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STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

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

September 14, 2020

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

We have reviewed the audit report of Hancock Regional Hospital which was opined by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2019 to December 31, 2019. Per the *Report of Independent Auditors*, the financial statements included in the report present fairly the financial condition of the Hancock Regional Hospital as of December 31, 2019, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts.

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

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner



**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

*CPAs / ADVISORS*



# HANCOCK REGIONAL HOSPITAL

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

## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Hancock Regional Hospital  
Greenfield, Indiana

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hancock Regional Hospital and component units (the "Hospital"), a component unit of Hancock County, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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  
Hancock Regional Hospital  
Greenfield, Indiana

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

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

*Blue & Co., LLC*

Indianapolis, Indiana  
September 3, 2020

**REQUIRED SUPPLEMENTARY INFORMATION**

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

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This section of Hancock Regional Hospital's (Hospital) annual consolidated financial statements presents background information and management's discussion and analysis of the Hospital's financial performance during the years ended December 31, 2019 and 2018. Please read it in conjunction with the Hospital's consolidated financial statements, which begin on page 3. Unless otherwise indicated, amounts are in thousands and are approximates.

### FINANCIAL HIGHLIGHTS

- The Hospital reported an increase in net position of approximately \$48,423 or 19% for the year ended 2019.
- Operating income in 2019 compared to 2018 increased by \$3,352 or 15%.
- Nonoperating income in 2019 compared to expense in 2018 increased by \$28,768 or 610%.

### USING THIS ANNUAL REPORT

The Hospital's consolidated financial statements consist of three statements—a Balance Sheet; a Statement of Operations and Changes in Net Position; and a Statement of Cash Flows. These consolidated financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

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

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

### THE STATEMENT OF CASH FLOWS

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

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

### THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheet on page 3. The Hospital's net position increased in 2019 by \$48,423 (19%) as you can see from Table 1.

|                                    | 2019              | 2018              | 2019 - 2018<br>\$ Change | 2017              |
|------------------------------------|-------------------|-------------------|--------------------------|-------------------|
| <b>Assets</b>                      |                   |                   |                          |                   |
| Current assets                     | \$ 173,000        | \$ 157,654        | \$ 15,346                | \$ 140,302        |
| Capital assets, net                | 95,991            | 75,015            | 20,976                   | 71,390            |
| Restricted and limited use assets  | 106,028           | 87,895            | 18,133                   | 93,841            |
| Other noncurrent assets            | 30,322            | 25,459            | 4,863                    | 12,958            |
| Total assets                       | <u>405,341</u>    | <u>346,023</u>    | <u>59,318</u>            | <u>318,491</u>    |
| <b>Liabilities</b>                 |                   |                   |                          |                   |
| Current liabilities                | <u>102,354</u>    | <u>91,459</u>     | <u>10,895</u>            | <u>79,709</u>     |
| Total liabilities                  | <u>102,354</u>    | <u>91,459</u>     | <u>10,895</u>            | <u>79,709</u>     |
| <b>Net Position</b>                |                   |                   |                          |                   |
| Net investment in capital assets   | 95,991            | 75,015            | 20,976                   | 71,390            |
| Donor restricted - expendable      | 9,388             | 7,212             | 2,176                    | 6,639             |
| Restricted nonexpendable           | 2,718             | 1,844             | 874                      | 2,154             |
| Unrestricted                       | <u>194,890</u>    | <u>170,493</u>    | <u>24,397</u>            | <u>158,599</u>    |
| Total net position                 | 302,987           | 254,564           | 48,423                   | 238,782           |
| Total liabilities and net position | <u>\$ 405,341</u> | <u>\$ 346,023</u> | <u>\$ 59,318</u>         | <u>\$ 318,491</u> |

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

A significant component in the Hospital's assets increase in 2018 from 2017 is current assets, specifically cash and cash equivalents net patient accounts receivable which increased in 2018 by \$14,269 or 12.7% due to operations.



## HANCOCK REGIONAL HOSPITAL

### MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

#### OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2019, the Hospital's change in net position increased by \$32,641 compared to 2018 as shown in Table 2.

