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302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

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

April 1, 2022

Board of Trustees  
Harrison County Hospital  
1141 Hospital Drive NW  
Corydon, IN 47112

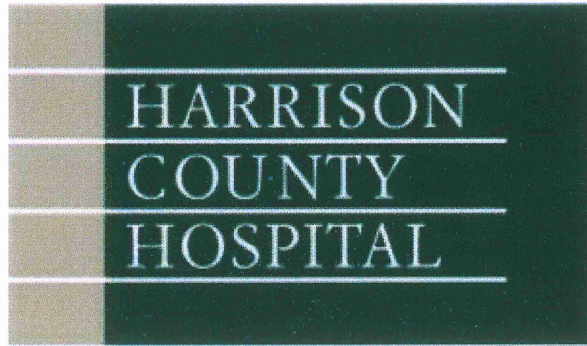
We have reviewed the audit report of Harrison County Hospital which was opined upon by Kerber, Eck and Braeckel LLP, Independent Public Accountants, for the period January 1, 2020 to December 31, 2020. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of Harrison County 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, Kerber, Eck and Braeckel LLP prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

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

A handwritten signature in black ink that reads "Tammy R. White".

Tammy R. White, CPA  
Deputy State Examiner



**HARRISON COUNTY HOSPITAL  
AND AFFILIATED ORGANIZATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2020 AND 2019**

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Harrison County Hospital and  
Affiliated Organization  
Corydon, Indiana

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Harrison County Hospital and Affiliated Organization (collectively the "Hospital"), a component unit of Harrison County, Indiana, 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.

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

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

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

Board of Trustees  
Harrison County Hospital and  
Affiliated Organization  
Corydon, 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 the results of its operations, its changes in net position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principles**

As discussed in Note 3 to the financial statements, the Hospital adopted Governmental Accounting Standards Board ("GASB") Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* and Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Our opinion is not modified with respect to these matters.

### **Prior Period Financial Statements**

The financial statements of the Hospital as of December 31, 2019, were audited by other auditors whose report dated May 10, 2021, expressed an unmodified opinion on those financial statements.

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

*Kentley Eck + Broedel LLP*

Marion, Illinois  
March 16, 2022

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

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

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Management's discussion and analysis of the financial performance of Harrison County Hospital ("HCH") and Harrison MOB, LLC ("the MOB"), (collectively described as "the Hospital") provides an overview of the Hospital's financial activities and performance for the years ended December 31, 2020 and 2019. This discussion and analysis should be read in conjunction with the accompanying Hospital's consolidated financial statements (hereinafter "financial statements").

### FINANCIAL HIGHLIGHTS

The Hospital's net position increased \$13,848 from 2019 to 2020 and included loss from operations of \$10,557,464. During 2020, the Hospital's total operating revenue increased by 26.1% to \$107,311,710, while total operating expenses increased by 36.4% to \$117,869,174. Non-operating revenues and expenses increased by \$10,412,907.

- The declaration of the public health emergency for the United States on January 31, 2020 and the continuing coronavirus ("COVID-19") pandemic has been a significant challenge. We are proud of our team members' tremendous dedication to meeting the medical needs of our community.
- The Hospital raised rates by 4.5% in 2020.
- In an effort to increase Medicaid reimbursement to hospitals, the State of Indiana implemented a Hospital Assessment Fee program in 2012. Indiana hospitals are assessed a fee which allows the state to access Federal funds allowing it to pay Medicaid patient claims at higher rates, not to exceed Medicare reimbursement. The Hospital incurred \$1,774,058 in Hospital Assessment Fees expense in 2020, a decrease of \$374,788 over the \$2,148,846 incurred in 2019.
- During 2019 and 2020, the Hospital assumed ownership of the bed licenses of seven long term care facilities. The Hospital entered into management agreements with the previous owners and/or management entities to manage the day-to-day operations of the facilities. The Hospital also leases the buildings and premises from the prior owners. The first year of operations was 2019 with four facilities included in the Hospital's financial results. Upper payment limit amounts recognized in net patient service revenue resulting from these long-term care facilities were \$2,651,905 in 2020 and \$2,027,407 in 2019.
- As described further below, during 2020, the Hospital recognized approximately \$8,500,000 in Provider Relief Fund and other coronavirus related grants authorized by the Coronavirus Aid, Relief, and Economic Security ("CARES") Act passed in March 2020. The funds were permitted to be used to cover operating expenses and/or lost patient revenues attributable to coronavirus. The Financial Accounting Standards Board ("FASB") requires these grant funds to be reported within operating revenues because they represent reimbursements of expenses and lost revenues associated with the Hospital's central, ongoing operations. However, the Hospital is required to follow Governmental Accounting Standards Board ("GASB") pronouncements, not FASB. GASB requires that these grant funds are reported within nonoperating revenues and expenses. As a result, the grant funds received do not offset the operating losses that the Hospital sustained in 2020 as a result of pandemic-related disruptions.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

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

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- In 2017, the Hospital purchased the physician-owned non-controlling interest of the Harrison MOB, LLC. As required by the appropriate federal law, Stark law, the purchase was performed at fair market value. The fair market value exceeded the book value by \$758,500. According to GASB, that difference was required to be recorded as a loss. Management vehemently disagrees with GASB's requirement to record a loss in the consolidated statements of operations and changes in net position that results in a permanent loss of net position totaling \$758,500, only due to following applicable Stark laws. However, to avoid a modified audit opinion on the financial statements, we are following applicable GASB guidance.

### FINANCIAL STATEMENTS

The financial statements of the Hospital present information about the Hospital using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information. The consolidated balance sheet includes all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). It also provides the basis for compiling rate of return, evaluating the capital structure and assessing the liquidity and financial flexibility of the Hospital. All of the current and prior year's revenues and expenses are accounted for in the consolidated statement of operations and changes in net position. This statement measures the financial results of the Hospital's operations and presents revenues earned and expenses incurred and provides information concerning the components of changes to net position. The consolidated statement of cash flows provides information about the Hospital's cash flows from operating activities, capital and related financing activities, and investing activities, plus provide information on the sources and uses of cash during both the current and prior year.

### FINANCIAL ANALYSIS

The consolidated balance sheet and consolidated statement of operations and changes in net position report information about the Hospital's activities. These statements report the net position of the Hospital and its changes. Increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population changes (including uninsured and medically indigent individuals and families) and new or changed governmental legislation should also be considered.

## HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

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

#### CONDENSED FINANCIAL INFORMATION

A summary of the Hospital's consolidated balance sheets as of December 31, 2020 and 2019 is presented below:

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Assets</b>				
Current assets	\$ 22,895,657	\$ 17,901,193	\$ 4,994,464	27.9%
Capital assets	24,762,605	27,056,905	(2,294,300)	-8.5%
Assets whose use is limited	8,950,764	9,386,410	(435,646)	-4.6%
Deferred outflows	<u>169,009</u>	<u>198,402</u>	<u>(29,393)</u>	-14.8%
Total assets and deferred outflows	<u>\$ 56,778,035</u>	<u>\$ 54,542,910</u>	<u>\$ 2,235,125</u>	4.1%
<b>Liabilities</b>				
Current liabilities	\$ 12,995,513	\$ 12,101,255	\$ 894,258	7.4%
Long-term liabilities	<u>10,954,463</u>	<u>9,627,444</u>	<u>1,327,019</u>	13.8%
Total liabilities	23,949,976	21,728,699	2,221,277	10.2%
<b>Net position</b>				
Net investment in capital assets	16,520,083	16,283,837	236,246	1.5%
Unrestricted	<u>16,307,976</u>	<u>16,530,374</u>	<u>(222,398)</u>	-1.3%
Total net position	<u>32,828,059</u>	<u>32,814,211</u>	<u>13,848</u>	0.0%
Total liabilities and net position	<u>\$ 56,778,035</u>	<u>\$ 54,542,910</u>	<u>\$ 2,235,125</u>	4.1%

- Cash increased by \$3,788,281 from 2019 to 2020. The Hospital received approximately \$18,600,000 in stimulus funding and accelerated Medicare payments provided under the CARES Act authorized by Congress in response to the COVID-19 pandemic. The additional funding received was offset by operating losses resulting from rising expenses and declining patient volumes due to the outbreak of the pandemic.
- Capital assets decreased by \$2,294,300 from 2019 to 2020 as depreciation expense exceeded capital purchases during 2020.
- Current liabilities increased by \$894,258 from 2019 to 2020. The increase is primarily a result of the additional liabilities for unearned accelerated Medicare payments received by the Hospital and long-term care facilities in 2020.



## HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

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

- Long term liabilities increased by \$1,327,019 from 2019 to 2020. The increase is a result of approximately \$3,880,000 in additional long-term liabilities recorded for accelerated Medicare payments scheduled to be recouped by Medicare in 2022. This increase was offset by \$2,540,000 in scheduled payments on long-term debt during 2020.

A summary of the Hospital's consolidated balance sheets as of December 31, 2019 and 2018 is presented below:

	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Assets</b>				
Current assets	\$ 17,901,193	\$ 13,410,172	\$ 4,491,021	33.5%
Capital assets	27,056,905	29,269,714	(2,212,809)	-7.6%
Assets whose use is limited	9,386,410	8,399,147	987,263	11.8%
Deferred outflows	<u>198,402</u>	<u>227,795</u>	<u>(29,393)</u>	-12.9%
Total assets and deferred outflows	<u>\$ 54,542,910</u>	<u>\$ 51,306,828</u>	<u>\$ 3,236,082</u>	6.3%
<b>Liabilities</b>				
Current liabilities	\$ 12,101,255	\$ 6,338,000	\$ 5,763,255	90.9%
Long-term liabilities	<u>9,627,444</u>	<u>10,994,202</u>	<u>(1,366,758)</u>	-12.4%
Total liabilities	21,728,699	17,332,202	4,396,497	25.4%
<b>Net position</b>				
Net investment in capital assets	16,283,837	17,286,531	(1,002,694)	-5.8%
Unrestricted	<u>16,530,374</u>	<u>16,688,095</u>	<u>(157,721)</u>	-0.9%
Total net position	<u>32,814,211</u>	<u>33,974,626</u>	<u>(1,160,415)</u>	-3.4%
Total liabilities and net position	<u>\$ 54,542,910</u>	<u>\$ 51,306,828</u>	<u>\$ 3,236,082</u>	6.3%

## HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2020 AND 2019

A summary of the Hospital's consolidated statements of operations and changes in net position for the years ended December 31, 2020 and 2019 is presented below:

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Operating revenues</b>				
Net patient service revenue	\$ 105,276,406	\$ 83,027,498	\$ 22,248,908	26.8%
Other revenue	<u>2,035,304</u>	<u>2,052,368</u>	<u>(17,064)</u>	-0.8%
Total operating revenues	107,311,710	85,079,866	22,231,844	26.1%
<b>Operating expenses</b>				
Salaries and benefits	61,483,121	46,435,978	15,047,143	32.4%
Supplies and drugs	14,926,230	10,435,983	4,490,247	43.0%
Depreciation	3,148,446	3,281,273	(132,827)	-4.0%
Other operating expenses	<u>38,311,377</u>	<u>26,245,452</u>	<u>12,065,925</u>	46.0%
Total operating expenses	<u>117,869,174</u>	<u>86,398,686</u>	<u>31,470,488</u>	36.4%
Loss from operations	(10,557,464)	(1,318,820)	(9,238,644)	-700.5%
<b>Nonoperating revenues</b>	<u>10,571,312</u>	<u>158,405</u>	<u>10,412,907</u>	6573.6%
Change in net position	13,848	(1,160,415)	1,174,263	101.2%
<b>Net position, beginning of year</b>	<u>32,814,211</u>	<u>33,974,626</u>	<u>(1,160,415)</u>	-3.4%
<b>Net position, end of year</b>	<u>\$ 32,828,059</u>	<u>\$ 32,814,211</u>	<u>\$ 13,848</u>	0.0%

A summary of the Hospital's consolidated statements of operations and changes in net position for the years ended December 31, 2019 and 2018 is presented below:

	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Operating revenues</b>				
Net patient service revenue	\$ 83,027,498	\$ 52,354,440	\$ 30,673,058	58.6%
Other revenue	<u>2,052,368</u>	<u>1,982,810</u>	<u>69,558</u>	3.5%
Total operating revenues	85,079,866	54,337,250	30,742,616	56.6%
<b>Operating expenses</b>				
Salaries and benefits	46,435,978	33,959,340	12,476,638	36.7%
Supplies and drugs	10,435,983	7,380,246	3,055,737	41.4%
Depreciation	3,281,273	3,233,919	47,354	1.5%
Other operating expenses	<u>26,245,452</u>	<u>13,161,575</u>	<u>13,083,877</u>	99.4%
Total operating expenses	<u>86,398,686</u>	<u>57,735,080</u>	<u>28,663,606</u>	49.6%
Loss from operations	(1,318,820)	(3,397,830)	2,079,010	61.2%
<b>Nonoperating revenues (expenses)</b>	<u>158,405</u>	<u>(367,235)</u>	<u>525,640</u>	143.1%
Change in net position	(1,160,415)	(3,765,065)	2,604,650	69.2%
<b>Net position, beginning of year</b>	<u>33,974,626</u>	<u>37,739,691</u>	<u>(3,765,065)</u>	-10.0%
<b>Net position, end of year</b>	<u>\$ 32,814,211</u>	<u>\$ 33,974,626</u>	<u>\$ (1,160,415)</u>	-3.4%

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

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

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### SOURCES OF REVENUE

The Hospital derives the majority of its revenue from charges for patient care and related services. The Hospital is reimbursed for services from a variety of sources including the Medicare and Medicaid programs, insurance carriers, managed care plans, and patients. The Hospital has established payment arrangements with Medicare, Medicaid, and various commercial insurance carriers. Services provided under those arrangements are paid at predetermined rates and/or reimbursable cost as defined. Provisions have been made in the consolidated financial statements for contractual adjustments representing the difference between the standard charges for services and the actual or estimated payment.

The Hospital's percentages of gross revenue by payor for 2020, 2019, and 2018 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Medicare	45 %	45 %	43 %
Medicaid	21	20	21
Blue Cross	12	14	15
Other third-party payors	13	14	19
Self-pay	<u>9</u>	<u>7</u>	<u>2</u>
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

### OPERATING AND FINANCIAL PERFORMANCE

The Hospital's financial performance from operations declined in 2020 in comparison to 2019. The Hospital's overall financial performance improved from 2018 to 2019. A discussion of the highlights of 2020 operations and changes in activity is presented below:

#### Revenues

Net patient service revenues of the Hospital increased by \$22,248,908 or 26.8% from 2019 to 2020. Excluding the three long-term care facilities added in 2020, net patient service revenues decreased by \$4,125,519 or 7.6% from 2019 to 2020. Highlights of this are as follows:

- There was a 4.5% rate increase in 2020.
- Net patient service revenues from HCH operations decreased by \$4,125,519 due to declining volumes resulting from the outbreak of the coronavirus pandemic and the resulting suspension of elective procedures for a period of time during 2020.
- Contractual, bad debt, and charity care adjustments as a percentage of gross patient revenues decreased by 7.7% from 2019 to 2020 as a result of pandemic related relief measures enacted by insurance payors and a reduction in uncollectible account balances.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

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

### Expenses

Total operating expenses increased by \$31,470,488 or 36.4% in 2020. Highlights of this increase are as follows:

- Result of additional expenses of the three long-term care facilities that HCH assumed ownership of in 2020 pursuant to the previously described management and lease agreements.
- Medical supplies and drug costs associated with HCH operations (excluding the long-term care facilities) increased by \$1,300,514 or 19.4% due to additional purchases driven by the coronavirus pandemic.

