cost of at least \$5,000. Depreciation is calculated on the straight-line method over the estimated useful lives of capital assets which range from 3-40 years. For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest cost was capitalized during 2019.

Net Position

The net position of the Hospital is classified into three components. (1) Net investment in capital assets represents 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. (2) Restricted nonexpendable net position includes the principal portion of permanent endowments. Restricted expendable net position includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributions external to the Hospital, including amounts deposited with trustees as required by revenue note indentures. (3) Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted. The Hospital first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

Operating Revenues and Expenses

The Hospital's statement 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, the Hospital's principal activity. Nonoperating revenues include contributions received and other nonoperating activities and are reported as nonoperating revenues or expenses. Operating expenses are generally all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

From time to time, the Hospital and Foundation receive contributions from 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 operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts, if any, restricted to capital acquisitions are reported as nonoperating revenues and expenses.

Charity Care

The Hospital 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 the Hospital 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 the Hospital's total expenses reported within the statement of revenues, expenses and changes in net position, an estimated \$158,000 arose from providing services to charity patients for 2019.

The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's expenses including interest expense to gross patient service revenue.

Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Retirement Plan for Employees of Highpoint Health (the Plan), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense for 2019 was approximately \$184,000.

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. The estimated amount of unused vacation is reported as a liability within the accrued salaries, wages, and related liabilities on the balance sheet.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 22, of the Indiana statutes. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only. HSC, RSMC and the Foundation are tax-exempt organizations under Internal Revenue Code 501(c)(3). As such, they are generally exempt from income taxes. However, they are required to file Federal Form 990 – Return of Organization Exempt from Income Tax.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and its component units and recognize a tax liability if the Hospital or its component units have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and its component units and has concluded that as of December 31, 2019, 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.

HSC, RSMC and the Foundation have filed their federal and state income tax returns for periods through December 31, 2018. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions). HSC, RSMC and the Foundation are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

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

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued which is November 4, 2020.

2. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include:

Internally designated – Amounts transferred by the Hospital’s Board of Trustees through funding depreciation expense. Such amounts are to be used for debt service, equipment and building, remodeling, repairing, replacing or making additions to the Hospital’s buildings as authorized by IC 16-22-3-13. Amounts designated by the Foundation’s Board of Directors to fund specific projects.

The composition of assets whose use is limited includes the following as of December 31, 2019:

Internally designated	
Cash and cash equivalents	\$ 3,334,162
Mutual funds	<u>48,677,092</u>
Total assets whose use is limited	52,011,254
Less current portion	<u>25,690,498</u>
	<u>\$ 26,320,756</u>

The current portion of assets whose use is limited reflects the current scheduled principal payments on long-term debt. See the long-term debt note for further information.

3. 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 (assets whose use is limited) are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

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

	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Hospital					
Mutual funds	\$ 47,113,797	\$ 47,113,797	\$ -0-	\$ -0-	\$ -0-
Foundation					
Mutual funds	\$ 1,563,295	\$ 1,563,295	\$ -0-	\$ -0-	\$ -0-

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

Credit risk – Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market 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 – The Hospital places a limit on the amount it may invest in any one issuer. The Hospital believes that it is not exposed to any significant credit risk on investments. The Hospital does not have a formal policy for credit and concentration risk.

Deposits consist of the following as of December 31, 2019:

Carrying amount	
Deposits	\$ 23,321,601
Investments	<u>48,677,092</u>
	<u>\$ 71,998,693</u>
Included in the balance sheet captions	
Cash and cash equivalents	\$ 19,987,439
Assets whose use is limited	
Current	25,690,498
Non current	<u>26,320,756</u>
	<u>\$ 71,998,693</u>

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

4. FAIR VALUE MEASUREMENTS

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

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2019.

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

- *Money market mutual funds*: Valued based at the subscription and redemption activity at a \$1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of securities.
- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

The following tables set forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of December 31, 2019.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Assets whose use is limited				
Cash and cash equivalents				
Money market mutual funds	\$ 3,334,162	\$ -0-	\$ 3,334,162	\$ -0-
Mutual funds				
Fixed income	43,243,770	43,243,770	-0-	-0-
Large blend	5,433,322	5,433,322	-0-	-0-
Total mutual funds	<u>48,677,092</u>	<u>48,677,092</u>	<u>-0-</u>	<u>-0-</u>
Total assets whose use is limited	<u>\$ 52,011,254</u>	<u>\$ 48,677,092</u>	<u>\$ 3,334,162</u>	<u>\$ -0-</u>

Realized gains and losses are reported in the statement of revenues, expenses and changes in net position as a component of investment return. Differences between market value and cost of investments are classified as unrealized gains or losses. Unrealized gains or losses are included in earnings for the period attributable to the change in unrealized gains relating to assets held as of December 31, 2019 and are reported in the statement revenues, expenses and changes in net position in investment return. The unrealized gains approximated \$6,066,000 for 2019.