|  | 2019              | 2018              | 2019 - 2018<br>\$ Change | 2017              |
|--|-------------------|-------------------|--------------------------|-------------------|
| Operating Revenue                                      |                   |                   |                          |                   |
| Net patient service revenue                            | \$ 539,607        | \$ 493,586        | \$ 46,021                | \$ 476,224        |
| Other  | 9,865             | 9,992             | (127)                    | 8,965             |
| Total operating revenue                                | <u>549,472</u>    | <u>503,578</u>    | <u>45,894</u>            | <u>485,189</u>    |
| Operating expenses                                     |                   |                   |                          |                   |
| Salaries and benefits                                  | 65,913            | 60,612            | 5,301                    | 57,907            |
| Medical supplies and drugs                             | 64,360            | 56,100            | 8,260                    | 49,046            |
| Purchased services and medical fees                    | 355,872           | 331,376           | 24,496                   | 315,412           |
| Depreciation and amortization                          | 12,584            | 10,542            | 2,042                    | 10,304            |
| Hospital assessment fee                                | 6,090             | 4,720             | 1,370                    | 3,329             |
| Other operating expense                                | 19,131            | 18,058            | 1,073                    | 16,039            |
| Total operating expense                                | <u>523,950</u>    | <u>481,408</u>    | <u>42,542</u>            | <u>452,037</u>    |
| Operating income                                       | <u>25,522</u>     | <u>22,170</u>     | <u>3,352</u>             | <u>33,152</u>     |
| Nonoperating income (expense)                          |                   |                   |                          |                   |
| Noncapital contributions                               | 3,047             | 2,358             | 689                      | 2,019             |
| Other nonoperating expense                             | 2,295             | (585)             | 2,880                    | (403)             |
| Loss on disposal of capital assets                     | -0-               | -0-               | -0-                      | (4,708)           |
| Investment income                                      | 18,707            | (6,492)           | 25,199                   | 10,124            |
| Total nonoperating income (expense)                    | <u>24,049</u>     | <u>(4,719)</u>    | <u>28,768</u>            | <u>7,032</u>      |
| Change in net position<br>before capital distributions | 49,571            | 17,451            | 32,120                   | 40,184            |
| Capital distributions                                  | <u>(1,148)</u>    | <u>(1,669)</u>    | <u>521</u>               | <u>(1,596)</u>    |
| Change in net position                                 | 48,423            | 15,782            | 32,641                   | 38,588            |
| Net position   |                   |                   |                          |                   |
| Beginning of year                                      | 254,564           | 238,782           | 15,782                   | 200,194           |
| End of year  | <u>\$ 302,987</u> | <u>\$ 254,564</u> | <u>\$ 48,423</u>         | <u>\$ 238,782</u> |

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

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### SOURCES OF REVENUE

During 2019, the Hospital derived substantially all of its revenue from patient service and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

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

|            | 2019        | 2018        | 2017        |
|------------|-------------|-------------|-------------|
| Medicare   | 55%         | 53%         | 52%         |
| Medicaid   | 10%         | 11%         | 11%         |
| Commercial | 32%         | 33%         | 33%         |
| Self-pay   | 3%          | 3%          | 4%          |
|            | <u>100%</u> | <u>100%</u> | <u>100%</u> |

The Hospital provides care to patients under payment arrangements with Medicare, Medicaid, and various managed care programs. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs as defined. Provisions have been made in the consolidated financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment. Total operating revenue increased \$45,894 or 9% in 2019 compared to 2018. This increase was primarily the result of an increase in volumes. Disproportionate Share Hospital Payment (DSH) for years 2019 and 2018 were \$2,738 and \$1,826, respectively.

### OPERATING INCOME

The first component of the overall change in the Hospital's net position is its operating income, generally the difference between net patient service and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating gain. This is consistent with the Hospital's entire operating history. The Hospital's operations were begun in 1951 as a county owned and operated hospital under Indiana Code 16-22.

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

## HANCOCK REGIONAL HOSPITAL

### MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

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The decrease in the Hospital's operating income in 2018 of \$10,982 or 33% from 2017 was the result of the increase in operating expenses exceeding the increase in operating revenues. The Hospital increased gross charge rates by 5% for both years ended December 31, 2018 and 2017, respectively. More importantly, the Hospital's volumes increased. Total operating expenses increased \$29,731 or 6% in 2018 compared to 2017. The increase in operating expenses was the result of salaries and benefits, medical supplies and drugs, and purchased services and medical fees. Salaries and benefits increased due to an increase in full-time equivalents. Medical supplies and drugs increased due to an increase in pharmaceutical costs as well as services provided for oncology services. Purchased services and medical fees increased due to long-term care activity.

The Hospital experienced statistical changes in the following areas:

| Statistical Growth              | 2019    | 2018    | 2019 - 2018                |         |
|---------------------------------|---------|---------|----------------------------|---------|
|                                 |         |         | % Increase /<br><Decrease> | 2017    |
| Patient Days                    | 15,445  | 14,674  | 5.25%                      | 15,207  |
| Diagnostic Imaging Procedures   | 74,257  | 68,265  | 8.78%                      | 65,948  |
| Laboratory Procedures           | 349,051 | 334,710 | 4.28%                      | 318,470 |
| Pharmaceutical Medication Units | 367,256 | 356,910 | 2.90%                      | 431,470 |
| Rehab Procedures                | 51,729  | 54,267  | -4.68%                     | 54,443  |
| Home Health Units of Service    | 63,585  | 58,862  | 8.02%                      | 49,386  |
| Outpatient Clinic Procedures    | 9,171   | 8,736   | 4.98%                      | 8,250   |

Excluded from net patient service revenue are charges for patient service waived under the Hospital's uncompensated care policy. Uncompensated care represents unreimbursed charges, both charity care and bad debt, incurred by the Hospital in providing uncompensated care to patients. Based on established rates, gross charges of \$7,010 were waived during 2019. This is an increase compared to the previous year.