### FINANCIAL ANALYSIS – CASH FLOWS

Hospital cash flows increased by \$3,525,515 during 2020. The increase in cash was primarily a result of payments received through the Medicare Accelerated and Advance Payment Program and Provider Relief Fund provided under the CARES Act, which was authorized by Congress in response to the COVID-19 pandemic. The stimulus funds received were offset by operating losses and negative cash from operations as volumes declined and elective procedures were suspended during certain periods in 2020 as a result of the pandemic.

### Capital Assets

	2020	2019	\$ Change	% Change
Land and land improvements	\$ 6,380,571	\$ 6,380,571	\$ -0-	0.0%
Leasehold improvements	3,605,135	3,605,135	-0-	0.0%
Buildings	41,606,349	41,551,916	54,433	0.1%
Equipment	28,545,826	28,251,032	294,794	1.0%
Construction in progress	175,006	82,082	92,924	113.2%
	80,312,887	79,870,736	442,151	0.6%
Less accumulated depreciation	55,550,282	52,813,831	2,736,451	5.2%
Capital assets, net	\$ 24,762,605	\$ 27,056,905	\$ (2,294,300)	-8.5%
	2019	2018	\$ Change	% Change
Land and land improvements	\$ 6,380,571	\$ 6,380,571	\$ -0-	0.0%
Leasehold improvements	3,605,135	3,605,135	-0-	0.0%
Buildings	41,551,916	41,249,261	302,655	0.7%
Equipment	28,251,032	27,380,235	870,797	3.2%
Construction in progress	82,082	232,414	(150,332)	-64.7%
	79,870,736	78,847,616	1,023,120	1.3%
Less accumulated depreciation	52,813,831	49,577,902	3,235,929	6.5%
Capital assets, net	\$ 27,056,905	\$ 29,269,714	\$ (2,212,809)	-7.6%

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

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

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The Hospital's capital assets decreased \$2,294,300 in 2020. Major capital expenditures included a gamma/molecular camera for \$257,484 and an ambulance for \$244,289. See Note 6 for further detail on the Hospital's capital assets.

### Long-Term Debt

At December 31, 2020, the Hospital had total long-term debt \$8,411,531. This is comprised of \$4,549,472 in Hospital revenue bonds, a \$937,969 Hospital notes payable, \$2,923,639 in MOB revenue bonds, and \$451 in capital lease liabilities outstanding.

### ECONOMIC FACTORS AND 2021 BUDGET

The Hospital's Board and management considered many factors when establishing the 2021 budget. Included was the status of the economy, which takes into consideration market factors and other environmental factors such as the following items:

- Provider supply vs. demand causing increased employment subsidy costs
- Increased salary and benefit costs due to low unemployment rate
- Advances in medical equipment and information systems technology and the need to replace obsolete equipment
- Decreasing reimbursement from governmental and commercial insurance payors
- Increasing costs of medical supplies and pharmaceuticals
- Nationwide workforce shortages in nursing and other healthcare specialist positions
- Increasing awareness and expectations from the public on the quality of services
- Increased competition from niche providers
- Size, composition, and needs of the Hospital's physician medical staff

### CONTACTING THE HOSPITAL

This report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances. These consolidated financial statements include the activities of HCH, which include the long-term care facilities and MOB. If you have questions about this report or need additional information, contact Chuck Wiley, Chief Financial Officer at 812-734-3861.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 AND 2019

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	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,207,600	\$ 1,983,673
Patient accounts receivable, net of estimated uncollectibles of \$6,195,092 in 2020 and \$7,475,629 in 2019	10,740,468	12,561,297
Inventories	1,593,477	1,344,121
Prepaid expenses and other current assets	1,796,226	1,744,786
Estimated third-party payor settlements	2,557,886	267,316
Total current assets	<u>22,895,657</u>	<u>17,901,193</u>
<b>Assets whose use is limited</b>	8,950,764	9,386,410
<b>Capital assets, net</b>	<u>24,762,605</u>	<u>27,056,905</u>
Total assets	56,609,026	54,344,508
<b>Deferred outflows - deferred loss on bond refunding</b>	<u>169,009</u>	<u>198,402</u>
Total assets and deferred outflows	<u>\$ 56,778,035</u>	<u>\$ 54,542,910</u>

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*See accompanying notes to consolidated financial statements.*

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 AND 2019

### LIABILITIES AND NET POSITION

	2020	2019
<b>Current liabilities</b>		
Accounts payable	\$ 1,364,142	\$ 1,902,911
Accrued personnel costs	2,775,257	3,336,928
Accrued expenses	1,271,551	5,517,390
Current portion of refundable advances	6,247,961	-0-
Current portion of obligations under capital leases	451	18,239
Current portion of long-term debt	1,336,151	1,325,787
Total current liabilities	<u>12,995,513</u>	<u>12,101,255</u>
<b>Long-term liabilities</b>		
Refundable advances, net of current portion	3,879,534	-0-
Long-term debt, net of current portion	<u>7,074,929</u>	<u>9,627,444</u>
Total long-term liabilities	<u>10,954,463</u>	<u>9,627,444</u>
Total liabilities	23,949,976	21,728,699
<b>Net position</b>		
Net investment in capital assets	16,520,083	16,283,837
Unrestricted	<u>16,307,976</u>	<u>16,530,374</u>
Total net position	<u>32,828,059</u>	<u>32,814,211</u>
Total liabilities and net position	<u>\$ 56,778,035</u>	<u>\$ 54,542,910</u>

*See accompanying notes to consolidated financial statements.*

## HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

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

	<u>2020</u>	<u>2019</u>
<b>Operating revenues</b>		
Net patient service revenue	\$ 105,276,406	\$ 83,027,498
Rent revenue	354,213	416,700
Other revenue	<u>1,681,091</u>	<u>1,635,668</u>
Total operating revenues	107,311,710	85,079,866
<b>Operating expenses</b>		
Salaries and wages	50,197,590	38,639,353
Employee benefits and payroll taxes	11,285,531	7,796,625
Professional medical fees	7,618,759	5,251,875
Medical supplies	9,351,224	6,551,303
Other supplies	3,170,541	2,214,794
Drugs	2,404,465	1,669,886
Purchased services	8,350,861	6,864,531
Utilities	2,600,040	1,972,621
Insurance	1,415,633	1,115,071
Depreciation	3,148,446	3,281,273
Hospital assessment fee	1,774,058	2,148,846
Rent	8,094,762	3,220,736
Management fees	5,637,575	3,870,375
Other operating expenses	<u>2,819,689</u>	<u>1,801,397</u>
Total operating expenses	<u>117,869,174</u>	<u>86,398,686</u>
Loss from operations	(10,557,464)	(1,318,820)
<b>Nonoperating revenues</b>	<u>10,571,312</u>	<u>158,405</u>
Change in net position	13,848	(1,160,415)
<b>Net position, beginning of year</b>	<u>32,814,211</u>	<u>33,974,626</u>
<b>Net position, end of year</b>	<u>\$ 32,828,059</u>	<u>\$ 32,814,211</u>

See accompanying notes to consolidated financial statements.



## HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

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

	2020	2019
<b>Operating activities</b>		
Cash received for patient services	\$ 104,806,665	\$ 78,193,219
Cash paid to/for employees	(62,044,792)	(45,573,537)
Cash paid to vendors and suppliers	(58,323,011)	(32,625,847)
Other receipts, net	2,035,304	2,052,367
Net cash flows from operating activities	(13,525,834)	2,046,202
<b>Noncapital financing activities</b>		
Change in refundable advances	10,127,495	-0-
Grant revenue	8,500,186	-0-
Noncapital contributions	5,000	31,000
Net cash flows from noncapital financing activities	18,632,681	31,000
<b>Capital and related financing activities</b>		
Principal payments on obligations under capital leases	(17,788)	(35,838)
Principal payments on long-term debt	(2,542,151)	(1,203,670)
Interest paid	(288,562)	(355,482)
Purchase of capital assets	(854,146)	(1,056,759)
Proceeds from sale of capital assets	-0-	3,650
Gain on disposal of capital assets	-0-	(3,650)
Change in deferred outflows	29,393	29,393
Net cash flows from capital and related financing activities	(3,673,254)	(2,622,356)
<b>Investing activities</b>		
Investment income	304,688	479,237
Other nonoperating revenues (expenses)	2,050,000	3,650
Change in assets whose use is limited	(262,766)	(436,286)
Change in other assets	-0-	(49,032)
Net cash flows from investing activities	2,091,922	(2,431)
Net change in cash and cash equivalents	3,525,515	(547,585)
<b>Cash and cash equivalents, beginning of year</b>	8,687,723	9,235,308
<b>Cash and cash equivalents, end of year</b>	\$ 12,213,238	\$ 8,687,723
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents in current assets	\$ 6,207,600	\$ 1,983,673
Cash and cash equivalents in assets whose use is limited	6,005,638	6,704,050
Total cash and cash equivalents	\$ 12,213,238	\$ 8,687,723

*See accompanying notes to consolidated financial statements.*

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

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

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	<u>2020</u>	<u>2019</u>
<b>Reconciliation of income from operations to net cash flows from operating activities</b>		
Income (loss) from operations	\$ (10,557,464)	\$ (1,318,820)
Adjustments to reconcile income (loss) from operations to net cash flows from operating activities		
Depreciation	3,148,446	3,281,273
Provision for bad debts	4,921,732	7,424,538
Changes in operating assets and liabilities		
Patient accounts receivable	(3,100,903)	(12,177,705)
Inventories	(249,356)	(79,267)
Prepaid expenses and other current assets	(51,440)	(440,803)
Estimated third-party payor settlements	(2,290,570)	756,717
Accounts payable	(538,769)	862,440
Accrued personnel costs	(561,671)	4,554,187
Accrued expenses	(4,245,839)	(816,358)
Net cash flows from operating activities	<u>\$ (13,525,834)</u>	<u>\$ 2,046,202</u>
<b>Supplemental disclosures of noncash activities</b>		
Capital assets acquired included in accounts payable	\$ -0-	\$ 11,705

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*See accompanying notes to consolidated financial statements.*

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

Harrison County Hospital ("HCH") is a not-for-profit, acute care hospital located in Corydon, Indiana. The Hospital is county owned and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital is organized for the purpose of providing healthcare services to the residents of Harrison County and the surrounding area. The Hospital's primary sources of support are from patient revenues and other ancillary income. Patient revenues include funds received from Medicare, state agencies, insurance companies, and the patients themselves.

Pursuant to the provision of long-term care, HCH owns the operations of seven long-term care nursing facilities. These facilities provide inpatient and therapy services in their geographic area and supports the Hospital's mission to provide quality care and services to the facilities' residents. The facilities are managed by a third party under management agreements. The revenues from operations are the property of HCH and HCH is responsible for the associated operating expenses and working capital requirements.

Harrison MOB, LLC ("MOB") is a limited liability company that is wholly-owned by the Hospital. The MOB was organized to construct, own, and operate a medical office building adjacent to the Hospital in Corydon, Indiana. The MOB's primary source of revenue is from rental income.

The significant accounting policies followed by HCH and MOB (collectively the "Hospital") in the preparation of the consolidated financial statements (hereinafter "financial statements") are summarized below:

#### Reporting Entity and Consolidation Policy

The accompanying financial statements include the accounts of HCH and MOB. The Board of County Commissioners of Harrison County appoints the Governing Board of HCH and a financial benefit/burden relationship exists between the County and HCH. For these reasons, the HCH is considered a component unit of Harrison County. Similarly, due to its organized purpose, MOB is considered a blended component unit of HCH. Intercompany transactions and balances have been eliminated in consolidation.

#### Measurement Focus and Basis of Accounting

The financial statements are reported using the economic 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.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### Financial Statement Presentation

The Governmental Accounting Standards Board ("GASB") is the independent, private-sector organization that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles ("GAAP"). The Hospital follows GASB accounting and financial reporting standards in the preparation of their financial statements.

### Management's Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, if any, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

### 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. The Hospital is insured for medical malpractice claims and judgments.

### Cash and Cash Equivalents

Cash and cash equivalents as reported on the consolidated balance sheet include petty cash and other cash on hand amounts, checking accounts, and savings accounts that are readily available for use. Cash and cash equivalents as reported on the consolidated statement of cash flows include investments in highly liquid assets with maturity dates of 90 days or less when purchased.

### Patient Accounts Receivable and Net Patient Service Revenue

The Hospital recognizes net patient service revenues on the accrual basis of accounting in the reporting period in which services are performed based on the current gross charge structure, less actual adjustments and estimated discounts for contractual allowances, principally for patients covered by Medicare, Medicaid, managed care, and other health plans. Gross patient service revenue is recorded in the accounting records using the established rates for the types of service provided to the patient. The Hospital recognizes an estimated contractual allowance to reduce gross patient charges to the estimated net realizable amount for service rendered based upon previously agreed-to rates with a payor. The Hospital utilizes the patient accounting system to calculate contractual allowances on a payor-by-payor basis based on the rates in effect for each primary third-party payor. Another factor that is considered and could further influence the level of the contractual reserves includes the status of accounts receivable balances as inpatient or outpatient. The Hospital's management continually reviews the contractual estimation process to consider and

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# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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incorporate updated laws and regulations and the frequent changes in managed care contractual terms that result from contract negotiations and renewals.

Payors include federal and state agencies, including Medicare and Medicaid, managed care health plans, commercial insurance companies, and patients. These third-party payors provide payments to the Hospital at amounts different from its established rates based on negotiated reimbursement agreements. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and fee schedule payments. Retroactive adjustments under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

### Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts based on the Hospital's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to the service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party payor coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulty that make the realization of amounts due unlikely). For receivables associated with self-pay payments, which includes both patients without insurance and patient with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The December 31, 2020 and 2019 allowance for doubtful accounts balance was comprised of the following:

	<u>2020</u>	<u>2019</u>
Reserve for third-party payor balances	\$ 1,069,825	\$ 652,551
Reserve for self-pay balances	<u>5,125,267</u>	<u>6,823,078</u>
Total allowance for doubtful accounts	<u>\$ 6,195,092</u>	<u>\$ 7,475,629</u>

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### Inventories

Inventories consist of medical supplies, pharmaceuticals, and office supplies and are valued at the lower of cost or net realizable value ("NRV"), with cost being determined on the first-in, first-out (FIFO) method.

### Assets Whose Use is Limited and Investments

Assets whose use is limited include assets set aside by the respective Boards for future capital improvements, over which the Boards retain control and may at their discretion subsequently use for other purposes; assets held by trustees under indenture agreements; assets that have been restricted by donors for specific purposes; and amounts that have been set aside as part of deferred compensation plans. Investment income or loss, including realized gains and losses on investments and assets whose use is limited, net change in the market value of assets whose use is limited, and interest, is included in nonoperating revenues (expenses) when earned.

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit 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.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents, if any, are reported as investments at cost.

### Capital Assets

The Hospital's capital assets are reported at historical cost and include expenditures for additions and repairs which substantially increase the useful lives of capital assets. Maintenance, repairs, and minor improvements are expensed as incurred. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated using the straight-line method of depreciation over their estimated useful lives based upon the American Hospital Association Guide for Estimated Useful Lives for Fixed Assets.

### Classification of Net Position

The net position of the Hospital is classified in four components. (1) *Net investment in capital assets* consists of capital assets net of accumulated depreciation plus deferred outflows related to losses on bond refunding which are reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) *Restricted expendable net position* includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. (3) *Restricted nonexpendable net position* includes the principal portion of

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# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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permanent endowments and non-controlling interests owned by external investors. (4) *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

### Consolidated Statements of Operations and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenues and expenses. Peripheral and incidental transactions are reported as nonoperating revenues (expenses). Nonoperating revenues (expenses) which are excluded from income (loss) from operations include investment income, contributions and grants recognized, interest expense, restricted expenditures, and the net change in the market value of assets whose use is limited.

### Advertising and Marketing Costs

Advertising and marketing costs are charged to operations when incurred. Advertising and marketing costs charged to operations were \$501,675 and \$394,128 for the years ended December 31, 2020 and 2019, respectively, and are included within the line item purchased services on the consolidated statements of operations and changes in net position.

### Income Taxes

HCH has been granted exemption from taxation as a not-for-profit organization by the Internal Revenue Service under Section 115, and in 2005 was also granted exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code for purposes of maintaining a 403b deferred compensation plan. Therefore, no provision for income taxes has been provided in the consolidated statement of operations and changes in net position. The MOB has elected to be treated as a partnership for federal and state income tax purposes. Under existing provisions of the Internal Revenue Code, a partnership is not a taxpaying entity for federal or state income tax purposes. Accordingly, no income tax expense has been recorded in the financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by each entity comprising the Hospital and recognize a tax liability if any Hospital entity has taken an uncertain tax 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 each entity of 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 financial statements. Each entity of the Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### Grants, Contributions, and Refundable Advances

From time to time, the Hospital receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. 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. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Unrecognized grant funds are included as refundable advances on the consolidated balance sheets (see Note 16). Grants are subject to audit by the awarding agency. Based on prior experience, management believes that costs ultimately disallowed, if any, would not materially affect the Hospital's financial position.

### Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements were issued, which is March 16, 2022.

### Reclassifications

Certain reclassifications have been made to the 2019 financial statements to correspond to the current year's format. Total net position and change in net position are unchanged due to these reclassifications.

## **2. CHANGE IN ACCOUNTING PRINCIPLES**

During 2020, the Hospital adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement requires that additional essential information related to debt be disclosed in notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. See Note 11 for additional disclosures related to debt. The adoption of this statement did not have a significant impact on the financial statements.

During 2020, the Hospital early implemented GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This statement addressed the determination of financial accountability for a potential component unit and the financial burden criteria of a potential component unit. The Hospital's fiduciary activities relate to its 401(a), 403(b), and 457(b) plans which do not meet the financial accountability and financial burden criteria for fiduciary activities to be included as

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# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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component units under this statement. As such, there was no impact to these financial statements as a result of adoption of this statement.

### 3. DEPOSITS AND INVESTMENTS

Deposits and investments are comprised of the following at December 31, 2020 and 2019:

	2020	2019
Carrying amount:		
Cash and cash equivalents	\$ 12,213,238	\$ 8,687,723
Mutual funds	<u>2,945,126</u>	<u>2,682,360</u>
Total	<u>\$ 15,158,364</u>	<u>\$ 11,370,083</u>
Included in the consolidated balance sheet captions:		
Cash and cash equivalents	\$ 6,207,600	\$ 1,983,673
Assets whose use is limited	<u>8,950,764</u>	<u>9,386,410</u>
Total	<u>\$ 15,158,364</u>	<u>\$ 11,370,083</u>

#### Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to FDIC limits or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories. This includes any deposit accounts issued or offered by a qualifying institution. The Hospital maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Hospital has not experienced any losses on such accounts. The Hospital believes it is not exposed to any significant credit risk on cash.

#### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy for interest rate risk for investments. The Hospital believes it is not exposed to any significant interest rate risk on investments.

#### Credit Risk – Investments

Credit risk is the risk that, in the event of a failure of a financial institution, the Hospital would not be able to recover deposits, the value of its investments, or collateral securities that are in the possession of an outside party. The Hospital does not have a formal investment policy for credit

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# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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risk for investments. The Hospital believes it is not exposed to any significant credit risk on investments.

### 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.

### Foreign Currency Risk

The Hospital does not have a formal policy in regards to foreign currency risk. The Hospital's investments did not have foreign currency risk.

### Fair Value Measurements and Disclosures

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 market 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.

Following is a description of the valuation methodologies used for assets and liabilities 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
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# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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.

The following table set forth by level, within the hierarchy, the Hospital's asset and liability measured at fair value on a recurring basis as of December 31, 2020 are as follows:

	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Mutual funds				
Large cap	\$ 971,771	\$ -0-	\$ -0-	\$ 971,771
World allocation	398,386	-0-	-0-	398,386
Allocation--30 to 50% equity	688,320	-0-	-0-	688,320
Allocation--50 to 70% equity	438,588	-0-	-0-	438,588
Allocation--70 to 85% equity	194,136	-0-	-0-	194,136
World stock	253,925	-0-	-0-	253,925
Total assets at fair value	\$ 2,945,126	\$ -0-	\$ -0-	2,945,126
Cash and cash equivalents				12,213,238
Total deposits and investments				\$ 15,158,364

The following table set forth by level, within the hierarchy, the Hospital's asset and liability measured at fair value on a recurring basis as of December 31, 2019 are as follows:

	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Mutual funds				
Large cap	\$ 1,253,948	\$ -0-	\$ -0-	\$ 1,253,948
World allocation	371,980	-0-	-0-	371,980
Allocation--50 to 85% equity	836,339	-0-	-0-	836,339
World stock	220,093	-0-	-0-	220,093
Total assets at fair value	\$ 2,682,360	\$ -0-	\$ -0-	2,682,360
Cash and cash equivalents				8,687,723
Total deposits and investments				\$ 11,370,083

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### 4. PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable amounts are reported as current assets at December 31, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Medicare	\$ 8,446,889	\$ 9,800,987
Medicaid	4,964,107	5,221,554
Blue Cross	3,264,595	2,907,384
Other insurance carriers	4,790,899	6,711,029
Patients	6,333,800	8,068,415
Medicaid Upper Limit Payment (UPL) Program	<u>1,519,458</u>	<u>3,075,474</u>
Total patient accounts receivable	29,319,748	35,784,843
Less allowance for contractals	12,384,188	15,747,917
Less allowance for uncollectible amounts	<u>6,195,092</u>	<u>7,475,629</u>
Patient accounts receivable, net	<u>\$ 10,740,468</u>	<u>\$ 12,561,297</u>

### 5. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. Assets whose use is limited are reported at market value and include the following at December 31, 2020 and 2019:

#### Investment Summary by Type

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 6,005,638	\$ 6,704,050
Mutual funds	<u>2,945,126</u>	<u>2,682,360</u>
Total assets whose use is limited	<u>\$ 8,950,764</u>	<u>\$ 9,386,410</u>

#### Investment Summary by Fund

Board-Designated Funds	<u>\$ 8,950,764</u>	<u>\$ 9,386,410</u>
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# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

### Board-Designated Funds

The Hospital's Board of Trustees approved the funding of depreciation expense to meet the capital asset replacement needs of the facility. Depreciation is funded totally with expenditures for capital items reducing the funded depreciation balance. Board-designated funds also include amounts intended for specific purposes, as established by the Hospital's Board. All income earned by the board-designated accounts is left to accumulate as additions to the funds. Board-designated funds remain under the control of the Board, which may at their discretion later use for other purposes. Therefore, all board-designated funds are included in unrestricted net position.

## 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020, was as follows:

	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	\$ 3,001,138	\$ -0-	\$ -0-	3,001,138
Land improvements	3,379,433	-0-	-0-	3,379,433
Leasehold improvements	3,605,135	-0-	-0-	3,605,135
Buildings	41,551,916	-0-	54,433	41,606,349
Fixed equipment	28,251,032	604,394	(309,600)	28,545,826
Construction in progress	<u>82,082</u>	<u>249,752</u>	<u>(156,828)</u>	<u>175,006</u>
Total historical cost	79,870,736	854,146	(411,995)	80,312,887
Less accumulated depreciation for				
Land improvements	(2,487,976)	(94,635)	78	(2,582,533)
Leasehold improvements	(2,350,727)	(183,334)	-0-	(2,534,061)
Buildings	(23,528,919)	(1,526,360)	1,697	(25,053,582)
Fixed equipment	<u>(24,446,209)</u>	<u>(1,344,117)</u>	<u>410,220</u>	<u>(25,380,106)</u>
Total accumulated depreciation	<u>(52,813,831)</u>	<u>(3,148,446)</u>	<u>411,995</u>	<u>(55,550,282)</u>
Capital assets, net	<u>\$ 27,056,905</u>	<u>\$ (2,294,300)</u>	<u>\$ -0-</u>	<u>\$ 24,762,605</u>

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Capital asset activity for the year ended December 31, 2019, was as follows:

	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	\$ 3,001,138	\$ -0-	\$ -0-	\$ 3,001,138
Land improvements	3,379,433	-0-	-0-	3,379,433
Leasehold improvements	3,605,135	-0-	-0-	3,605,135
Buildings	41,249,261	69,256	233,399	41,551,916
Fixed equipment	27,380,235	647,465	223,332	28,251,032
Construction in progress	<u>232,414</u>	<u>351,743</u>	<u>(502,075)</u>	<u>82,082</u>
Total historical cost	78,847,616	1,068,464	(45,344)	79,870,736
Less accumulated depreciation for				
Land improvements	(2,382,005)	(105,971)	-0-	(2,487,976)
Leasehold improvements	(2,154,381)	(196,346)	-0-	(2,350,727)
Buildings	(22,004,768)	(1,524,151)	-0-	(23,528,919)
Fixed equipment	<u>(23,036,748)</u>	<u>(1,454,805)</u>	<u>45,344</u>	<u>(24,446,209)</u>
Total accumulated depreciation	<u>(49,577,902)</u>	<u>(3,281,273)</u>	<u>45,344</u>	<u>(52,813,831)</u>
Capital assets, net	<u>\$ 29,269,714</u>	<u>\$ (2,212,809)</u>	<u>\$ -0-</u>	<u>\$ 27,056,905</u>

### 7. COMPENSATED ABSENCES

The Hospital's policy on paid days off (which includes vacation, sick leave, personal leave, and holidays) allows full-time employees and regular part-time employees to accrue paid days off, to a maximum of 60 days.

Paid days off are accrued when incurred and reported as a liability. The paid days off accrual at December 31, 2020 and 2019 was \$1,306,794 and \$1,121,219, respectively, and is reported in accrued personnel costs in the financial statements.

### 8. EMPLOYEE HEALTH BENEFIT PLAN

The Hospital operates a self-funded health plan covering substantially all employees. The Hospital has an annual stop loss limit on the plan of \$60,000 per insured per year. 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. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay out, and other economic and social factors. The accrued liability for claims liabilities is recorded in accrued expenses on the consolidated balance sheets.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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Changes in the balance of claims liabilities during the years ended December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Accrued liability, beginning of year	\$ 255,000	\$ 307,500
Incurred claims, changes in estimates, and fees/premiums	4,963,740	2,385,740
Claim payments	<u>(4,901,740)</u>	<u>(2,438,240)</u>
Accrued liability, end of year	<u>\$ 317,000</u>	<u>\$ 255,000</u>

### 9. DEFINED CONTRIBUTION PENSION PLAN

#### Plan Description

The Hospital has a defined contribution pension plan administered by Principal Life as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

Principal Life Insurance Company  
711 High Street  
Des Moines, IA 50392  
(515) 247-5111

#### Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are voluntary and are established by written authorization for payroll deduction into an annuity savings account. The current rate is 5 percent of annual covered payroll. Employer contributions to the plan were \$1,038,288 and \$1,028,551 for the years ended December 31, 2020 and 2019, respectively.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### 10. OBLIGATIONS UNDER CAPITAL LEASES

The Hospital is the lessee of certain equipment under interest bearing capital leases that expire in 2021. The assets and liabilities under capital leases are initially recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Amortization of assets held under capital leases is included in depreciation expense and was \$14,616 and \$31,909 for the years ended December 31, 2020 and 2019, respectively.

Following is a summary of property held under capital leases:

	<u>2020</u>	<u>2019</u>
Equipment	\$ 204,015	\$ 204,015
Less accumulated depreciation	<u>(204,015)</u>	<u>(189,399)</u>
	<u>\$ -0-</u>	<u>\$ 14,616</u>

Minimum future lease payments under capital leases as of December 31, 2020 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 451
Less: amount representing interest	<u>-0-</u>
Present value of minimum lease payments	<u>\$ 451</u>



# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

### 11. LONG-TERM DEBT

At December 31, 2020 and 2019, the Hospital was obligated for long-term debt agreements as follows:

	2020	2019
Note payable to bank, due January 2024; monthly payments of \$30,466, including principal and interest; fixed interest at 4.05% Secured by equipment. The net book value of the collateral was \$623,106 at December 31, 2020.	\$ 937,969	\$ 1,283,569
Harrison County, Indiana Economic Development Revenue Refunding Bonds, Series 2016 (Harrison County Hospital Project) dated September 2016, payable in monthly principal installments of \$71,207 commencing October 2016 through October 2026. Bank Qualified Tax-Exempt interest rate is fixed at 2.61% (if Event of Default or Taxability occurs, either the Default Rate of 4.61% or Taxable Rate of 4.00% will take effect). Secured by first mortgage on Hospital property (includes Hospital land, buildings, and permanent fixtures thereto). The net book value of the collateral was \$16,145,057 as of December 31, 2020.	4,549,472	5,332,813
Harrison County, Indiana Economic Development Revenue Bonds, Series 2017 (Harrison County Hospital Project) dated December 2017, payable in monthly principal installments of \$32,813 commencing January 2018 through December 2027 in addition to a balloon principal payment of \$1,841,087 due at maturity. Bank Qualified Tax-Exempt interest rate is fixed at 2.61% (if Event of Default or Taxability occurs, either the Default Rate of 4.61% or Taxable Rate of 4.03% will take effect). Hospital and MOB are jointly and severally liable with the Hospital Board of Trustees as the Obligated Group Representative of the borrower. Secured by substantially all assets.	2,923,639	4,336,849
	8,411,080	10,953,231
Less current portion	(1,336,151)	(1,325,787)
Long-term debt, net of current portion	\$ 7,074,929	\$ 9,627,444

In December 2017, the MOB's mortgage notes payable were refinanced with proceeds of the 2017 bonds. The Hospital and the MOB are jointly and severally liable for the bonds due to the Hospital's status as the sole corporate member of the MOB following the purchase of the remaining physician non-controlling interest in 2017. The swap agreement associated with the mortgage notes was also terminated as part of the refinancing.

## HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Long-term debt activity for the years ended December 31, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Direct placements					
Revenue bonds payable:					
Series 2016	\$ 5,332,813	\$ -0-	\$ 783,341	\$ 4,549,472	\$ 680,379
Series 2017	4,336,849	-0-	1,413,210	2,923,639	320,240
	9,669,662	-0-	2,196,551	7,473,111	1,000,619
Direct borrowings	1,283,569	-0-	345,600	937,969	335,532
Total long-term debt	<u>\$ 10,953,231</u>	<u>\$ -0-</u>	<u>\$ 2,542,151</u>	<u>\$ 8,411,080</u>	<u>\$ 1,336,151</u>

Long-term debt activity for the years ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Direct placements					
Revenue bonds payable:					
Series 2016	\$ 5,978,690	\$ -0-	\$ 645,877	\$ 5,332,813	\$ 722,349
Series 2017	4,613,533	-0-	276,684	4,336,849	283,942
	10,592,223	-0-	922,561	9,669,662	1,006,291
Direct borrowings	1,564,678	-0-	281,109	1,283,569	319,496
Total long-term debt	<u>\$ 12,156,901</u>	<u>\$ -0-</u>	<u>\$ 1,203,670</u>	<u>\$ 10,953,231</u>	<u>\$ 1,325,787</u>

Debt service requirements on long-term debt at December 31, 2020 are based on the interest rate modes in effect and are as follows:

Year Ending December 31,	Principal	Interest
2021	\$ 1,336,151	\$ 205,057
2022	1,437,436	174,852
2023	1,373,576	132,064
2024	1,148,280	98,412
2025	1,178,879	67,813
2026 - 2030	1,936,759	55,173
Total	<u>\$ 8,411,080</u>	<u>\$ 733,372</u>

The Hospital's debt agreements contain various restrictive covenants, including debt service coverage ratio, days cash on hand, and audited financial statement submission requirements. Failure to meet any of these covenants would result in all principal and accrued interest without the granting of a waiver from the debt holders. The Hospital is in violation of the audit submission requirement and has obtained a covenant waiver for this violation.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

### 12. NET PATIENT SERVICE REVENUE

For the years ended December 31, 2020 and 2019, net patient service revenue was as follows:

	2020	2019
Gross patient service revenue		
Inpatient services	\$ 28,529,301	\$ 35,051,774
Outpatient services	145,345,698	157,034,018
Long-term care services	61,817,197	33,412,837
Total gross patient service revenue	235,692,196	225,498,629
Deductions from revenue		
Contractual allowances	(127,485,146)	(136,194,434)
Charity care	(1,968,214)	(2,082,330)
Bad debts	(4,921,732)	(7,528,773)
Medicaid DSH payments recognized	1,307,397	1,306,999
Medicaid upper payment limit	2,651,905	2,027,407
Total deductions from revenue	(130,415,790)	(142,471,131)
Total net patient service revenue	\$ 105,276,406	\$ 83,027,498

The Hospital grants credit without collateral to its patients, most of whom are local residents and insured under third-party payor agreements.

The mix of gross revenues and receivables from patients and third-party payors at December 31, 2020 and 2019 was as follows:

	2020		2019	
	Revenues	Receivables	Revenues	Receivables
Medicare	45 %	29 %	45 %	27 %
Medicaid	21	22	20	23
Blue Cross	12	11	14	8
Other third-party payors	13	16	14	19
Patients	9	22	7	23
	100 %	100 %	100 %	100 %

## HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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The Hospital has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare**. The Hospital is a provider of services to patients entitled to coverage under Title XVIII ("Medicare") of the Health Insurance Act. The Hospital is classified as Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.
  - **Medicaid**. The Hospital is a provider of services to patients entitled to coverage under Title XIX ("Medicaid") of the Health Insurance Act. The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.
  - **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. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. 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 operating expenses divided by gross patient service revenue. For the years ended December 31, 2020 and 2019, the Hospital incurred estimated costs of \$684,443 and \$637,538, respectively.
  - **Medicaid Upper Payment Limit Program**: The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit ("UPL") program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer ("IGT") arrangement. The Hospital is responsible for funding the IGT long-term care operations. For the years ended December 31, 2020 and 2019, revenue of \$3,667,116 and \$3,075,474 associated with the UPL program is recorded net of IGT payments made to the program of \$1,015,211 and \$1,048,067, respectively, which are included in net patient service revenue. At December 31, 2020 and 2019, \$1,519,458 and \$3,075,474 is included in patient accounts receivable, and \$417,851 and \$1,048,067 is included in accrued expenses, respectively.
  - **Other**. The Hospital has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements
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# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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includes discounts from established charges, fee schedules, as well as inpatient diagnosis-related group reimbursement methodologies.

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. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigation and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers.

The Centers for Medicare and Medicaid Services ("CMS") has been granted authority to suspend payments, in whole or in part, to Medicare providers if CMS possess reliable information on overpayment, fraud, or if willful misrepresentation exists. If CMS suspects payments are being made as the result of fraud or misrepresentation exists, CMS may suspend payment at any time without providing prior notice to the Hospital. The initial suspensions period is limited to 180 days. However, the payment suspension period can be extended indefinitely if the matter is under investigation by the United States Department of Health, Human Services Office of Inspector General, or the United States Department of Justice. Therefore, the Hospital is unable to predict if or when it may be subject to a suspension of payments by the Medicare and/or Medicaid programs, the possible length of the suspension period, or the potential cash flow impact of a payment suspension. Any such suspension would adversely impact the Hospital's financial position, results of operations, and cash flows. The Hospital believes that it is in compliance with all applicable laws and regulations.

### **13. ELECTRONIC HEALTH RECORDS (EHR) INCENTIVE PAYMENTS**

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending on September 30<sup>th</sup>). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports. For Critical Access Hospitals, the payment calculation is based upon the net book value of the qualifying assets, multiplied by the Medicare utilization using Medicare to total inpatient days plus 20%, not to exceed 100%. The total days are multiplied by a factor of total charges excluding charity care to total charges. Critical Access Hospitals can be reimbursed over a four year period for additional qualifying

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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assets not claimed in the first year. The transitional factor ranges from 100% in first payment year and decreases by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During the years ended December 31, 2020 and 2019, the Hospital recognized \$0 and \$25,500, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Hospital records income at the end of EHR reporting period in which compliance is achieved. EHR incentive income is included in other revenue on the consolidated statements of operations. EHR incentive income is recognized based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

#### **14. HOSPITAL ASSESSMENT FEE**

In 2012, Hospital Assessment Fee ("HAF") Program was approved by CMS. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced claims are designed to follow patients and result in increased Medicaid rates.

During the years ended December 31, 2020 and 2019, the Hospital recognized HAF program expense of \$1,774,058 and \$2,148,846, respectively, which resulted in Medicaid rate increases. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the consolidated statements of operations. The HAF Program was approved for extension through June 30, 2023.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### 15. NONOPERATING REVENUES

For the years ended December 31, 2020 and 2019, nonoperating revenues were as follows:

	<u>2020</u>	<u>2019</u>
Investment income	\$ 304,688	\$ 479,237
Interest expense	(288,562)	(355,482)
Contributions and grants	8,505,186	31,000
Litigation settlement	2,050,000	-0-
Miscellaneous	<u>-0-</u>	<u>3,650</u>
Total nonoperating revenues	<u>\$ 10,571,312</u>	<u>\$ 158,405</u>

GASB requires interest expense to be reported as nonoperating expense while the Financial Accounting Standards Board ("FASB") requires interest expense to be reported as an operating expense.

Revenues from contribution and grants are primarily comprised of grant funds received under federal programs authorized by the Coronavirus Aid, Relief, and Economic Security ("CARES") Act passed in March 2020 to combat the impacts of the coronavirus pandemic. See Note 16 below for additional detail regarding contribution and grant income.

During 2020, the Hospital received a settlement award of \$2,050,000. The settlement was associated with a suit brought against a competing Hospital for the violation of a non-compete agreement that the two Hospitals had entered into in a previous year.

### 16. REFUNDABLE ADVANCES

During the Hospital's fiscal year 2020, Provider Relief Fund grants authorized under the CARES Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic (the "Pandemic") under Catalog of Federal Domestic Assistance ("CFDA") #93.498. Revenues from Provider Relief Fund grants are recognized to the extent of a combination of expenses incurred to directly respond to the pandemic, and patient revenues lost as a result of the pandemic, and are included in the consolidated statements of operations and changes in net position as grant revenue within nonoperating revenues (expenses). Patient revenues lost represent the deficiency of net patient service revenues recognized over the period impacted by the pandemic when compared with net patient service revenues recognized over the same period in the previous year on a quarterly basis. Provider Relief Fund grants included in refundable advances on the consolidated balance sheets represent grant funds received in excess of expenses incurred to directly respond to the pandemic and calculated lost revenues. Funds received on or before June 30, 2020 are subject to recoupment by the grantor in the event that the conditions for recognition are not met before June

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**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

30, 2021. Funds received between July 1, 2020 and December 31, 2020 recoupment by the grantor in the event that the conditions for recognition are not met before December 31, 2021.

The passage of the CARES Act also authorized CMS to expand the Medicare Accelerated and Advance Payment Program to a broader group of Medicare Part A providers and Part B suppliers. For the critical access hospital and the long term care facilities, the Hospital was eligible to request up to 125% and 100% of the Medicare payments amount for a six-month period, respectively. The Hospital was issued the accelerated/advance payments in April 2020. Recoupment of the advance payment will begin in 2021 following a one-year deferral period. During the one-year period, Medicare claims submitted by the Hospital will continue to be reimbursed at standard rates, after which, the recoupment process will begin and 25% of payments for submitted claims will reduce the balance of the accelerated or advance payment over an 11 month period through March 2022. Following the initial 11 month recoupment period, 50% of payments for submitted claims will be withheld to reduce the balance of the accelerated advance payments over a 6 month period through September 2022. Any outstanding balance that has not been recouped in September 2022 will be due in full from the Hospital to CMS. The advance payments are included in refundable advances on the consolidated balance sheets.

As of and for the year ended December 31, 2020, revenues recognized and refundable advances were as follows:

	December 31, 2020			
	Refundable			Refundable
	Advances	Payments	Revenue	Advances
	December 31, 2019	Received	Recognized	December 31, 2020
Provider Relief Fund	\$ -0-	\$ 9,633,264	\$ 8,335,883	\$ 1,297,381
Medicare Accelerated and Advance Payment Program	-0-	8,830,114	-0-	8,830,114
Other COVID-19 funding	-0-	164,303	164,303	-0-
<b>Total</b>	<u>\$ -0-</u>	<u>\$ 18,627,681</u>	<u>\$ 8,500,186</u>	<u>\$ 10,127,495</u>



# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### 17. PROFESSIONAL LIABILITY INSURANCE

The Indiana Medical Malpractice Act, IC 34-18 (the "Act") provided for a maximum recovery of \$1,250,000 for an occurrence of malpractice through June 30, 2017. Starting July 1, 2017, the Act provided for a maximum recovery of \$1,650,000 through the period ending June 30, 2019, and \$1,800,000 beginning July 1, 2019. The Act required 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) through the period ending June 30, 2019, and \$500,000 per occurrence (\$10,000,000 in the annual aggregate) beginning July 1, 2019. The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the "Fund"). The Fund is used to pay medical malpractice claims in excess of the per occurrence and annual aggregate amounts 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.

### 18. OPERATING LEASES – LESSEE

The Hospital leases certain equipment under non-cancelable operating leases. Future payments under these non-cancelable operating leases at December 31, 2020 was as follows:

Year Ending December 31,	Amount
2021	\$ 257,162
2022	84,732
Total minimum payments	<u>\$ 341,894</u>

The Hospital leases certain building space under cancelable operating leases. The Hospital incurred \$8,094,762 and \$3,220,736 in total rent expense for the years ended December 31, 2020 and 2019, respectively, under its cancelable and non-cancelable operating leases.

### 19. OPERATING LEASES – LESSOR

The Hospital leases certain space of the medical office building (with a net book value of \$3,373,291 at December 31, 2020) to tenants under operating leases expiring in 2023. The leases contain provisions which require tenants to pay their proportionate share of certain expenses and costs in connection with the Hospital's ownership and operation of the building and common area.

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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Following is a schedule by years of future minimum rentals to be received under the operating leases with remaining non-cancelable lease terms in excess of one year as of December 31, 2020:

Year ended December 31:	Amount
2021	\$ 91,751
2022	91,751
2023	22,938
Total minimum receipts	<u>\$ 206,440</u>

## 20. CONTINGENCIES

### Legal

The Hospital is susceptible to a variety of legal proceedings and claims by others against the Hospital in a variety of matters arising out of the conduct of the Hospital's business. The ultimate resolution of such claims would not, in the opinion of management, have a material adverse effect on the financial statements.

There may be unknown incidents arising from services provided to patients; however, because the annual insurance policy only covers claims that have been asserted and incidents reported to the insurance carrier, these unknown incidents are not yet covered by insurance. Management intends to maintain the current claims-made insurance coverage to cover any unknown incidents that may be asserted.

### HIPAA

Management continues to implement policies, procedures, and a compliance-monitoring organizational structure to enforce and monitor compliance with the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and other government statutes and regulations. The Hospital's compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions which are unknown or unasserted at this time.

### COVID-19

On March 11, 2020, the World Health Organization declared Coronavirus ("COVID-19") a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national, and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue, contributions and funding, and investment portfolio

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# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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declines. Management believes the Hospital is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were available to be issued.

### 21. COMMITMENTS

As of December 31, 2020, the Hospital has construction and renovation project commitments as follows:

<u>Project</u>	<u>Expected Date of Completion</u>	<u>Estimated Total Cost of Project</u>	<u>Costs Incurred as of 12/31/2020</u>
Automated messaging	April 2021	\$ 8,090	\$ 4,290
Security camera	April 2021	14,732	14,732
Mac trolley	January 2021	13,890	11,112
LogiQ asset	January 2021	120,120	96,097
Lab auto validation	April 2021	6,400	6,400
Suites 200/240 Remodel	March 2021	69,243	42,375
		<u>\$ 232,475</u>	<u>\$ 175,006</u>

## HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

#### 22. CONDENSED FINANCIAL INFORMATION

The Hospital includes one blended component unit, the MOB, in its reporting entity. Condensed component unit information for its blended component unit as of and for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
<b>Balance sheet</b>		
Assets		
Current assets	\$ 352,358	\$ 520,969
Capital assets, net	4,460,896	4,680,596
Total assets	\$ 4,813,254	\$ 5,201,565
Liabilities		
Current liabilities	\$ 1,129,869	\$ 308,136
Long-term liabilities	2,603,399	4,052,907
Total liabilities	3,733,268	4,361,043
Net position		
Net investment in capital assets	1,537,257	343,746
Unrestricted	(457,271)	496,776
Total net position	1,079,986	840,522
Total liabilities and net position	\$ 4,813,254	\$ 5,201,565
<b>Statement of operations and changes in net position</b>		
Operating revenues	\$ 905,494	\$ 900,214
Operating expenses		
Depreciation and amortization	283,170	278,940
Other operating expenses	299,248	237,971
Total operating expenses	582,418	516,911
Income from operations	323,076	383,303
Nonoperating revenues (expenses)	(83,612)	(116,753)
Change in net position	239,464	266,550
Net position - beginning of year	840,522	573,972
Net position - end of year	\$ 1,079,986	\$ 840,522

# HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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	2020	2019
<b>Statement of cash flows</b>		
Cash provided by		
Operating activities	\$ 252,146	\$ 183,119
Capital and related financing activities	(63,470)	(344,800)
Total	188,676	(161,681)
Cash - beginning of year	160,945	322,626
Cash - end of year	\$ 349,621	\$ 160,945

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### 23. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future financial statements:

**GASB Statement No. 87, *Leases***, issued June 2017, will be effective for periods beginning after June 15, 2021. This Statement requires 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 established a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This statement will enhance the needs of consolidated financial statement users by improving accounting and financial reporting for leases by governments. In May 2020, the GASB issues 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. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period***, issued June 2018, will be effective for periods beginning after December 15, 2020. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost incurred for financial statements prepared using the economic resources management 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 issues 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.