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

5. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year-end consisted of the following amounts as of December 31, 2019:

Patient accounts receivable	
Receivable from patients and their insurance carriers	\$ 29,666,180
Receivable from Medicare	21,013,544
Receivable from Medicaid	<u>11,124,818</u>
Total patient accounts receivable	61,804,542
Allowance for contractual agreements	(32,137,837)
Allowance for uncollectible amounts	<u>(9,576,142)</u>
Patient accounts receivable, net	<u>\$ 20,090,563</u>
Accounts payable and accrued expenses	
Payable to suppliers and others	\$ 25,291,075
Payable to employees and related liabilities	<u>6,793,569</u>
Total accounts payable and accrued expenses	<u>\$ 32,084,644</u>

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

6. CAPITAL ASSETS

Capital asset activity for 2019 is as follows:

	Balance				Balance
	December 31,	Additions	Retirements	Transfers	December 31,
	2018				2019
Land	\$ 1,408,112	\$ -0-	\$ -0-	\$ -0-	\$ 1,408,112
Land improvements	2,615,940	-0-	-0-	-0-	2,615,940
Buildings and improvements	74,554,397	115,581	-0-	364,220	75,034,198
Equipment	58,824,233	1,481,535	(274,185)	216,785	60,248,368
Construction in process	3,928,088	3,914,116	(6,185,402)	(581,005)	1,075,797
Total capital assets	141,330,770	5,511,232	(6,459,587)	-0-	140,382,415
Less accumulated depreciation	99,740,561	5,215,074	(262,475)	-0-	104,693,160
Capital assets, net	\$ 41,590,209	\$ 296,158	\$ (6,197,112)	\$ -0-	\$ 35,689,255

During 2019, the Hospital recognized a loss of approximately \$6,197,000 on the disposal of capital assets primarily related to the termination of its electronic health record conversion project. There were no significant outstanding commitments on capital assets as of December 31, 2019.

7. LONG-TERM DEBT

During 2019, the Hospital implemented the Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement requires that additional essential information related to debt be disclosed in the notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The additional disclosures related to debt herein conform to the new requirements. This new standard did not have an impact on the financial statements.

In September 2017, the Dearborn County, Indiana, Economic Development Revenue Refunding Bonds, Series 2017 (Series 2017 Bonds) for \$25,800,000 were issued. The Hospital, Dearborn County and Fifth Third Bank (Fifth Third) entered into a Bond Purchase Agreement (the Agreement) whereby Fifth Third purchased from Dearborn County all of the Series 2017 Bonds in a private placement. The Series 2017 Bonds have a final maturity date of April 2036. However, the Agreement provided that Fifth Third would hold the Series 2017 Bonds through September 26, 2020 when the Hospital would be subject to payment of the remaining principal balance of approximately \$23,600,000 if a new Agreement was not executed with Fifth Third or another qualifying institution. The Series 2017 Bonds had interest at a fixed rate of 2.99% through September 2020 and were secured ultimately by the gross revenues of the Hospital. The Series 2017 bonds required maintenance of certain debt service income ratios, debt to total capitalization, days cash on hand and require compliance with various other restrictive covenants.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

During 2016, the Hospital acquired a medical office building (MOB) by assuming the outstanding debt (the Note) of the previous owner of the building. The Note balance at the effective date of the agreement was approximately \$2,318,000. The Note bears interest at 1.0%, is due in monthly installments of principal and interest of approximately \$11,000 with a final maturity of April 2035. The Note was secured by capital assets with a net book value of approximately \$3,237,000 as of December 31, 2019.

The Hospital entered into a master loan agreement with Fifth Third whereby Fifth Third issued separate notes to the Hospital to fund certain capital purchases. The notes had fixed interest rates ranging from 3.6% to 4.9%, with final maturity dates ranging from July 2021 to June 2024. These notes were secured by capital assets with a net book value of approximately \$4,675,000 as of December 31, 2019.

A progression of the Hospital's debt follows:

	Balance December 31, 2018	Additions	Payments	Balance December 31, 2019	Current portion
Direct borrowing					
Series 2017 Bonds	\$ 25,100,000	\$ -0-	\$ (700,000)	\$ 24,400,000	\$ 24,400,000
Other borrowings					
MOB Note	2,034,672	-0-	(116,892)	1,917,780	105,087
Fifth Third notes	3,002,768	2,668,918	(997,094)	4,674,592	1,185,411
Total other borrowings	5,037,440	2,668,918	(1,113,986)	6,592,372	1,290,498
	\$ 30,137,440	\$ 2,668,918	\$ (1,813,986)	\$ 30,992,372	\$ 25,690,498

Scheduled principal and interest payments on the Hospital's debt, adjusted for the Series 2017 Bonds, are as follows:

Year Ending <u>December 31,</u>	Direct Borrowing		Other Borrowings		Total Payments
	Principal	Interest	Principal	Interest	
2020	\$ 24,400,000	\$ 3,404,600	\$ 1,290,498	\$ 202,256	\$ 29,297,354
2021	-0-	-0-	1,296,163	148,032	1,444,195
2022	-0-	-0-	1,289,442	95,384	1,384,826
2023	-0-	-0-	1,091,454	65,266	1,156,720
2024	-0-	-0-	291,611	15,684	307,295
2025-2029	-0-	-0-	624,473	51,045	675,518
2030-2034	-0-	-0-	656,476	19,041	675,517
2035-2036	-0-	-0-	52,255	92	52,347
	\$ 24,400,000	\$ 3,404,600	\$ 6,592,372	\$ 596,800	\$ 34,993,772

In October 2020, the Hospital paid in full the Series 2017 Bonds, the MOB Note and the Fifth Third notes.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

8. PATIENT SERVICE REVENUE

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

Medicare

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

Medicaid and Hospital Assessment Fee and Healthy Indiana Plan Programs

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and for Medicaid outpatient services on a predetermined fee schedule. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments.

The Hospital participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of 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 the HAF Program expense reported in the statement of revenues, expenses and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Hospitals also started funding the Healthy Indiana Plan (HIP), the State's Medicaid expansion program. The payments related to the HIP program mirror the Medicaid payments under the HAF program, but the funding includes physician, state administration, and certain non-hospital expenditures. During 2019, the Hospital recognized HAF and HIP Program expenses of approximately \$5,092,000, which resulted in increased Medicaid reimbursement. The HAF and HIP assessments are included in operating expenses in the statements of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program and the HIP payments are included in patient service revenue in the statement revenues, expenses and changes in net position.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Hospital Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient service revenue of approximately \$3,561,000 during 2019. These programs are administered by the State of Indiana, but rely on Federal funding.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

Other Payors

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

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

Inpatient services	\$ 108,544,237
Outpatient services	177,949,879
Long-term care services	<u>36,113,360</u>
Gross patient service revenue	322,607,476
Contractual allowances	(160,046,608)
Charity care	(415,576)
Provision for bad debts	<u>(5,189,806)</u>
Deductions from revenue	<u>(165,651,990)</u>
Net patient service revenue	<u>\$ 156,955,486</u>

9. EMPLOYEE HEALTH AND DENTAL BENEFITS

The Hospital is self-insured for employee health and dental claims. 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. Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends, including frequency and amounts of payouts, and other economic and social factors. An excess policy through commercial insurance covers individual claims in excess of \$300,000 with no overall annual aggregate limit. Health and dental insurance expense for 2019 was approximately \$3,134,000.

Changes in the balance of claim liabilities are as follows:

Unpaid claims, beginning of year	\$ 1,100,000
Incurred claims and changes in estimates	3,134,000
Claim payments	<u>(3,284,000)</u>
Unpaid claims, end of year	<u>\$ 950,000</u>

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

10. MEDICAL MALPRACTICE

Medical Malpractice

The Hospital purchases professional and general liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,800,000 for an occurrence of malpractice and provided a maximum recovery of \$1,650,000 prior to July 1, 2019. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 or \$15,000,000 in the annual aggregate based on hospital bed size). Prior to July 1, 2019, the Act required the Hospital to maintain medical malpractice liability insurance for at least \$400,000 per occurrence (\$8,000,000 or \$12,000,000 in the annual aggregate based on hospital bed size). The Act also requires the Hospital 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 the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

11. CONCENTRATIONS OF CREDIT RISK

The Hospital is primarily located in Lawrenceburg, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable and gross patient revenues from self-pay and third party payors as of and for the year ended December 31, 2019 was as follows:

	<u>Receivables</u>	<u>Revenue</u>
Medicare	34%	53%
Medicaid	18%	20%
Blue Cross	9%	12%
Commercial and other payors	19%	13%
Self-pay payors	20%	2%
	<u>100%</u>	<u>100%</u>

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

12. DEFINED BENEFIT PENSION PLAN

Plan Description

The Hospital has a defined benefit pension plan, Retirement Plan for Employees of Dearborn County Hospital (the Plan) as authorized by IC 16-22-3-11. The Plan provides retirement and death benefits to plan members and beneficiaries. The Plan was established by written agreement by the Hospital Board of Trustees. Buck Consultants is the actuary of the Plan. Fifth Third Bank is the custodian and third-party administrator. The Plan year runs from November 1 through October 31. For more information on the Plan, participants should contact the administrative offices at the Hospital.

Subsequent Freezing of Plan Benefits

Subsequent to December 31, 2019, the Hospital froze the Plan with no new benefit accruals after the effective date of April 30, 2020. Employees that are not participants of the Plan as of April 30, 2020 are not eligible for the Plan.

Benefits Provided

The Plan principally provided retirement benefits. For those participants who continued to accrue benefits through April 30, 2020, the following summarizes benefits available.

Participants were fully vested after 10 years of service or attaining normal retirement age. For a participant entering the Plan before November 1, 2015, the normal retirement date was the first day of the month coincident with or following age 65. Normal retirement age for a participant entering the Plan after November 1, 2015 meant the later of (i) the participant's age at which the participant first became entitled to full or unreduced old age insurance benefits pursuant to the social security act, as amended, based solely on the participant's year of birth, or (ii) the participant's age on the fifth anniversary of the date the participant first entered the Plan. The early retirement date for vested participants who entered the Plan before November 1, 2015 and terminated employment prior to the normal retirement date occurred once an employee attained age 55 with 10 years of credited service. Participants entering the Plan after November 1, 2015, who terminated employment prior to normal retirement date, were eligible for an early retirement benefit on the first day of the calendar month coincident with or next following the later of: (a) the date which was 10 years prior to the date the participant attains normal retirement age; or (b) the date on which the participant completed 10 years of credited service. The monthly amount of normal retirement benefit payable to a participant on the normal form of retirement benefit was equal to the greatest of: 1) the sum of \$4.50 multiplied by years of credited service not in excess of 15 years; plus \$6.00 multiplied by years of credited service in excess of 15 years up to 30 year; or 2) the sum of .675% of average monthly compensation multiplied by years of credited service not in excess of 15 years; plus .9% of average monthly compensation multiplied by years of credited service in excess of 15 years up to 30 years; plus .65% of average monthly compensation in excess of monthly covered compensation multiplied by years of credited service not in excess of 30 years. For a participant entering the Plan before November 1, 2015, the early retirement benefit was reduced by 1/180 for each year month after age 60 and 1/360 for each month prior to age 60 by which the commencement of the early retirement benefit preceded the participant's normal retirement date.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

For participants entering the Plan after November 1, 2015, the participant's early retirement benefit was the actuarial equivalent value of the deferred vested accrued benefit. Disability retirement benefits are not available under the Plan. Death benefits under the Plan vary based on the participant's years of credited service, average annual compensation and other factors as defined under the Plan.

Funding Policy

The contributions of the Hospital to the Plan met the minimum funding requirements established by the Plan. The entire cost of the Plan is borne by the Hospital. Therefore, active plan members are not required to contribute to the Plan. The Hospital is required to contribute at actuarially determined amounts. The contribution requirement is determined using an accepted actuarial cost method.

Employees Covered by Benefit Terms

As of October 31, 2019, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	285
Inactive plan members entitled to but not yet receiving benefits	277
Active plan members	710
	<u>1,272</u>

Contributions

The contribution requirements of plan members are established and can be amended by the Hospital Board of Trustees. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Hospital is required to contribute at an actuarially determined rate.

Net Pension Asset

The Hospital's net pension asset was measured as of October 31, 2019, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the October 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	3.5%
Investment rate of return	7.6%

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

Mortality rates were based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006 and projected with Mortality Improvement Scale MP-2019. The actuarial assumptions used in the October 31, 2019 valuation were based on the results of an actuarial experience study performed in November 2015. The long-term expected rate of return on pension Plan investments is 7.60%.

The target allocation for each major asset class is summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>
Money market funds	7.5%
Mutual funds - equity	65.4%
Mutual funds - fixed income	27.1%
Total	<u>100.0%</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.80% for 2019. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will continue to follow the current funding policy. Based on those assumptions, the pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability (Asset)

The following presents the net pension asset of the Hospital, calculated using the discount rate of 7.80%, as well as what the Hospital's net pension liability or asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.80%) or 1-percentage-point higher (8.80%) than the current rate:

	<u>1% Decrease (6.80%)</u>	<u>Current Discount Rate (7.80%)</u>	<u>1% Increase (8.80%)</u>
Hospital's net pension asset (liability)	\$ (3,496,746)	\$ 2,655,476	\$ 7,772,177

Detailed information about the pension plan's fiduciary net position is available in the separately issued plan financial report.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

Changes in the Net Pension Asset

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Liability) Asset (a) - (b)
Balances at 12/31/18	\$ (46,211,940)	\$ (46,638,398)	\$ 426,458
Changes of the year			
Service cost	(743,631)	-0-	(743,631)
Interest	(3,586,184)	-0-	(3,586,184)
Difference between expected and actual experience	132,829	-0-	132,829
Changes of assumptions	117,098	-0-	117,098
Benefit payments, including refunds of member contributions	1,995,176	1,995,176	-0-
Contributions - employer	-0-	(865,687)	865,687
Net investment return	-0-	(5,517,039)	5,517,039
Administrative expense	-0-	73,820	(73,820)
Net change	(2,084,712)	(4,313,730)	2,229,018
Balances at 12/31/19	\$ (48,296,652)	\$ (50,952,128)	\$ 2,655,476

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For 2019, the Hospital recognized pension expense of approximately \$897,000. As of December 31, 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, 1/1/2019	\$ 4,839,058	\$ 3,409,758
Differences between expected and actual experience	(260,239)	-0-
Amortization of changes in assumptions	(73,109)	(208,997)
Differences between projected and actual earnings on plan investments	-0-	1,929,941
Amortization of projected versus actual earnings on plan investments	(1,424,928)	(1,166,747)
Balance, 12/31/19	\$ 3,080,782	\$ 3,963,955

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

Amounts reported as deferred outflows and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2020	\$ 1,316,550	\$ 1,458,997
2021	927,026	1,448,623
2022	837,206	586,150
2023	-0-	455,058
2024	-0-	15,127
	<u>\$ 3,080,782</u>	<u>\$ 3,963,955</u>

13. DEFINED CONTRIBUTION PENSION PLAN

The Hospital maintains a 403(b) retirement savings plan administered by Lincoln Financial Group. This plan provides retirement benefits to plan members and beneficiaries. Reports for the plan are available by contacting the Hospital's administrative offices. The contribution requirements of members of the plan are established and can be amended by written agreement. Eligible employees are not required to contribute to the plan. The Hospital can elect discretionary contributions to the plan as determined by the Board of Trustees. The Hospital did not elect any discretionary contributions for 2019. Therefore, no expense was recognized in 2019 for this plan.

14. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Hospital has entered into various operating leases expiring through 2024 having initial or remaining noncancelable terms exceeding one year for rental of office space. Rental expenditures for these leases were approximately \$375,000 for 2019. The following is a schedule of annual future minimum rental payments.

<u>Year Ending December 31,</u>	
2020	\$ 306,358
2021	117,495
2022	69,720
2023	69,720
2024	8,810
	<u>\$ 572,103</u>

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

15. BLENDED COMPONENT UNITS

The Hospital's financial statements include the accounts of the blended component units, HSC and RSMC. Below is condensed financial information of HSC and RSMC as of and for the year ended December 31, 2019.

	HSC	RSMC
Balance sheet		
Assets		
Current assets	\$ 2,482,526	\$ 441,452
Capital assets	5,756,817	-0-
Total assets	<u>\$ 8,239,343</u>	<u>\$ 441,452</u>
Liabilities		
Accounts payable and accrued expenses	\$ 929,381	\$ 441,452
Due to Hospital	29,043,548	-0-
Total liabilities	29,972,929	441,452
Net position		
Net investment in capital assets	5,756,817	-0-
Unrestricted	(27,490,403)	-0-
Total net position	<u>(21,733,586)</u>	<u>-0-</u>
Total liabilities and net position	<u>\$ 8,239,343</u>	<u>\$ 441,452</u>
Statement of revenues, expenses and changes in net position		
Operating revenues (patient and other)	\$ 17,508,757	\$ 1,039,000
Operating expenses		
Depreciation and amortization	793,413	-0-
Other expenses	24,574,783	1,039,946
Total expenses	<u>25,368,196</u>	<u>1,039,946</u>
Operating loss	(7,859,439)	(946)
Nonoperating revenues, net	<u>(432)</u>	<u>946</u>
Change in net position	(7,859,871)	-0-
Net position, beginning of year	<u>(13,873,715)</u>	<u>-0-</u>
Net position, end of year	<u>\$ (21,733,586)</u>	<u>\$ -0-</u>
Statement of cash flows		
Net cash flows from		
Operating activities	\$ (435,805)	\$ (192,449)
Capital and related financing activities	(87,066)	-0-
Investing activities	-0-	946
Total	<u>(522,871)</u>	<u>(191,503)</u>
Cash and cash equivalents		
Beginning of year	<u>658,151</u>	<u>314,093</u>
End of year	<u>\$ 135,280</u>	<u>\$ 122,590</u>

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

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

16. SUBSEQUENT EVENTS

COVID-19 Pandemic

In March 2020, the World Health Organization declared COVID-19 a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines. Management believes the Hospital is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were available to be issued.

In March 2020, Provider Relief Fund (PRF) grants authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic primarily under Catalog of Federal Domestic Assistance (CFDA) #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. During 2020, the Hospital received PRF grants of approximately \$17,507,000. PRF funds are subject to recoupment by the grantor in the event that the conditions for recognition are not satisfied.

The CARES Act also allowed health care providers to request accelerated and advanced payments for Medicare services. In 2020, the Hospital requested and received approximately \$8,143,000 of accelerated and advanced Medicare payments under this CARES Act provision. The accelerated and advanced payments are to be repaid within one year of receiving the funds.

Due Diligence Related to Asset Acquisition Agreement

Subsequent to year end, the Hospital entered into due diligence discussions regarding an asset acquisition agreement (the Agreement) with Saint Elizabeth Medical Center, Inc. d/b/a Saint Elizabeth Healthcare (SEH). The Agreement includes among other terms, conditions, and stipulations, SEH would acquire substantially all of the Hospital's assets and assume substantially all of the Hospital's liabilities, except for specific excluded assets and liabilities as identified in the Agreement. The anticipated close for the Agreement is November 2020.

Long-Term Care Agreements

The Hospital terminated all the long-term care lease agreements subsequent to December 31, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

HIGHPOINT HEALTH

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS DECEMBER 31, 2019

	2019	2018	2017	2016	2015
Total pension liability					
Service cost	\$ 743,631	\$ 758,083	\$ 804,626	\$ 774,829	\$ 732,821
Interest	3,586,184	3,422,525	3,269,970	3,078,168	2,895,679
Difference between expected and actual experience	(132,829)	(81,124)	421,504	558,856	-0-
Changes of assumptions	(117,098)	(105,820)	(788,160)	(462,055)	-0-
Benefit payments	<u>(1,995,176)</u>	<u>(1,771,093)</u>	<u>(1,642,440)</u>	<u>(1,403,242)</u>	<u>(1,261,223)</u>
Net change in pension liability	2,084,712	2,222,571	2,065,500	2,546,556	2,367,277
Total pension liability - beginning	<u>46,211,940</u>	<u>43,989,369</u>	<u>41,923,869</u>	<u>39,377,313</u>	<u>37,010,036</u>
Total pension liability - ending (a)	<u>\$ 48,296,652</u>	<u>\$ 46,211,940</u>	<u>\$ 43,989,369</u>	<u>\$ 41,923,869</u>	<u>\$ 39,377,313</u>
Plan fiduciary net position					
Benefit payments	\$ (1,995,176)	\$ (1,771,093)	\$ (1,642,440)	\$ (1,403,242)	\$ (1,261,223)
Net investment income	5,517,039	(165,581)	7,097,584	921,848	997,337
Administrative expenses	(73,820)	(84,691)	(104,470)	(168,088)	(96,038)
Employer contributions	<u>865,687</u>	<u>906,281</u>	<u>902,996</u>	<u>1,071,875</u>	<u>11,156,995</u>
Net change in plan fiduciary net position	4,313,730	(1,115,084)	6,253,670	422,393	10,797,071
Plan fiduciary net position - beginning	<u>46,638,398</u>	<u>47,753,482</u>	<u>41,499,812</u>	<u>41,077,419</u>	<u>30,280,348</u>
Plan fiduciary net position - ending (b)	<u>\$ 50,952,128</u>	<u>\$ 46,638,398</u>	<u>\$ 47,753,482</u>	<u>\$ 41,499,812</u>	<u>\$ 41,077,419</u>
Net pension (asset) liability (a) - (b)	<u>\$ (2,655,476)</u>	<u>\$ (426,458)</u>	<u>\$ (3,764,113)</u>	<u>\$ 424,057</u>	<u>\$ (1,700,106)</u>
Plan fiduciary net position as a % of total pension liability	105.50%	100.92%	108.56%	98.99%	104.32%
Covered payroll	\$ 45,543,337	\$ 46,449,083	\$ 46,419,576	\$ 43,933,434	\$ 42,464,944
Net pension liability as a % of covered payroll	-5.83%	-0.92%	-8.11%	0.97%	-4.00%

* The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Hospital will present information for those years for which information is available.

HIGHPOINT HEALTH

SCHEDULE OF CONTRIBUTIONS DECEMBER 31, 2019

Plan Year End	Actuarially Determined Contribution	Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as % of Covered Payroll
10/31/2019	\$ 859,320	\$ 865,687	\$ (6,367)	\$ 45,543,337	1.90%
10/31/2018	\$ 865,687	\$ 906,281	\$ (40,594)	\$ 46,449,083	1.95%
10/31/2017	\$ 902,996	\$ 902,996	\$ -0-	\$ 46,419,576	1.95%
10/31/2016	\$ 873,748	\$ 1,071,875	\$ (198,127)	\$ 43,933,434	2.44%
10/31/2015	\$ 1,638,125	\$ 11,156,995	\$ (9,518,870)	\$ 42,464,944	26.27%
10/31/2014	\$ 1,877,275	\$ 1,877,275	\$ -0-	\$ 42,097,830	4.46%
10/31/2013	\$ 1,706,913	\$ 1,706,913	\$ -0-	\$ 42,029,955	4.06%
10/31/2012	\$ 1,508,887	\$ 1,508,887	\$ -0-	\$ 36,153,924	4.17%
10/31/2011	\$ 1,511,254	\$ 1,511,254	\$ -0-	\$ 36,220,786	4.17%
10/31/2010	\$ 1,402,407	\$ 1,402,407	\$ -0-	\$ 37,813,590	3.71%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of November 1.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	20 year level dollar
Remaining amortization period	20 year period
Asset valuation method	Market value
Salary increases	Ranging from 2.75% to 4.5%
Investment rate of return	7.60%
Retirement age	For a participant entering the Plan before 11/1/15 65 and 5 years of participation For a participant entering the Plan after 11/1/15 the later of (i) the participant's age at which the participant first becomes entitled to full or unreduced Old Age Insurance Benefits pursuant the Social Security Act, as amended, based solely on the participant's year of birth, or (ii) the participant's age on the fifth anniversary of the date the participant first entered the Plan

Mortality	RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006 and projected with Mortality Improvement Scale MP-2019
-----------	---

See report of independent auditors on pages 1 and 2.

SUPPLEMENTARY INFORMATION

HIGHPOINT HEALTH

COMBINING BALANCE SHEET – TOTAL HOSPITAL DECEMBER 31, 2019

ASSETS AND DEFERRED OUTFLOWS	Hospital	HSC	RSMC	Eliminations	Total Hospital
Current assets					
Cash and cash equivalents	\$ 19,358,598	\$ 135,280	\$ 122,590	\$ -0-	\$ 19,616,468
Patient accounts receivable, net	17,698,310	2,128,497	263,756	-0-	20,090,563
Inventory	1,365,432	43,666	-0-	-0-	1,409,098
Current portion of assets whose use is limited	25,690,498	-0-	-0-	-0-	25,690,498
Other current assets	14,892,662	175,083	55,106	-0-	15,122,851
Total current assets	79,005,500	2,482,526	441,452	-0-	81,929,478
Assets whose use is limited					
Internally designated, net of current portion	23,160,480	-0-	-0-	-0-	23,160,480
Capital assets					
Land	75,208	1,332,904	-0-	-0-	1,408,112
Depreciable capital assets	124,458,865	13,439,641	-0-	-0-	137,898,506
Construction in progress	1,075,797	-0-	-0-	-0-	1,075,797
	125,609,870	14,772,545	-0-	-0-	140,382,415
Less accumulated depreciation	95,677,432	9,015,728	-0-	-0-	104,693,160
Capital assets, net	29,932,438	5,756,817	-0-	-0-	35,689,255
Pension asset	2,655,476	-0-	-0-	-0-	2,655,476
Other assets	29,317,577	-0-	-0-	(29,037,148)	280,429
Total assets	164,071,471	8,239,343	441,452	(29,037,148)	143,715,118
Deferred outflows					
	3,080,782	-0-	-0-	-0-	3,080,782
Total assets and deferred outflows	\$ 167,152,253	\$ 8,239,343	\$ 441,452	\$ (29,037,148)	\$ 146,795,900
LIABILITIES, DEFERRED INFLOWS AND NET POSITION					
Current liabilities					
Current portion of long-term debt	\$ 25,690,498	\$ -0-	\$ -0-	\$ -0-	\$ 25,690,498
Accounts payable	24,814,755	29,079,955	433,513	(29,037,148)	25,291,075
Accrued salaries, wages, and related liabilities	5,892,656	892,974	7,939	-0-	6,793,569
Estimated third-party payor settlements	983,038	-0-	-0-	-0-	983,038
Total current liabilities	57,380,947	29,972,929	441,452	(29,037,148)	58,758,180
Long-term debt, net of current portion					
	5,301,874	-0-	-0-	-0-	5,301,874
Total liabilities	62,682,821	29,972,929	441,452	(29,037,148)	64,060,054
Deferred inflows					
	3,963,955	-0-	-0-	-0-	3,963,955
Total liabilities and deferred inflows	66,646,776	29,972,929	441,452	(29,037,148)	68,024,009
Net position					
Net investment in capital assets	(1,059,934)	5,756,817	-0-	-0-	4,696,883
Unrestricted	101,565,411	(27,490,403)	-0-	-0-	74,075,008
Total net position	100,505,477	(21,733,586)	-0-	-0-	78,771,891
Total liabilities, deferred inflows and net position	\$ 167,152,253	\$ 8,239,343	\$ 441,452	\$ (29,037,148)	\$ 146,795,900

See report of independent auditors on pages 1 and 2.

HIGHPOINT HEALTH

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – TOTAL HOSPITAL YEAR ENDED DECEMBER 31, 2019

	Hospital	HSC	RSMC	Eliminations	Total Hospital
Operating revenues					
Net patient service revenue	\$ 138,833,380	\$ 17,176,201	\$ 945,905	\$ -0-	\$ 156,955,486
Other operating revenue	2,449,476	332,556	93,095	-0-	2,875,127
Total operating revenues	141,282,856	17,508,757	1,039,000	-0-	159,830,613
Operating expenses					
Salaries and wages	34,176,147	16,865,903	-0-	-0-	51,042,050
Employee benefits	7,403,037	2,923,401	-0-	-0-	10,326,438
Professional fees and contract services	50,661,627	1,089,242	811,376	-0-	52,562,245
Supplies	17,831,477	1,668,333	35,110	-0-	19,534,920
Insurance	940,431	339,116	2,120	-0-	1,281,667
Facility and equipment leases	7,765,991	981,596	13,980	-0-	8,761,567
Repairs and maintenance	2,832,106	34,066	20,924	-0-	2,887,096
Utilities	1,619,548	377,255	10,210	-0-	2,007,013
HAF and HIP programs	5,091,732	-0-	-0-	-0-	5,091,732
Depreciation	4,421,661	793,413	-0-	-0-	5,215,074
Other	23,115,987	295,871	146,226	-0-	23,558,084
Total operating expenses	155,859,744	25,368,196	1,039,946	-0-	182,267,886
Operating loss	(14,576,888)	(7,859,439)	(946)	-0-	(22,437,273)
Nonoperating revenues (expenses)					
Investment return	8,063,351	-0-	946	-0-	8,064,297
Interest expense	(946,970)	-0-	-0-	-0-	(946,970)
Other	(6,227,264)	(432)	-0-	-0-	(6,227,696)
Total nonoperating revenues (expenses)	889,117	(432)	946	-0-	889,631
Change in net position	(13,687,771)	(7,859,871)	-0-	-0-	(21,547,642)
Net position					
Beginning of year	114,193,248	(13,873,715)	-0-	-0-	100,319,533
End of year	\$ 100,505,477	\$ (21,733,586)	\$ -0-	\$ -0-	\$ 78,771,891

See report of independent auditors on pages 1 and 2.