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

#### NONOPERATING INCOME AND EXPENSES

Nonoperating income and expenses are the result of changes in the Hospital's investment income and other non-capital grants and contributions. The Hospital's investment income significantly increased primarily due to market conditions during 2019. The Hospital's nonoperating income and expenses increased in 2019 by \$28,768 from 2018.

#### GRANTS AND CONTRIBUTIONS

The Hospital receives operating grants from various state and federal agencies for specific programs. Operating grants received in 2019 totaled \$933 compared to \$1,016 in 2018.

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# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

Some of the significant grants received by the Hospital are:

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

### THE HOSPITAL’S CASH FLOWS

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

|                                     | 2019      | 2018      | Change     | 2017      |
|-------------------------------------|-----------|-----------|------------|-----------|
| Net cash flows from                 |           |           |            |           |
| Operating activities                | \$ 33,732 | \$ 32,974 | \$ 758     | \$ 46,639 |
| Noncapital financing activities     | 5,342     | 1,773     | 3,569      | 1,617     |
| Capital and related financing       | (34,193)  | (13,909)  | (20,284)   | (3,580)   |
| Investing                           | (5,236)   | (12,898)  | 7,662      | (42,374)  |
| Change in cash and cash equivalents | \$ (355)  | \$ 7,940  | \$ (8,295) | \$ 2,302  |

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### CAPITAL ASSETS

During 2019, the Hospital’s net capital assets increased by approximately \$20,976. This compares to an increase of approximately \$3,625 for 2018 compared to 2017. The increases in 2019 and 2018 were due to construction projects to expand the Hospital’s operations in Hancock County. The change in capital assets is outlined in the following table:

|                               | 2019      | 2018      | Change    | 2017      |
|-------------------------------|-----------|-----------|-----------|-----------|
| Land                          | \$ 1,326  | \$ 718    | \$ 608    | \$ 718    |
| Land improvements             | 14,915    | 7,803     | 7,112     | 7,803     |
| Building and fixed equipment  | 137,353   | 124,429   | 12,924    | 121,638   |
| Major moveable equipment      | 100,957   | 88,748    | 12,209    | 83,908    |
| Construction in progress      | 3,213     | 4,191     | (978)     | 1,166     |
| Total capital assets          | 257,764   | 225,889   | 31,875    | 215,233   |
| Less accumulated depreciation | 161,773   | 150,874   | 10,899    | 143,843   |
|                               | \$ 95,991 | \$ 75,015 | \$ 20,976 | \$ 71,390 |

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

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

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### DEBT

The Hospital does not have any long-term debt obligations.

### ECONOMIC FACTORS

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

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

### CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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

# HANCOCK REGIONAL HOSPITAL

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018

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|                                      | <u>2019</u>           | <u>2018</u>           |
|--------------------------------------|-----------------------|-----------------------|
| <b>Current assets</b>                |                       |                       |
| Cash and cash equivalents            | \$ 71,312,060         | \$ 71,667,374         |
| Investments                          | 2,596,512             | 1,649,717             |
| Patient accounts receivable, net     | 66,230,825            | 54,857,198            |
| Inventories and other current assets | 32,860,417            | 29,479,994            |
| Total current assets                 | <u>172,999,814</u>    | <u>157,654,283</u>    |
| <b>Assets whose use is limited</b>   |                       |                       |
| Board designated funds               | 96,639,538            | 80,683,499            |
| Donor restricted funds               | 9,388,028             | 7,211,658             |
| Total assets whose use is limited    | <u>106,027,566</u>    | <u>87,895,157</u>     |
| <b>Capital assets</b>                |                       |                       |
| Land and land improvements           | 16,241,222            | 8,521,042             |
| Buildings and fixed equipment        | 137,352,763           | 124,428,598           |
| Major movable equipment              | 100,956,980           | 88,747,550            |
| Construction in progress             | 3,212,975             | 4,191,806             |
| Total capital assets                 | <u>257,763,940</u>    | <u>225,888,996</u>    |
| Less accumulated depreciation        | <u>161,773,174</u>    | <u>150,874,423</u>    |
| Capital assets, net                  | 95,990,766            | 75,014,573            |
| <b>Other assets</b>                  | <u>30,322,103</u>     | <u>25,458,715</u>     |
| Total assets                         | <u>\$ 405,340,249</u> | <u>\$ 346,022,728</u> |

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See accompanying notes to consolidated financial statements

# HANCOCK REGIONAL HOSPITAL

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018

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### LIABILITIES AND NET POSITION

|  | <u>2019</u>           | <u>2018</u>           |
|--|-----------------------|-----------------------|
| <b>Current liabilities</b>               |                       |                       |
| Accounts payable and other liabilities   | \$ 91,006,191         | \$ 78,992,082         |
| Accrued salaries and related liabilities | 5,416,964             | 5,365,435             |
| Estimated third-party settlements        | 5,930,728             | 7,101,754             |
| Total current liabilities                | <u>102,353,883</u>    | <u>91,459,271</u>     |
| Total liabilities                        | 102,353,883           | 91,459,271            |
| <b>Net position</b>                      |                       |                       |
| Net investment in capital assets         | 95,990,766            | 75,014,573            |
| Donor restricted expendable              | 9,388,028             | 7,211,658             |
| Restricted nonexpendable                 | 2,717,321             | 1,844,618             |
| Unrestricted                             | <u>194,890,251</u>    | <u>170,492,608</u>    |
| Total net position                       | <u>302,986,366</u>    | <u>254,563,457</u>    |
| Total liabilities and net position       | <u>\$ 405,340,249</u> | <u>\$ 346,022,728</u> |

## HANCOCK REGIONAL HOSPITAL

### CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2019 AND 2018

|  | 2019           | 2018           |
|--|----------------|----------------|
| <b>Operating revenue</b>                               |                |                |
| Net patient service revenue                            | \$ 539,607,397 | \$ 493,585,834 |
| Other operating revenue                                | 9,864,835      | 9,991,757      |
| Total operating revenue                                | 549,472,232    | 503,577,591    |
| <b>Operating expenses</b>                              |                |                |
| Salaries and wages                                     | 54,829,490     | 50,286,677     |
| Employee benefits                                      | 11,083,183     | 10,325,216     |
| Professional medical fees                              | 2,843,870      | 2,826,318      |
| Supplies and drugs                                     | 64,359,741     | 56,099,925     |
| Purchased services                                     | 353,028,451    | 328,549,565    |
| Utilities and insurance                                | 11,984,704     | 10,870,168     |
| Depreciation and amortization                          | 12,583,579     | 10,542,366     |
| Hospital assessment fee                                | 6,090,496      | 4,720,176      |
| Other  | 7,146,621      | 7,188,177      |
| Total operating expenses                               | 523,950,135    | 481,408,588    |
| Operating income                                       | 25,522,097     | 22,169,003     |
| <b>Nonoperating income (expense), net</b>              |                |                |
| Noncapital contributions                               | 3,046,708      | 2,358,150      |
| Other nonoperating income (expense)                    | 2,294,957      | (584,864)      |
| Investment income (loss)                               | 18,707,295     | (6,491,835)    |
| Total non-operating income (expense), net              | 24,048,960     | (4,718,549)    |
| Change in net position before capital distributions    | 49,571,057     | 17,450,454     |
| <b>Capital distributions - noncontrolling interest</b> | (1,148,148)    | (1,669,254)    |
| Change in net position                                 | 48,422,909     | 15,781,200     |
| <b>Net position</b>                                    |                |                |
| Beginning of year                                      | 254,563,457    | 238,782,257    |
| End of year  | \$ 302,986,366 | \$ 254,563,457 |

See accompanying notes to consolidated financial statements



## HANCOCK REGIONAL HOSPITAL

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

|  | 2019           | 2018           |
|--|----------------|----------------|
| <b>Operating activities</b>                            |                |                |
| Cash received from patients and third party payors     | \$ 527,062,744 | \$ 489,592,082 |
| Cash paid to employees for wages and benefits          | (65,861,144)   | (60,889,580)   |
| Cash paid to vendors for goods and services            | (437,334,799)  | (405,720,351)  |
| Other operating receipts                               | 9,864,835      | 9,991,757      |
| Net cash from operating activities                     | 33,731,636     | 32,973,908     |
| <b>Noncapital financing activities</b>                 |                |                |
| Noncapital contributions                               | 3,046,708      | 2,358,150      |
| Other nonoperating                                     | 2,294,957      | (584,864)      |
| Net cash from noncapital financing activities          | 5,341,665      | 1,773,286      |
| <b>Capital and related financing activities</b>        |                |                |
| Acquisition and construction of capital assets         | (33,801,968)   | (12,346,007)   |
| Loss on disposal of capital assets                     | 756,798        | -0-            |
| Proceeds on disposal of capital assets                 | -0-            | 106,361        |
| Capital distributions - noncontrolling interest        | (1,148,148)    | (1,669,254)    |
| Net cash from capital and related financing activities | (34,193,318)   | (13,908,900)   |
| <b>Investing activities</b>                            |                |                |
| Other assets   | (4,863,388)    | (12,500,399)   |
| Investment income                                      | 18,707,295     | (6,491,835)    |
| Proceeds on sale of O3PureMed                          | 1,000,000      | -0-            |
| Other changes in assets whose use is limited, net      | (20,079,204)   | 6,093,859      |
| Net cash from investing activities                     | (5,235,297)    | (12,898,375)   |
| Net change in cash and cash equivalents                | (355,314)      | 7,939,919      |
| <b>Cash and cash equivalents</b>                       |                |                |
| Beginning of year                                      | 71,667,374     | 63,727,455     |
| End of year  | \$ 71,312,060  | \$ 71,667,374  |

See accompanying notes to consolidated financial statements

## HANCOCK REGIONAL HOSPITAL

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

|   | 2019                 | 2018                 |
|---|----------------------|----------------------|
| <b>Reconciliation of operating income to net cash from operating activities</b> |                      |                      |
| Operating income  | \$ 25,522,097        | \$ 22,169,003        |
| Adjustment to reconcile operating income to net cash from operating activities  |                      |                      |
| Depreciation and amortization   | 12,583,579           | 10,542,366           |
| Bad debts   | 12,164,287           | 12,122,423           |
| Changes in assets and liabilities   |                      |                      |
| Patient accounts receivable   | (23,537,914)         | (18,450,494)         |
| Other current assets  | (3,380,423)          | (3,232,694)          |
| Accounts payable and other liabilities  | 11,499,507           | 7,766,672            |
| Accrued salaries and related liabilities  | 51,529               | (277,687)            |
| Estimated third-party settlements   | (1,171,026)          | 2,334,319            |
| Net cash from operating activities  | <u>\$ 33,731,636</u> | <u>\$ 32,973,908</u> |
| <b>Reconciliation of cash and cash equivalents to the balance sheets</b>        |                      |                      |
| Cash and cash equivalents:  |                      |                      |
| In current assets   | <u>\$ 71,312,060</u> | <u>\$ 71,667,374</u> |
| <b>Supplementary disclosure of cash flows information</b>                       |                      |                      |
| Acquisition and construction of capital assets in accounts payable              | \$ 514,602           | \$ 1,927,128         |

See accompanying notes to consolidated financial statements

# HANCOCK REGIONAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

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

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

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

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

#### Blended Component Units

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

# HANCOCK REGIONAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

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

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

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

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

### Use of Estimates

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

### Measurement Focus and Basis of Accounting

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

### Cash and Cash Equivalents

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

# HANCOCK REGIONAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### Patient Accounts Receivable and Net Patient Service Revenue

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

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

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

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

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

These programs have audited the year-end cost report filed with the Medicare program through December 31, 2016. There were no significant differences reflected as deductions from revenue during 2019 and 2018. Amounts for unresolved cost reports for 2017 through 2019 are reflected in estimated third-party settlements on the consolidated balance sheets.

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

The Medicaid enhanced payments relate to both fee for service and managed care claims. Under the HAF Program, the enhanced Medicaid payments follow the patients and are realized through increased Medicaid rates. During 2019 and 2018, HRH recognized HAF Program expense of approximately \$6,090,000 and \$4,720,000, respectively. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the consolidated statements of operations and changes in net position.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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Net revenue from the Medicare and Medicaid programs accounted for approximately 82 and 83 percent of the Hospital's net patient revenue for the years ended 2019 and 2018, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital recognized revenue related to the Medicaid Disproportionate Share Hospital and the Upper Payment Limitation programs of approximately \$2,700,000 and \$1,800,000 for the years ended December 31, 2019 and 2018, respectively. These amounts are reimbursements for providing care to the uninsured and underinsured and are included in net patient service revenue within the consolidated statements of operations and changes in net position.

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

### Charity Care

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

Of the Hospital's total expenses (excluding subsidiaries and long-term care operations) reported within the consolidated statements of operations and changes in net position, an estimated \$2,411,000 and \$1,783,000 arose from providing services to charity patients during 2019 and 2018, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue.

### Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventory at year-end consists mainly of pharmaceuticals and medical supplies.

### Assets Whose Use is Limited and Investments

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

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**HANCOCK REGIONAL HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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Capital Assets and Depreciation

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

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

Other Assets

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

Income Taxes

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

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

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

Management has analyzed the tax positions taken by the Hospital and has concluded that as of December 31, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

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

### Advertising and Community Relations

The Hospital records advertising and promotion expense in the period incurred. Total expense for advertising and promotion was approximately \$1,408,000 and \$796,000 for 2019 and 2018, respectively.

### Compensated Absences

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

### Net Position

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

### Donor Restricted Net Position

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

### Operating Revenues and Expenses

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

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# HANCOCK REGIONAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Contributions may be restricted either for specific operating purposes or for capital purposes.

Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

### Restricted Resources

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

### Litigation

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

### Risk Management

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

### Accounting for Noncontrolling Interest

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

### Reclassification

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

# HANCOCK REGIONAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is September 3, 2020.

### Recently Issued Accounting Standards

In November 2016, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for certain asset retirement obligations. An asset retirement obligation is a legally enforceable liability associated with the retirement of a tangible capital asset. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 83, *Certain Asset Retirement Obligations*, by one year. GASB Statement No. 83 will be effective for periods beginning after June 15, 2019.

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

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

## **2. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED**

### Board Designated Funds

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

# HANCOCK REGIONAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### Donor Restricted Funds

The Hospital has assets, which have been donated for a specific purpose. The following represents assets whose use is limited and investments as of December 31, 2019 and 2018:

|                                   | <u>2019</u>           | <u>2018</u>          |
|-----------------------------------|-----------------------|----------------------|
| Board designated funds            | \$ 96,639,538         | \$ 80,683,499        |
| Donor restricted funds            | <u>9,388,028</u>      | <u>7,211,658</u>     |
| Total assets whose use is limited | 106,027,566           | 87,895,157           |
| Investments                       | <u>2,596,512</u>      | <u>1,649,717</u>     |
|                                   | <u>\$ 108,624,078</u> | <u>\$ 89,544,874</u> |

The following represents the makeup of assets whose use is limited and investments as of December 31, 2019 and 2018:

|                             | <u>2019</u>           | <u>2018</u>          |
|-----------------------------|-----------------------|----------------------|
| Money market funds          | \$ 2,700,696          | \$ 2,491,656         |
| Certificates of deposit     | 380,860               | 350,657              |
| Common stocks               | 4,761,542             | 3,064,222            |
| Mutual funds - equities     | 61,863,664            | 51,226,263           |
| Mutual funds - fixed income | <u>38,917,316</u>     | <u>32,412,076</u>    |
|                             | <u>\$ 108,624,078</u> | <u>\$ 89,544,874</u> |

The common stocks are held by the Foundation.

### **3. DEPOSITS AND INVESTMENTS**

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

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

## HANCOCK REGIONAL HOSPITAL

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

The Hospital's investments generally are reported at fair value. As of December 31, 2019 and 2018, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial financial institutions that are agents of the Hospital.

| December 31, 2019                |                |                |        |                 |        |
|----------------------------------|----------------|----------------|--------|-----------------|--------|
| Investment Maturities (in years) |                |                |        |                 |        |
| Carrying<br>Amount               | Less<br>than 1 | 1-5            | 6-10   | More<br>than 10 |        |
| Money market funds               | \$ 2,700,696   | \$ 2,700,696   | \$ -0- | \$ -0-          | \$ -0- |
| Certificates of deposit          | 380,860        | 380,860        | -0-    | -0-             | -0-    |
| Common stocks                    | 4,761,542      | 4,761,542      | -0-    | -0-             | -0-    |
| Mutual funds - equities          | 61,863,664     | 61,863,664     | -0-    | -0-             | -0-    |
| Mutual funds - fixed income      | 38,917,316     | 38,917,316     | -0-    | -0-             | -0-    |
|                                  | \$ 108,624,078 | \$ 108,624,078 | \$ -0- | \$ -0-          | \$ -0- |

  

| December 31, 2018                |                |               |        |                 |        |
|----------------------------------|----------------|---------------|--------|-----------------|--------|
| Investment Maturities (in years) |                |               |        |                 |        |
| Carrying<br>Amount               | Less<br>than 1 | 1-5           | 6-10   | More<br>than 10 |        |
| Money market funds               | \$ 2,491,656   | \$ 2,491,656  | \$ -0- | \$ -0-          | \$ -0- |
| Certificates of deposit          | 350,657        | 350,657       | -0-    | -0-             | -0-    |
| Common stocks                    | 3,064,222      | 3,064,222     | -0-    | -0-             | -0-    |
| Mutual funds - equities          | 51,226,263     | 51,226,263    | -0-    | -0-             | -0-    |
| Mutual funds - fixed income      | 32,412,076     | 32,412,076    | -0-    | -0-             | -0-    |
|                                  | \$ 89,544,874  | \$ 89,544,874 | \$ -0- | \$ -0-          | \$ -0- |

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

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

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

# HANCOCK REGIONAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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Deposits and investments consist of the following as of December 31, 2019 and 2018:

|  | <u>2019</u>           | <u>2018</u>           |
|--|-----------------------|-----------------------|
| Carrying amount                        |                       |                       |
| Deposits                               | \$ 71,312,060         | \$ 71,667,374         |
| Investments                            | 108,624,078           | 89,544,874            |
|  | <u>\$ 179,936,138</u> | <u>\$ 161,212,248</u> |
| <br>                                   |                       |                       |
| Included in the balance sheet captions |                       |                       |
| Cash and cash equivalents              | \$ 71,312,060         | \$ 71,667,374         |
| Investments                            | 2,596,512             | 1,649,717             |
| Board designated funds                 | 96,639,538            | 80,683,499            |
| Donor restricted funds                 | 9,388,028             | 7,211,658             |
|  | <u>\$ 179,936,138</u> | <u>\$ 161,212,248</u> |

#### 4. FAIR VALUE MEASUREMENTS

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

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels during 2019 and 2018.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

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

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

|   | December 31, 2019 |                |              |         |
|---|-------------------|----------------|--------------|---------|
|   | Total             | Level 1        | Level 2      | Level 3 |
| <b>Assets</b>                               |                   |                |              |         |
| Investments and assets whose use is limited |                   |                |              |         |
| Mutual funds - equities                     |                   |                |              |         |
| Large blend                                 | \$ 21,968,798     | \$ 21,968,798  | \$ -0-       | \$ -0-  |
| Large growth                                | 16,961,118        | 16,961,118     | -0-          | -0-     |
| Large value                                 | 12,827,514        | 12,827,514     | -0-          | -0-     |
| Medium blend                                | 2,582,627         | 2,582,627      | -0-          | -0-     |
| Medium growth                               | 521,846           | 521,846        | -0-          | -0-     |
| Medium value                                | 1,971,822         | 1,971,822      | -0-          | -0-     |
| Small blend                                 | 386,823           | 386,823        | -0-          | -0-     |
| Small growth                                | 389,543           | 389,543        | -0-          | -0-     |
| Small value                                 | 4,253,573         | 4,253,573      | -0-          | -0-     |
| Total mutual funds - equities               | 61,863,664        | 61,863,664     | -0-          | -0-     |
| Mutual funds - fixed income                 |                   |                |              |         |
| High yield bond                             | 2,019,329         | 2,019,329      | -0-          | -0-     |
| Intermediate-term bond                      | 29,387,287        | 29,387,287     | -0-          | -0-     |
| Short-term bond                             | 7,510,700         | 7,510,700      | -0-          | -0-     |
| Total mutual funds - fixed income           | 38,917,316        | 38,917,316     | -0-          | -0-     |
| Common stocks                               |                   |                |              |         |
| Consumer goods                              | 634,536           | 634,536        | -0-          | -0-     |
| Energy                                      | 144,311           | 144,311        | -0-          | -0-     |
| Financial                                   | 353,616           | 353,616        | -0-          | -0-     |
| Healthcare                                  | 464,868           | 464,868        | -0-          | -0-     |
| Real estate                                 | 22,344            | 22,344         | -0-          | -0-     |
| Services                                    | 406,252           | 406,252        | -0-          | -0-     |
| Technology                                  | 807,596           | 807,596        | -0-          | -0-     |
| Utilities                                   | 93,417            | 93,417         | -0-          | -0-     |
| Other                                       | 1,834,602         | 1,834,602      | -0-          | -0-     |
| Total common stocks                         | 4,761,542         | 4,761,542      | -0-          | -0-     |
| Money market funds                          | 2,700,696         | -0-            | 2,700,696    | -0-     |
|   |                   | \$ 100,780,980 | \$ 2,700,696 | \$ -0-  |
| Certificates of deposit *                   | 380,860           |                |              |         |
|   | \$ 108,624,078    |                |              |         |

# HANCOCK REGIONAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

The following table set forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of December 31, 2018.

|   | December 31, 2018    |                      |                     |               |
|---|----------------------|----------------------|---------------------|---------------|
|   | Total                | Level 1              | Level 2             | Level 3       |
| <b>Assets</b>                               |                      |                      |                     |               |
| Investments and assets whose use is limited |                      |                      |                     |               |
| Mutual funds - equities                     |                      |                      |                     |               |
| Large blend                                 | \$ 19,031,322        | \$ 19,031,322        | \$ -0-              | \$ -0-        |
| Large growth                                | 13,790,768           | 13,790,768           | -0-                 | -0-           |
| Large value                                 | 9,815,309            | 9,815,309            | -0-                 | -0-           |
| Medium growth                               | 2,575,257            | 2,575,257            | -0-                 | -0-           |
| Medium growth                               | 416,777              | 416,777              | -0-                 | -0-           |
| Medium value                                | 1,520,444            | 1,520,444            | -0-                 | -0-           |
| Small blend                                 | 304,278              | 304,278              | -0-                 | -0-           |
| Small growth                                | 310,425              | 310,425              | -0-                 | -0-           |
| Small value                                 | 3,461,683            | 3,461,683            | -0-                 | -0-           |
| Total mutual funds - equities               | 51,226,263           | 51,226,263           | -0-                 | -0-           |
| Mutual funds - fixed income                 |                      |                      |                     |               |
| High yield bond                             | 1,554,520            | 1,554,520            | -0-                 | -0-           |
| Intermediate-term bond                      | 24,725,703           | 24,725,703           | -0-                 | -0-           |
| Short-term bond                             | 6,131,853            | 6,131,853            | -0-                 | -0-           |
| Total mutual funds - fixed income           | 32,412,076           | 32,412,076           | -0-                 | -0-           |
| Common stocks                               |                      |                      |                     |               |
| Consumer goods                              | 441,247              | 441,247              | -0-                 | -0-           |
| Energy                                      | 119,358              | 119,358              | -0-                 | -0-           |
| Financial                                   | 256,007              | 256,007              | -0-                 | -0-           |
| Healthcare                                  | 280,027              | 280,027              | -0-                 | -0-           |
| Real estate                                 | 25,199               | 25,199               | -0-                 | -0-           |
| Services                                    | 175,220              | 175,220              | -0-                 | -0-           |
| Technology                                  | 461,496              | 461,496              | -0-                 | -0-           |
| Utilities                                   | 56,068               | 56,068               | -0-                 | -0-           |
| Other                                       | 1,249,600            | 1,249,600            | -0-                 | -0-           |
| Total common stocks                         | 3,064,222            | 3,064,222            | -0-                 | -0-           |
| Money market fund                           | 2,491,656            | -0-                  | 2,491,656           | -0-           |
|   |                      | <u>\$ 86,702,561</u> | <u>\$ 2,491,656</u> | <u>\$ -0-</u> |
| Certificates of deposit *                   | 350,657              |                      |                     |               |
|   | <u>\$ 89,544,874</u> |                      |                     |               |

\* Certificates of deposit are reported at contract value

## HANCOCK REGIONAL HOSPITAL

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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#### 5. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities as of December 31, 2019 and 2018 is as follows:

|   | <u>2019</u>          | <u>2018</u>          |
|---|----------------------|----------------------|
| Patient accounts receivable                                 |                      |                      |
| Receivable from patients and their insurance carriers       | \$ 31,616,949        | \$ 32,159,888        |
| Receivable from Medicare                                    | 29,841,309           | 31,167,259           |
| Receivable from Medicaid                                    | 5,838,067            | 3,666,543            |
| Receivable from long-term care operations                   | 48,766,930           | 37,811,281           |
| Total patient accounts receivable                           | 116,063,255          | 104,804,971          |
| Less contractual allowances                                 | (37,246,186)         | (37,884,848)         |
| Less allowance for uncollectible amounts                    | (12,586,244)         | (12,062,925)         |
| Patient accounts receivable, net                            | <u>\$ 66,230,825</u> | <u>\$ 54,857,198</u> |
| <br>  |                      |                      |
| Accounts payable and accrued expenses                       |                      |                      |
| Payable to employees (including payroll taxes and benefits) | \$ 5,416,964         | \$ 5,365,435         |
| Payable to suppliers and other accrued expenses             | 91,006,191           | 78,992,082           |
| Total accounts payable and accrued expenses                 | <u>\$ 96,423,155</u> | <u>\$ 84,357,517</u> |

#### 6. INVESTMENTS IN AFFILIATES

HRH owns 50% of Hancock Physician Network, LLC (Network) and has recorded the investment on the equity method of accounting in the amount of \$1,917,077 and \$1,646,060 as of December 31, 2019 and 2018, respectively. This investment is included within other assets in the consolidated financial statements. HRH paid the Network approximately \$4,947,000 and \$5,765,000 during 2019 and 2018, respectively, for management and other operating expenses.

HRH received approximately \$6,233,000 and \$5,734,000 for 2019 and 2018, respectively from the Network for rental, housecleaning and related income. HRH contributed capital of approximately \$6,942,000 and \$7,510,000 to the Network during 2019 and 2018, respectively.

HRH has a receivable from the Network of approximately \$1,073,000 and \$1,052,000 as of December 31, 2019 and 2018, respectively. The Hospital has a payable to the Network of approximately \$805,000 and \$477,000 as of December 31, 2019 and 2018, respectively. HRH expects to continue providing capital contributions to the Network at a commensurate level with its past experience.



## HANCOCK REGIONAL HOSPITAL

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

HRH also owns 50% of a Physician Hospital Organization (PHO), approximately 43% of Suburban Home Health, LLC, and approximately 49% of Parkway, LLC. HRH has recorded these investments in affiliates on the equity method of accounting within other assets in the consolidated financial statements. HRH also owns 2% of St. Vincent Heart Center of Indiana, Inc.

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

#### 7. CAPITAL ASSETS

Capital assets consist of the following as of December 31, 2019 and 2018:

|                                | Balance<br>December 31,<br>2018 | Additions            | Retirements         | Transfers     | Balance<br>December 31,<br>2019 |
|--------------------------------|---------------------------------|----------------------|---------------------|---------------|---------------------------------|
| Land                           | \$ 718,399                      | \$ 608,072           | \$ -0-              | \$ -0-        | \$ 1,326,471                    |
| Land improvements              | 7,802,643                       | -0-                  | -0-                 | 7,112,108     | 14,914,751                      |
| Buildings and fixed equipment  | 124,428,598                     | 3,642,006            | (173,302)           | 9,455,461     | 137,352,763                     |
| Major movable equipment        | 88,747,550                      | 11,409,804           | (2,268,324)         | 3,067,950     | 100,956,980                     |
| Construction in progress       | 4,191,806                       | 18,656,688           | -0-                 | (19,635,519)  | 3,212,975                       |
| Total capital assets           | <u>225,888,996</u>              | <u>34,316,570</u>    | <u>(2,441,626)</u>  | <u>-0-</u>    | <u>257,763,940</u>              |
| Less accumulated depreciation  |                                 |                      |                     |               |                                 |
| Land improvements              | (5,473,371)                     | (866,214)            | -0-                 | -0-           | (6,339,585)                     |
| Buildings and fixed equipment  | (80,810,928)                    | (4,797,895)          | 148,535             | -0-           | (85,460,288)                    |
| Major movable equipment        | (64,590,124)                    | (6,919,470)          | 1,536,293           | -0-           | (69,973,301)                    |
| Total accumulated depreciation | <u>(150,874,423)</u>            | <u>(12,583,579)</u>  | <u>1,684,828</u>    | <u>-0-</u>    | <u>(161,773,174)</u>            |
| Capital assets, net            | <u>\$ 75,014,573</u>            | <u>\$ 21,732,991</u> | <u>\$ (756,798)</u> | <u>\$ -0-</u> | <u>\$ 95,990,766</u>            |
|                                |                                 |                      |                     |               |                                 |
|                                | Balance<br>December 31,<br>2017 | Additions            | Retirements         | Transfers     | Balance<br>December 31,<br>2018 |
| