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302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

November 17, 2021

Board of Trustees
Hancock Regional Hospital
801 N. State Street
Greenfield, IN 46140

We have reviewed the audit report of Hancock Regional Hospital which was opined by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2020 to December 31, 2020. Per the *Report of Independent Auditors*, the financial statements included in the report present fairly the financial condition of the Hancock Regional Hospital as of December 31, 2020, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Blue and Co., LLC, prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

The audit report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner



CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

CPAs / ADVISORS



HANCOCK REGIONAL HOSPITAL

TABLE OF CONTENTS DECEMBER 31, 2020 AND 2019

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management's Discussion and Analysis (Unaudited)	i
Consolidated Financial Statements	
Consolidated Balance Sheets.....	3
Consolidated Statements of Operations and Changes in Net Position.....	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	8
Reporting Under <i>Government Auditing Standards</i>	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30



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
Hancock Regional Hospital
Greenfield, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hancock Regional Hospital and component units (the Hospital), a component unit of Hancock County, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the *Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts, and the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Board of Trustees
Hancock Regional Hospital
Greenfield, Indiana

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2021, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
September 28, 2021

REQUIRED SUPPLEMENTARY INFORMATION

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 AND 2019

This section of Hancock Regional Hospital's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis of the Hospital's financial performance during the years ended December 31, 2020 and 2019. Please read it in conjunction with the Hospital's consolidated financial statements, which begin on page 3. Unless otherwise indicated, amounts are in thousands and are approximates.

FINANCIAL HIGHLIGHTS

- The Hospital reported an increase in net position of approximately \$27,520 or 9% for the year ended 2020.
- Operating income in 2020 compared to 2019 decreased by \$50,943 or 200%.
- Nonoperating income in 2020 compared to 2019 increased by \$30,084 or 125%.
- The Hospital recognized \$30,280 during 2020 in nonoperating income from grants related to COVID-19.

USING THIS ANNUAL REPORT

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

THE BALANCE SHEET AND STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION

Our analysis of the Hospital finances begins on page ii. 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 operations 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 statements report the Hospital's net position and changes in them. You can think of the Hospital's net position—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to 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.

THE STATEMENT OF CASH FLOWS

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

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 AND 2019

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheet on page 3. The Hospital's net position increased in 2020 by \$27,520 (9%) as you can see from Table 1.

	2020	2019	2020 - 2019 \$ Change	2018
Assets				
Current assets	\$ 174,658	\$ 173,000	\$ 1,658	\$ 157,654
Capital assets, net	127,656	95,991	31,665	75,015
Restricted and limited use assets	122,399	106,028	16,371	87,895
Other noncurrent assets	29,444	30,322	(878)	25,459
Total assets	<u>454,157</u>	<u>405,341</u>	<u>48,816</u>	<u>346,023</u>
Liabilities				
Current liabilities	121,599	102,354	19,245	91,459
Other noncurrent liabilities	2,051	-0-	2,051	-0-
Total liabilities	<u>123,650</u>	<u>102,354</u>	<u>21,296</u>	<u>91,459</u>
Net Position				
Net investment in capital assets	125,375	95,991	29,384	75,015
Donor restricted - expendable	10,847	9,388	1,459	7,212
Restricted nonexpendable	3,243	2,718	525	1,844
Unrestricted	<u>191,042</u>	<u>194,890</u>	<u>(3,848)</u>	<u>170,493</u>
Total net position	330,507	302,987	27,520	254,564
Total liabilities and net position	<u>\$ 454,157</u>	<u>\$ 405,341</u>	<u>\$ 48,816</u>	<u>\$ 346,023</u>

A significant component in the Hospital's assets increase in 2020 from 2019 is capital assets, net which increased in 2020 by \$31,665 or 33% due to construction projects to expand the Hospital's operations in Hancock County. Additionally, restricted and limited use assets increased in 2020 by \$16,371 or 15% due to investment income from positive market performance.

A significant component in the Hospital's assets increase in 2019 from 2018 is current assets, specifically net patient accounts receivable which increased in 2019 by \$11,374 or 20.7% due to operations. Additionally, capital assets, net increased in 2019 by \$20,976 or 28% due to construction projects to expand the Hospital's operations in Hancock County.

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 AND 2019

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2020, the Hospital's change in net position decreased by \$20,903 compared to 2019 as shown in Table 2.

	2020	2019	2020 - 2019 \$ Change	2018
Operating Revenue				
Net patient service revenue	\$ 515,124	\$ 539,607	\$ (24,483)	\$ 493,586
Other	6,874	9,865	(2,991)	9,992
Total operating revenue	<u>521,998</u>	<u>549,472</u>	<u>(27,474)</u>	<u>503,578</u>
 Operating expenses				
Salaries and benefits	74,751	65,913	8,838	60,612
Medical supplies and drugs	81,893	64,360	17,533	56,100
Purchased services and medical fees	350,188	355,872	(5,684)	331,376
Depreciation and amortization	15,747	12,584	3,163	10,542
Hospital assessment fee	6,247	6,090	157	4,720
Other operating expense	<u>18,593</u>	<u>19,131</u>	<u>(538)</u>	<u>18,058</u>
Total operating expense	<u>547,419</u>	<u>523,950</u>	<u>23,469</u>	<u>481,408</u>
Operating income (loss)	<u>(25,421)</u>	<u>25,522</u>	<u>(50,943)</u>	<u>22,170</u>
 Nonoperating income (expense)				
Noncapital contributions	2,411	3,047	(636)	2,358
Other nonoperating expense	4,514	2,295	2,219	(585)
COVID-19 grant revenue	30,280	-0-	30,280	-0-
Investment income	<u>16,928</u>	<u>18,707</u>	<u>(1,779)</u>	<u>(6,492)</u>
Total nonoperating income (expense)	<u>54,133</u>	<u>24,049</u>	<u>30,084</u>	<u>(4,719)</u>
 Change in net position before capital distributions	 28,712	 49,571	 (20,859)	 17,451
Capital distributions	<u>(1,192)</u>	<u>(1,148)</u>	<u>(44)</u>	<u>(1,669)</u>
Change in net position	27,520	48,423	(20,903)	15,782
 Net position				
Beginning of year	<u>302,987</u>	<u>254,564</u>	<u>48,423</u>	<u>238,782</u>
End of year	<u>\$ 330,507</u>	<u>\$ 302,987</u>	<u>\$ 27,520</u>	<u>\$ 254,564</u>

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 AND 2019

SOURCES OF REVENUE

During 2020, the Hospital derived substantially all of its revenue from patient service and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

The table below presents the percentages of gross revenue for patient services by payor for the Hospital's acute care operations.

	2020	2019	2018
Medicare	55%	55%	53%
Medicaid	12%	10%	11%
Commercial	31%	32%	33%
Self-pay	2%	3%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Hospital provides care to patients under payment arrangements with Medicare, Medicaid, and various managed care programs. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs as defined. Provisions have been made in the consolidated financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment. Total operating revenue decreased \$27,474 or 5% in 2020 compared to 2019. This decrease was primarily the result of restrictions in place as a result of the COVID-19 pandemic. Disproportionate Share Hospital Payment (DSH) for years 2020 and 2019 were \$2,282 and \$2,738, respectively.

OPERATING INCOME

The first component of the overall change in the Hospital's net position is its operating income, generally the difference between net patient service and the expenses incurred to perform those services. In 2020, the Hospital reported an operating loss due to decreased operating revenues and increased operating expenses incurred in response to the COVID-19 pandemic. In 2019, the Hospital reported an operating gain, which is consistent with the Hospital's entire operating history. The Hospital's operations were begun in 1951 as a county owned and operated hospital under Indiana Code 16-22.

The decrease in the Hospital's operating income in 2020 of \$50,943 or 200% from 2019 was the result of the decrease in operating revenues and the increase in operating expenses. Most importantly to operating revenues, the Hospital's volumes decreased due to restrictions in place as a result of the COVID-19 pandemic. Total operating expenses increased \$23,469 or 4% in 2020 compared to 2019. The increase in operating expenses was the result of salaries and benefits and medical supplies and drugs expenses incurred in response to the COVID-19 pandemic. Salaries and benefits increased due to merit increases, hazard pay and self-insured health claims; however, full-time equivalents were stable. Medical supplies and drugs increased due to long-term care operations and personal protective equipment purchased in response to the COVID-19 pandemic.

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 AND 2019

The increase in the Hospital's operating income in 2019 of \$3,352 or 15% from 2018 was the result of the increase in operating revenues exceeding the increase in operating expenses. The Hospital increased gross charge rates by 5% for both years ended December 31, 2019 and 2018, respectively. More importantly, the Hospital's volumes increased. Total operating expenses increased \$42,542 or 9% in 2019 compared to 2018. The increase in operating expenses was the result of salaries and benefits, medical supplies and drugs, and purchased services and medical fees. Salaries and benefits increased due to an increase in full-time equivalents. Medical supplies and drugs increased due to an increase in pharmaceutical costs as well as services provided for oncology services. Purchased services and medical fees increased due to long-term care activity.

The Hospital experienced statistical changes in the following areas:

Statistical Growth	2020	2019	2020 - 2019 % Increase / <Decrease>	2018
Patient Days	12,536	15,445	-18.83%	14,674
Diagnostic Imaging Procedures	62,757	74,257	-15.49%	68,265
Laboratory Procedures	313,974	349,051	-10.05%	334,710
Pharmaceutical Medication Units	318,947	367,256	-13.15%	356,910
Rehab Procedures	39,340	51,729	-23.95%	54,267
Home Health Units of Service	42,454	63,585	-33.23%	58,862
Outpatient Clinic Procedures	5,442	9,171	-40.66%	8,736

Excluded from net patient service revenue are charges for patient service waived under the Hospital's uncompensated care policy. Uncompensated care represents unreimbursed charges, both charity care and bad debt, incurred by the Hospital in providing uncompensated care to patients. Based on established rates, gross charges of \$4,815 were waived during 2020. This is a decrease compared to the previous year.

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

NONOPERATING INCOME AND EXPENSES

Nonoperating income and expenses are the result of changes in the Hospital's investment income and other non-capital grants and contributions. The Hospital's investment income significantly increased primarily due to market conditions during 2020. The Hospital also recognized \$30,280 during 2020 from COVID-19 grant revenue. The Hospital's nonoperating income increased in 2020 by \$30,084 from 2019.

GRANTS AND CONTRIBUTIONS

Other than the COVID-19 grant revenue, the Hospital receives other operating grants from various state and federal agencies for specific programs. Operating grants received in 2020 totaled \$1,128 compared to \$933 in 2019.

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 AND 2019

Some of the significant grants received by the Hospital are:

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

THE HOSPITAL’S CASH FLOWS

Changes in the Hospital’s cash flows are consistent with changes in operating income and nonoperating income and expenses as discussed earlier. The following is a summary of cash flows:

	2020	2019	2020 - 2019 \$ Change	2018
Net cash flows from				
Operating activities	\$ 10,824	\$ 33,732	\$ (22,908)	\$ 32,974
Noncapital financing activities	37,204	5,342	31,862	1,773
Capital and related financing	(45,690)	(34,193)	(11,497)	(13,909)
Investing	1,719	(5,236)	6,955	(12,898)
Change in cash and cash equivalents	\$ 4,057	\$ (355)	\$ 4,412	\$ 7,940

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

During 2020, the Hospital’s net capital assets increased by approximately \$31,665. This compares to an increase of approximately \$20,976 for 2019 compared to 2018. The increases in 2020 and 2019 were due to construction projects to expand the Hospital’s operations in Hancock County. The change in capital assets is outlined in the following table:

	2020	2019	2020 - 2019 \$ Change	2018
Land	\$ 2,191	\$ 1,326	\$ 865	\$ 718
Land improvements	22,308	14,915	7,393	7,803
Building and fixed equipment	169,320	137,353	31,967	124,429
Major moveable equipment	110,175	100,957	9,218	88,748
Construction in progress	910	3,213	(2,303)	4,191
Total capital assets	304,904	257,764	47,140	225,889
Less accumulated depreciation	177,248	161,773	15,475	150,874
	\$ 127,656	\$ 95,991	\$ 31,665	\$ 75,015

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

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 AND 2019

DEBT

The Hospital's debt consists of a note payable. This note payable was a new borrowing in 2020. The Hospital did not have any long-term debt obligations in 2019 or 2018. More detailed information about the Hospital's long-term debt is presented in the notes to the consolidated financial statements.

ECONOMIC FACTORS

During March 2020, the World Health Organization declared COVID-19 a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of health care personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines.

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure as a result of COVID-19, 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 health care reform.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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

HANCOCK REGIONAL HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 AND 2019

ASSETS

	2020	2019
Current assets		
Cash and cash equivalents	\$ 75,369,760	\$ 71,312,060
Investments	2,313,167	2,596,512
Patient accounts receivable, net	65,279,041	66,230,825
Inventories and other current assets	31,696,459	32,860,417
Total current assets	<u>174,658,427</u>	<u>172,999,814</u>
Assets whose use is limited		
Board designated funds	111,552,296	96,639,538
Donor restricted funds	10,847,173	9,388,028
Total assets whose use is limited	<u>122,399,469</u>	<u>106,027,566</u>
Capital assets		
Land and land improvements	24,498,402	16,241,222
Buildings and fixed equipment	169,319,761	137,352,763
Major movable equipment	110,174,665	100,956,980
Construction in progress	910,327	3,212,975
Total capital assets	<u>304,903,155</u>	<u>257,763,940</u>
Less accumulated depreciation	177,247,648	161,773,174
Capital assets, net	<u>127,655,507</u>	<u>95,990,766</u>
Other assets	<u>29,443,323</u>	<u>30,322,103</u>
Total assets	<u>\$ 454,156,726</u>	<u>\$ 405,340,249</u>

See accompanying notes to consolidated financial statements

HANCOCK REGIONAL HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 AND 2019

LIABILITIES AND NET POSITION

	2020	2019
Current liabilities		
Accounts payable and other liabilities	\$ 98,364,260	\$ 91,006,191
Accrued salaries and related liabilities	7,428,099	5,416,964
Medicare accelerated/advance payments	10,936,462	-0-
Estimated third-party settlements	4,640,360	5,930,728
Current portion of long-term debt	230,004	-0-
Total current liabilities	<u>121,599,185</u>	<u>102,353,883</u>
Long-term debt, net of current portion	<u>2,050,829</u>	<u>-0-</u>
Total liabilities	123,650,014	102,353,883
Net position		
Net investment in capital assets	125,374,674	95,990,766
Donor restricted expendable	10,847,173	9,388,028
Restricted nonexpendable	3,242,666	2,717,321
Unrestricted	<u>191,042,199</u>	<u>194,890,251</u>
Total net position	<u>330,506,712</u>	<u>302,986,366</u>
Total liabilities and net position	<u>\$ 454,156,726</u>	<u>\$ 405,340,249</u>

See accompanying notes to consolidated financial statements

HANCOCK REGIONAL HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Operating revenue		
Net patient service revenue	\$ 515,124,263	\$ 539,607,397
Other operating revenue	6,873,596	9,864,835
Total operating revenue	521,997,859	549,472,232
Operating expenses		
Salaries and wages	60,363,360	54,829,490
Employee benefits	14,387,795	11,083,183
Professional medical fees	4,503,721	2,843,870
Supplies and drugs	81,893,398	64,359,741
Purchased services	345,684,120	353,028,451
Utilities and insurance	11,764,338	11,984,704
Depreciation and amortization	15,746,866	12,583,579
Hospital assessment fee	6,246,696	6,090,496
Other	6,828,589	7,146,621
Total operating expenses	547,418,883	523,950,135
Operating income (loss)	(25,421,024)	25,522,097
Nonoperating income		
Noncapital contributions	2,410,617	3,046,708
Other nonoperating income	4,513,870	2,294,957
COVID-19 grant revenue	30,280,057	-0-
Investment income	16,928,289	18,707,295
Total nonoperating income	54,132,833	24,048,960
Change in net position before capital distributions	28,711,809	49,571,057
Capital distributions - noncontrolling interest	(1,191,463)	(1,148,148)
Change in net position	27,520,346	48,422,909
Net position		
Beginning of year	302,986,366	254,563,457
End of year	\$ 330,506,712	\$ 302,986,366

See accompanying notes to consolidated financial statements

HANCOCK REGIONAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Operating activities		
Cash received from patients and third party payors	\$ 525,722,141	\$ 527,062,744
Cash paid to employees for wages and benefits	(72,740,020)	(65,861,144)
Cash paid to vendors for goods and services	(449,031,438)	(437,334,799)
Other operating receipts	6,873,596	9,864,835
Net cash from operating activities	<u>10,824,279</u>	<u>33,731,636</u>
Noncapital financing activities		
Noncapital contributions	2,410,617	3,046,708
Other nonoperating	4,513,870	2,294,957
COVID-19 grant funds	30,280,057	-0-
Net cash from noncapital financing activities	<u>37,204,544</u>	<u>5,341,665</u>
Capital and related financing activities		
Acquisition and construction of capital assets	(46,779,004)	(33,801,968)
Loss on disposal of capital assets	-0-	756,798
Proceeds from issuance of long-term debt	2,300,000	-0-
Principal payments on long-term debt	(19,167)	-0-
Capital distributions - noncontrolling interest	(1,191,463)	(1,148,148)
Net cash from capital and related financing activities	<u>(45,689,634)</u>	<u>(34,193,318)</u>
Investing activities		
Other assets	878,780	(4,863,388)
Investment income	16,928,289	18,707,295
Proceeds on sale of O3PureMed	-0-	1,000,000
Other changes in assets whose use is limited, net	(16,088,558)	(20,079,204)
Net cash from investing activities	<u>1,718,511</u>	<u>(5,235,297)</u>
Net change in cash and cash equivalents	4,057,700	(355,314)
Cash and cash equivalents		
Beginning of year	71,312,060	71,667,374
End of year	<u>\$ 75,369,760</u>	<u>\$ 71,312,060</u>

See accompanying notes to consolidated financial statements

HANCOCK REGIONAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ (25,421,024)	\$ 25,522,097
Adjustment to reconcile operating income to net cash from operating activities		
Depreciation and amortization	15,746,866	12,583,579
Bad debts	9,428,098	12,164,287
Changes in assets and liabilities		
Patient accounts receivable	(8,476,314)	(23,537,914)
Other current assets	1,163,958	(3,380,423)
Accounts payable and other liabilities	6,725,466	11,499,507
Accrued salaries and related liabilities	2,011,135	51,529
Medicare accelerated/advance payments	10,936,462	-0-
Estimated third-party settlements	(1,290,368)	(1,171,026)
Net cash from operating activities	<u>\$ 10,824,279</u>	<u>\$ 33,731,636</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents:		
In current assets	<u>\$ 75,369,760</u>	<u>\$ 71,312,060</u>
Supplementary disclosure of cash flows information		
Acquisition and construction of capital assets in accounts payable	\$ 632,603	\$ 514,602

See accompanying notes to consolidated financial statements

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

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

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

Blended Component Units

The accompanying consolidated financial statements include the accounts of Hancock Regional Hospital Foundation, Inc. (Foundation), a separate not-for-profit entity organized to support the operations of HRH. The accompanying consolidated financial statements also include the accounts of the Blended Component Units – Hancock Regional Surgery Center, LLC (HRSC), O3PureMed, LLC (O3PureMed), Hancock Health Gateway Services, Inc. (Gateway), and Suburban Hospice, Inc. (Hospice). All significant intercompany transactions have been eliminated for financial reporting purposes.

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

HRSC was formed for the purpose of owning and operating a multi-specialty ambulatory surgery facility that provides the medical, management and administrative support necessary for licensed physicians to perform non-emergency surgical procedures on an outpatient basis. HRH's membership interest in HRSC is 51%. HRH maintains substantial participation in the operations of HRSC in addition to an economic interest in HRSC's financial position.

Gateway was formed for the purpose of owning and operating a multi-purpose facility that provides first-class immediate care and high-value, affordable lab and imaging services. HRH's membership interest in Gateway is 100%.

Hospice was formed for the purpose of owning and operating an inpatient facility that provides high-quality, compassionate end of life care services for terminally ill patients. HRH's membership interest in Hospice is 100%.

O3PureMed was formed for the purpose of operating a medical and infectious waste treatment facility. HRH's membership interest in O3PureMed was 100%. O3PureMed was sold during 2019.

The separate financial statements for each of the entities discussed above may be obtained through contacting management of HRH. All entities contained in the consolidated financial statements are collectively referred to as the "Hospital".

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting

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

Cash and Cash Equivalents

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

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Patient Accounts Receivable and Net Patient Service Revenue

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

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

A summary of the payment arrangements with major third-party payors follows.

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

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

These programs have audited the year-end cost report filed with the Medicare program through December 31, 2017. There were no significant differences reflected as deductions from revenue during 2020 and 2019. Amounts for unresolved cost reports for 2018 through 2020 are reflected in estimated third-party settlements on the consolidated balance sheets.

Also included as a current liability on the consolidated balance sheet as of December 31, 2020 is approximately \$10,936,00 received during 2020 for Medicare accelerated/advance payments, which are anticipated to be repaid during 2021.

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

The Medicaid enhanced payments relate to both fee for service and managed care claims. Under the HAF Program, the enhanced Medicaid payments follow the patients and are realized through increased Medicaid rates. During 2020 and 2019, HRH recognized HAF Program expense of approximately \$6,247,000 and \$6,090,000, respectively. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the consolidated statements of operations and changes in net position.

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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

The Hospital recognized revenue related to the Medicaid Disproportionate Share Hospital and the Upper Payment Limitation programs of approximately \$2,300,000 and \$2,700,000 for the years ended December 31, 2020 and 2019, respectively. These amounts are reimbursements for providing care to the uninsured and underinsured and are included in net patient service revenue within the consolidated statements of operations and changes in net position.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, 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.

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 (excluding subsidiaries and long-term care operations) reported within the consolidated statements of operations and changes in net position, an estimated \$1,954,000 and \$2,411,000 arose from providing services to charity patients during 2020 and 2019, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue.

Inventories and Other Current Assets

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventory at year-end consists mainly of pharmaceuticals and medical supplies. Other current assets consist of prepaid expenses and various other items. These assets are classified as current as they are expected to be utilized during 2021.

Assets Whose Use is Limited and Investments

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

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Capital Assets and Depreciation

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

Description	Range of Useful Lives
Land improvements	8-15 years
Buildings and fixed equipment	5-40 years
Major movable equipment	3-20 years

Other Assets

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

Income Taxes

HRH is a governmental instrumentality organized under Title 16, Article 22, of the Indiana statutes. The Hospital is exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986. As such, HRH is exempt from federal income tax as a unit of local government. No income tax filings are required of the Hospital as it is a governmental instrumentality.

The Foundation, Gateway and Hospice are organized as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. However, the Foundation, Gateway and Hospice are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities.

Management has analyzed the tax positions taken by the Hospital and has concluded that as of December 31, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

HRSC and O3PureMed are organized as a limited liability company, whereby net taxable income is taxed directly to the members of the limited liability company. Thus, the consolidated financial statements do not include any provision for federal or state income taxes related to HRSC or O3PureMed.

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

Advertising and Community Relations

The Hospital records advertising and promotion expense in the period incurred. Total expense for advertising and promotion was approximately \$2,054,000 and \$1,408,000 for 2020 and 2019, respectively.

Compensated Absences

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

Net Position

The net position of the Hospital is classified in four components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position amounts are expendable noncapital net position that must be used for a particular purpose, as specified by creditors or donors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Restricted nonexpendable net position includes the noncontrolling interests owned by external investors. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

Donor Restricted Net Position

Restricted funds include donations to the Foundation that have been restricted by donors for a specific purpose. Generally, these donations are for additions to Hospital property and equipment. Transfers are made to unrestricted funds as expenditures are made in accordance with the donor restrictions.

Operating Revenues and Expenses

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

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Grants and Contributions

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

Restricted Resources

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

Litigation

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

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; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Accounting for Noncontrolling Interest

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

Reclassification

Certain amounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the current year presentation. The reclassifications had no effect on the previously reported net position and change in net position.

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were available to be issued which is September 28, 2021.

Recently Issued Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 87, *Leases*, by 18 months. GASB Statement No. 87 will be effective for periods beginning after June 15, 2021.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, by one year. GASB Statement No. 89 will be effective for periods beginning after December 15, 2020.

The Hospital is presently evaluating the effects that these statements will have on its future consolidated financial statements, including related disclosures.

2. CHANGE IN ACCOUNTING PRINCIPLES

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

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

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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

3. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Board Designated Funds

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

Donor Restricted Funds

The Hospital has assets, which have been donated for a specific purpose. The following represents assets whose use is limited and investments as of December 31, 2020 and 2019:

	2020	2019
Board designated funds	\$ 111,552,296	\$ 96,639,538
Donor restricted funds	10,847,173	9,388,028
Total assets whose use is limited	122,399,469	106,027,566
Investments	2,313,167	2,596,512
	<u>\$ 124,712,636</u>	<u>\$ 108,624,078</u>

The following represents the makeup of assets whose use is limited and investments as of December 31, 2020 and 2019:

	2020	2019
Money market funds	\$ 2,299,678	\$ 2,700,696
Certificates of deposit	-0-	380,860
Common stocks	6,364,579	4,761,542
Mutual funds - equities	74,224,546	61,863,664
Mutual funds - fixed income	41,823,833	38,917,316
	<u>\$ 124,712,636</u>	<u>\$ 108,624,078</u>

The common stocks are held by the Foundation.

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

4. DEPOSITS AND INVESTMENTS

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

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Assets whose use is limited investments consist of cash equivalents, certificates of deposit and mutual funds.

The Hospital's investments generally are reported at fair value. As of December 31, 2020 and 2019, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial financial institutions that are agents of the Hospital.

	December 31, 2020				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Money market funds	\$ 2,299,678	\$ 2,299,678	\$ -0-	\$ -0-	\$ -0-
Common stocks	6,364,579	6,364,579	-0-	-0-	-0-
Mutual funds - equities	74,224,546	74,224,546	-0-	-0-	-0-
Mutual funds - fixed income	41,823,833	41,823,833	-0-	-0-	-0-
	\$ 124,712,636	\$ 124,712,636	\$ -0-	\$ -0-	\$ -0-
	December 31, 2019				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Money market funds	\$ 2,700,696	\$ 2,700,696	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	380,860	380,860	-0-	-0-	-0-
Common stocks	4,761,542	4,761,542	-0-	-0-	-0-
Mutual funds - equities	61,863,664	61,863,664	-0-	-0-	-0-
Mutual funds - fixed income	38,917,316	38,917,316	-0-	-0-	-0-
	\$ 108,624,078	\$ 108,624,078	\$ -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.

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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

Deposits and investments consist of the following as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Carrying amount		
Deposits	\$ 75,369,760	\$ 71,312,060
Investments	124,712,636	108,624,078
	<u>\$ 200,082,396</u>	<u>\$ 179,936,138</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 75,369,760	\$ 71,312,060
Investments	2,313,167	2,596,512
Board designated funds	111,552,296	96,639,538
Donor restricted funds	10,847,173	9,388,028
	<u>\$ 200,082,396</u>	<u>\$ 179,936,138</u>

5. FAIR VALUE MEASUREMENTS

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that 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 significant transfers between levels during 2020 and 2019.

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 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 at December 31, 2020 and 2019.

- *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 net asset value and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.
- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *Money market funds*: Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

The following table set forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of December 31, 2020.

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and assets whose use is limited				
Mutual funds - equities				
Large blend	\$ 29,319,541	\$ 29,319,541	\$ -0-	\$ -0-
Large growth	21,058,697	21,058,697	-0-	-0-
Large value	12,638,127	12,638,127	-0-	-0-
Medium blend	2,355,073	2,355,073	-0-	-0-
Medium growth	543,675	543,675	-0-	-0-
Medium value	3,595,742	3,595,742	-0-	-0-
Small blend	395,172	395,172	-0-	-0-
Small growth	436,511	436,511	-0-	-0-
Small value	3,882,008	3,882,008	-0-	-0-
Total mutual funds - equities	74,224,546	74,224,546	-0-	-0-
Mutual funds - fixed income				
High yield bond	1,413,691	1,413,691	-0-	-0-
Intermediate-term bond	33,579,300	33,579,300	-0-	-0-
Short-term bond	6,830,842	6,830,842	-0-	-0-
Total mutual funds - fixed income	41,823,833	41,823,833	-0-	-0-
Common stocks				
Consumer goods	899,734	899,734	-0-	-0-
Financial	188,149	188,149	-0-	-0-
Healthcare	520,576	520,576	-0-	-0-
Services	680,236	680,236	-0-	-0-
Technology	1,691,128	1,691,128	-0-	-0-
Utilities	57,727	57,727	-0-	-0-
Other	2,327,029	2,327,029	-0-	-0-
Total common stocks	6,364,579	6,364,579	-0-	-0-
Money market funds	2,299,678	-0-	2,299,678	-0-
	<u>\$ 124,712,636</u>	<u>\$ 122,412,958</u>	<u>\$ 2,299,678</u>	<u>\$ -0-</u>

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

The following table 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.

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and assets whose use is limited				
Mutual funds - equities				
Large blend	\$ 21,968,798	\$ 21,968,798	\$ -0-	\$ -0-
Large growth	16,961,118	16,961,118	-0-	-0-
Large value	12,827,514	12,827,514	-0-	-0-
Medium growth	2,582,627	2,582,627	-0-	-0-
Medium growth	521,846	521,846	-0-	-0-
Medium value	1,971,822	1,971,822	-0-	-0-
Small blend	386,823	386,823	-0-	-0-
Small growth	389,543	389,543	-0-	-0-
Small value	4,253,573	4,253,573	-0-	-0-
Total mutual funds - equities	61,863,664	61,863,664	-0-	-0-
Mutual funds - fixed income				
High yield bond	2,019,329	2,019,329	-0-	-0-
Intermediate-term bond	29,387,287	29,387,287	-0-	-0-
Short-term bond	7,510,700	7,510,700	-0-	-0-
Total mutual funds - fixed income	38,917,316	38,917,316	-0-	-0-
Common stocks				
Consumer goods	634,536	634,536	-0-	-0-
Energy	144,311	144,311	-0-	-0-
Financial	353,616	353,616	-0-	-0-
Healthcare	464,868	464,868	-0-	-0-
Real estate	22,344	22,344	-0-	-0-
Services	406,252	406,252	-0-	-0-
Technology	807,596	807,596	-0-	-0-
Utilities	93,417	93,417	-0-	-0-
Other	1,834,602	1,834,602	-0-	-0-
Total common stocks	4,761,542	4,761,542	-0-	-0-
Money market fund	2,700,696	-0-	2,700,696	-0-
		<u>\$ 105,542,522</u>	<u>\$ 2,700,696</u>	<u>\$ -0-</u>
Certificates of deposit *	380,860			
	<u>\$ 108,624,078</u>			

* Certificates of deposit are reported at contract value

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

6. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities as of December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 32,833,386	\$ 31,616,949
Receivable from Medicare	24,302,259	29,841,309
Receivable from Medicaid	8,931,551	5,838,067
Receivable from long-term care operations	45,926,218	48,766,930
Total patient accounts receivable	<u>111,993,414</u>	<u>116,063,255</u>
Less contractual allowances	(33,682,166)	(37,246,186)
Less allowance for uncollectible amounts	<u>(13,032,207)</u>	<u>(12,586,244)</u>
Patient accounts receivable, net	<u>\$ 65,279,041</u>	<u>\$ 66,230,825</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	\$ 7,428,099	\$ 5,416,964
Payable to suppliers and other accrued expenses	<u>98,364,260</u>	<u>91,006,191</u>
Total accounts payable and accrued expenses	<u>\$ 105,792,359</u>	<u>\$ 96,423,155</u>

7. INVESTMENTS IN AFFILIATES

HRH owns 50% of Hancock Physician Network, LLC (Network) and has recorded the investment on the equity method of accounting in the amount of \$1,630,514 and \$1,917,077 as of December 31, 2020 and 2019, respectively. This investment is included within other assets in the consolidated financial statements. HRH paid the Network approximately \$6,064,000 and \$4,947,000 during 2020 and 2019, respectively, for management and other operating expenses.

HRH received approximately \$6,510,000 and \$6,233,000 for 2020 and 2019, respectively from the Network for rental, housecleaning and related income. HRH contributed capital of approximately \$7,572,000 and \$6,942,000 to the Network during 2020 and 2019, respectively.

HRH has a receivable from the Network of approximately \$1,260,000 and \$1,073,000 as of December 31, 2020 and 2019, respectively. The Hospital has a payable to the Network of approximately \$814,000 and \$805,000 as of December 31, 2020 and 2019, respectively. HRH expects to continue providing capital contributions to the Network at a commensurate level with its past experience.

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

HRH also owns 50% of a Physician Hospital Organization (PHO), approximately 37% of Suburban Home Health, LLC, and approximately 49% of Parkway, LLC. HRH has recorded these investments in affiliates on the equity method of accounting within other assets in the consolidated financial statements. HRH also owns 2% of St. Vincent Heart Center of Indiana, Inc.

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

8. CAPITAL ASSETS

Capital assets consist of the following as of December 31, 2020 and 2019:

	Balance December 31, 2019	Additions	Retirements	Transfers	Balance December 31, 2020
Land	\$ 1,326,471	\$ 864,157	\$ -0-	\$ -0-	\$ 2,190,628
Land improvements	14,914,751	-0-	-0-	7,393,023	22,307,774
Buildings and fixed equipment	137,352,763	6,185,753	(64,687)	25,845,932	169,319,761
Major movable equipment	100,956,980	7,383,335	(207,705)	2,042,055	110,174,665
Construction in progress	3,212,975	32,978,362	-0-	(35,281,010)	910,327
Total capital assets	257,763,940	47,411,607	(272,392)	-0-	304,903,155
Less accumulated depreciation					
Land improvements	(6,339,585)	(2,199,874)	-0-	-0-	(8,539,459)
Buildings and fixed equipment	(85,460,288)	(5,896,470)	-0-	-0-	(91,356,758)
Major movable equipment	(69,973,301)	(7,650,522)	272,392	-0-	(77,351,431)
Total accumulated depreciation	(161,773,174)	(15,746,866)	272,392	-0-	(177,247,648)
Capital assets, net	\$ 95,990,766	\$ 31,664,741	\$ -0-	\$ -0-	\$ 127,655,507
	Balance December 31, 2018	Additions	Retirements	Transfers	Balance December 31, 2019
Land	\$ 718,399	\$ 608,072	\$ -0-	\$ -0-	\$ 1,326,471
Land improvements	7,802,643	-0-	-0-	7,112,108	14,914,751
Buildings and fixed equipment	124,428,598	3,642,006	(173,302)	9,455,461	137,352,763
Major movable equipment	88,747,550	11,409,804	(2,268,324)	3,067,950	100,956,980
Construction in progress	4,191,806	18,656,688	-0-	(19,635,519)	3,212,975
Total capital assets	225,888,996	34,316,570	(2,441,626)	-0-	257,763,940
Less accumulated depreciation					
Land improvements	(5,473,371)	(866,214)	-0-	-0-	(6,339,585)
Buildings and fixed equipment	(80,810,928)	(4,797,895)	148,535	-0-	(85,460,288)
Major movable equipment	(64,590,124)	(6,919,470)	1,536,293	-0-	(69,973,301)
Total accumulated depreciation	(150,874,423)	(12,583,579)	1,684,828	-0-	(161,773,174)
Capital assets, net	\$ 75,014,573	\$ 21,732,991	\$ (756,798)	\$ -0-	\$ 95,990,766

At December 31, 2020, the Hospital has remaining commitments of approximately \$10,000,000 primarily for updates and renovations to the surgery department, which are being financed internally.

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

9. LONG-TERM DEBT

During 2020, the Hospital obtained a \$2,300,000 interest free note payable with a local institution related to utility infrastructure at the Gateway site. The note payable is due in monthly installments of \$19,167 through November 2030. The note payable is not secured and does not contain restrictive financial covenants. The Hospital determined that imputed interest expense would be insignificant to the consolidated financial statements.

The following represents a progression of long-term debt for the Hospital for the year ended December 31, 2020:

	Balance December 31, 2019	Additional Borrowings	Payments	Balance December 31, 2020	Current Portion	Long-term Portion
Long-term debt						
Direct borrowings						
Gateway site note payable	\$ -0-	\$ 2,300,000	\$ (19,167)	\$ 2,280,833	\$ 230,004	\$ 2,050,829

Aggregate maturities of long-term debt are as follows:

Year ending December 31,	Principal
2021	\$ 230,004
2022	230,004
2023	230,004
2024	230,004
2025	230,004
2026-2030	1,130,813
	\$ 2,280,833

10. PATIENT SERVICE REVENUE

Patient service revenue for 2020 and 2019 consists of the following:

	2020	2019
Inpatient	\$ 61,484,458	\$ 66,022,808
Outpatient	356,258,258	377,141,603
Long-term care	369,777,629	388,315,513
Patient service revenue	787,520,345	831,479,924
Contractual allowance	258,153,221	272,698,552
Bad debts	9,428,098	12,164,287
Charity care	4,814,763	7,009,688
Deductions from revenue	272,396,082	291,872,527
Net patient service revenue	\$ 515,124,263	\$ 539,607,397

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

11. PENSION PLANS

Plan Descriptions

The Hancock Regional Hospital 403(b) Plan (403(b) Plan) and the Hancock Regional Hospital Employee 457(b) Plan (457(b) Plan) are defined contribution pension plans, as authorized by Indiana Code 16-22-3-11, administered by Transamerica Retirement Solutions, LLC. The plans cover all employees who meet eligibility requirements as to age and length of service. The plans provide retirement, disability, and death benefits to plan participants and beneficiaries. The plans were established by written agreements between the Hospital's Board of Trustees and the plan administrator.

Funding Policy

The contribution requirements of plan participants are established by the written agreements between the Hospital's Board of Trustees and the plan administrator. The contribution requirements of participants of the plan are established and can be amended by written agreement. 403(b) Plan and 457(b) Plan participants may contribute a portion of their annual covered salary. The Hospital matches 50% of the participants' 403(b) Plan contribution up to 4% of the participants' eligible wages. The Hospital's matching contributions to the 403(b) Plan for 2020 and 2019 were approximately \$2,562,000 and \$2,330,000, respectively. The Hospital is not permitted to contribute to the 457(b) Plan.

12. CONCENTRATION OF CREDIT RISK

The Hospital is located in Greenfield, 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 acute care mix of gross patient accounts receivable and gross revenue from patients and third-party payors at December 31 was as follows:

	Receivables		Revenue	
	2020	2019	2020	2019
Medicare	36%	44%	55%	55%
Medicaid	13%	8%	12%	10%
Commercial	31%	30%	31%	32%
Self pay and other	20%	18%	2%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

13. ACCOUNTING FOR NONCONTROLLING INTEREST

The following depicts the changes in consolidated net position attributable to the controlling financial interest of the Hospital and the noncontrolling interest as of December 31, 2020 and 2019:

	Controlling interest	Noncontrolling interest	Total
Net position			
December 31, 2018	\$ 252,718,839	\$ 1,844,618	\$ 254,563,457
Change in net position before capital distributions	47,550,206	2,020,851	49,571,057
Capital distributions	-0-	(1,148,148)	(1,148,148)
Change in net position	<u>47,550,206</u>	<u>872,703</u>	<u>48,422,909</u>
December 31, 2019	300,269,045	2,717,321	302,986,366
Change in net position before capital distributions	26,995,001	1,716,808	28,711,809
Capital distributions	-0-	(1,191,463)	(1,191,463)
Change in net position	<u>26,995,001</u>	<u>525,345</u>	<u>27,520,346</u>
December 31, 2020	<u>\$ 327,264,046</u>	<u>\$ 3,242,666</u>	<u>\$ 330,506,712</u>

14. SELF-INSURED HEALTH CLAIMS

The Hospital is self-insured for employee health claims. A third party administrator processes the claims for the Hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported.

The Hospital maintains reinsurance including a stop loss for specific incident claims generally over \$300,000. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$9,889,000 and \$7,470,000 for 2020 and 2019, respectively.

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

Changes in the accrual for unpaid claims for 2020 and 2019 are as follows:

	2020	2019
Unpaid claims estimate, beginning of year	\$ 491,950	\$ 848,761
Incurred claims and changes in estimates	9,888,846	7,470,084
Claims payments	<u>(9,797,009)</u>	<u>(7,826,895)</u>
Unpaid claims estimate, end of year	<u>\$ 583,787</u>	<u>\$ 491,950</u>

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

15. COMMITMENTS AND CONTINGENCIES

Malpractice Insurance

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. For claims on or after July 1, 1999 and before July 1, 2017, the Indiana Medical Malpractice Act (the Act) provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Indiana Patient Compensation Fund (the Fund). For claims on or after July 1, 2017, the Act provides a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence (\$8,000,000 in the annual aggregate) until June 30, 2019. On July 1, 2019, the Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 in the annual aggregate). The Act also requires the Hospital to pay a surcharge to the Fund. The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

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.

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

16. COVID-19

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

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

During 2020, Provider Relief Funds (PRF) authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. The Hospital received approximately \$30,280,000 of these funds from the CARES Act. PRF amounts are recognized to the extent the Hospital meets the terms and conditions. The Hospital recognized PRF of approximately \$30,280,000 as COVID-19 grant funds within nonoperating income in the consolidated statements of operations and changes in net position for the year ended December 31, 2020. The Hospital did not defer any PRF as deferred revenue – COVID-19 within current liabilities on the consolidated balance sheets. Compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues may also be subject to future government review and interpretation as they are emerging and uncertain at the time the consolidated financial statements were available to be issued. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues, and it is not possible to determine the impact (if any) such claims would have upon the Hospital.

Under terms and conditions of PRF under the CARES Act, the Hospital is required to report COVID-19 related expenses and lost revenue to the U.S. Department of Health and Human Services (HHS). Guidance from HHS has required the reporting of the COVID-19 related expenses and lost revenue in certain reporting periods based on when the funds were received. HHS requires these PRF amounts be reported on the 2021 Schedule of Expenditures of Federal Awards (SEFA), rather than the 2020 SEFA. In accordance with the requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the Hospital was not required to include a SEFA in 2020 as federal expenditures in 2020, excluding PRF received in 2020, were less than \$750,000.

The CARES Act also allowed health care providers to request accelerated and advanced payments for Medicare services. The Hospital requested and received approximately \$10,936,000 of accelerated and advanced Medicare payments under this CARES Act provision through the date the consolidated financial statements were available to be issued. The amounts due for Medicare accelerated and advance payments was reported in current liabilities on the consolidated balance sheets.

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

17. BLENDED COMPONENT UNITS

Below is condensed, combining financial information of the blended component units as of and for the year ended December 31, 2020:

	2020				
	Foundation	HRSC	Gateway	Hospice	Total
Assets					
Current assets	\$ 4,598,211	\$ 7,407,768	\$ 445,975	\$ 1,259,455	\$ 13,711,409
Capital assets	1,055	441,138	2,221,957	-0-	2,664,150
Assets whose use is limited	10,847,173	-0-	-0-	-0-	10,847,173
Total assets	<u>\$ 15,446,439</u>	<u>\$ 7,848,906</u>	<u>\$ 2,667,932</u>	<u>\$ 1,259,455</u>	<u>\$ 27,222,732</u>
Liabilities					
Accounts payable and other liabilities	\$ 64,973	\$ 1,243,288	\$ 2,510,980	\$ 1,883,580	5,702,821
Total liabilities	<u>64,973</u>	<u>1,243,288</u>	<u>2,510,980</u>	<u>1,883,580</u>	<u>5,702,821</u>
Net position					
Unrestricted	4,533,238	6,164,480	(2,065,005)	(624,125)	8,008,588
Net investment in capital assets	1,055	441,138	2,221,957	-0-	2,664,150
Donor restricted-expendable	10,847,173	-0-	-0-	-0-	10,847,173
Total net position	<u>15,381,466</u>	<u>6,605,618</u>	<u>156,952</u>	<u>(624,125)</u>	<u>21,519,911</u>
Total liabilities and net position	<u>\$ 15,446,439</u>	<u>\$ 7,848,906</u>	<u>\$ 2,667,932</u>	<u>\$ 1,259,455</u>	<u>\$ 27,222,732</u>
Operating revenues (patient and other)	\$ -0-	\$ 15,308,427	\$ 922,487	\$ 1,809,494	\$ 18,040,408
Expenses					
Depreciation	-0-	173,305	605,387	7,185	785,877
Other expenses	-0-	11,364,605	3,713,627	2,967,219	18,045,451
Total expenses	<u>-0-</u>	<u>11,537,910</u>	<u>4,319,014</u>	<u>2,974,404</u>	<u>18,831,328</u>
Operating income (loss)	-0-	3,770,517	(3,396,527)	(1,164,910)	(790,920)
Nonoperating income, net	2,557,126	26,957	-0-	-0-	2,584,083
Capital contributions (distributions)	-0-	(2,670,000)	151,641	250,000	(2,268,359)
Transfers	-0-	-0-	-0-	-0-	-0-
Change in net position	2,557,126	1,127,474	(3,244,886)	(914,910)	(475,196)
Net position, beginning of year	<u>12,824,340</u>	<u>5,478,144</u>	<u>3,401,838</u>	<u>290,785</u>	<u>21,995,107</u>
Net position, end of year	<u>\$ 15,381,466</u>	<u>\$ 6,605,618</u>	<u>\$ 156,952</u>	<u>\$ (624,125)</u>	<u>\$ 21,519,911</u>
Net cash flows from					
Operating activities	\$ -0-	\$ 3,943,822	\$ (2,791,140)	\$ (1,157,725)	(5,043)
Noncapital financing activities	943,367	-0-	-0-	-0-	943,367
Capital and related financing activities	-0-	(1,989,095)	1,879,609	1,531,863	1,422,377
Investing activities	469,563	(5,731)	-0-	-0-	463,832
Total	<u>1,412,930</u>	<u>1,948,996</u>	<u>(911,531)</u>	<u>374,138</u>	<u>2,824,533</u>
Cash and cash equivalents:					
Beginning of year	<u>610,288</u>	<u>3,214,330</u>	<u>1,027,582</u>	<u>433,871</u>	<u>5,286,071</u>
End of year	<u>\$ 2,023,218</u>	<u>\$ 5,163,326</u>	<u>\$ 116,051</u>	<u>\$ 808,009</u>	<u>\$ 8,110,604</u>

HANCOCK REGIONAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Below is condensed, combining financial information of the blended component units as of and for the year ended December 31, 2019:

	2019					
	Foundation	HRSC	O3PureMed	Gateway	Hospice	Total
Assets						
Current assets	\$ 3,485,963	\$ 5,391,403	\$ -0-	\$ 1,596,555	\$ 950,248	\$ 11,424,169
Capital assets	3,165	518,185	-0-	2,675,703	-0-	3,197,053
Assets whose use is limited	9,388,028	-0-	-0-	-0-	-0-	9,388,028
Total assets	<u>\$ 12,877,156</u>	<u>\$ 5,909,588</u>	<u>\$ -0-</u>	<u>\$ 4,272,258</u>	<u>\$ 950,248</u>	<u>\$ 24,009,250</u>
Liabilities						
Accounts payable and other liabilities	\$ 52,816	\$ 431,444	\$ -0-	\$ 870,420	\$ 659,463	\$ 2,014,143
Total liabilities	52,816	431,444	-0-	870,420	659,463	2,014,143
Net position						
Unrestricted	3,433,147	4,959,959	-0-	726,135	290,785	9,410,026
Net investment in capital assets	3,165	518,185	-0-	2,675,703	-0-	3,197,053
Donor restricted-expendable	9,388,028	-0-	-0-	-0-	-0-	9,388,028
Total net position	<u>12,824,340</u>	<u>5,478,144</u>	<u>-0-</u>	<u>3,401,838</u>	<u>290,785</u>	<u>21,995,107</u>
Total liabilities and net position	<u>\$ 12,877,156</u>	<u>\$ 5,909,588</u>	<u>\$ -0-</u>	<u>\$ 4,272,258</u>	<u>\$ 950,248</u>	<u>\$ 24,009,250</u>
Operating revenues (patient and other)	\$ -0-	\$ 14,756,240	\$ 317,466	\$ 590,856	\$ 265,629	\$ 15,930,191
Expenses						
Depreciation	-0-	207,585	206,333	297,017	3,321	714,256
Other expenses	-0-	10,333,217	255,142	1,963,360	681,726	13,233,445
Total expenses	<u>-0-</u>	<u>10,540,802</u>	<u>461,475</u>	<u>2,260,377</u>	<u>685,047</u>	<u>13,947,701</u>
Operating income (loss)	-0-	4,215,438	(144,009)	(1,669,521)	(419,418)	1,982,490
Nonoperating income, net	3,414,710	20,014	-0-	-0-	-0-	3,434,724
Capital contributions (distributions)	-0-	(3,110,880)	90,400	5,071,359	710,203	2,761,082
Transfers	-0-	-0-	(1,001,925)	-0-	-0-	(1,001,925)
Change in net position	3,414,710	1,124,572	(1,055,534)	3,401,838	290,785	7,176,371
Net position, beginning of year	9,409,630	4,353,572	1,055,534	-0-	-0-	14,818,736
Net position, end of year	<u>\$ 12,824,340</u>	<u>\$ 5,478,144</u>	<u>\$ -0-</u>	<u>\$ 3,401,838</u>	<u>\$ 290,785</u>	<u>\$ 21,995,107</u>
Net cash flows from						
Operating activities	\$ -0-	\$ 4,423,023	\$ 62,324	\$ (1,372,504)	\$ (416,097)	\$ 2,696,746
Noncapital financing activities	1,595,960	-0-	-0-	-0-	-0-	1,595,960
Capital and related financing activities	-0-	(3,860,021)	(135,329)	2,400,086	849,968	(745,296)
Investing activities	(1,424,488)	(16,439)	-0-	-0-	-0-	(1,440,927)
Total	171,472	546,563	(73,005)	1,027,582	433,871	2,106,483
Cash and cash equivalents:						
Beginning of year	438,816	2,667,767	73,005	-0-	-0-	3,179,588
End of year	<u>\$ 610,288</u>	<u>\$ 3,214,330</u>	<u>\$ -0-</u>	<u>\$ 1,027,582</u>	<u>\$ 433,871</u>	<u>\$ 5,286,071</u>

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



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

Board of Trustees
Hancock Regional Hospital
Greenfield, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Hancock Regional Hospital (the Hospital), a component unit of Hancock County, which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of operations and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 28, 2021.

Internal Control Over Financial Reporting

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

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

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

Board of Trustees
Hancock Regional Hospital
Greenfield, Indiana

Compliance and Other Matters

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

Purpose of this Report

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

Blue & Co., LLC

Indianapolis, Indiana
September 28, 2021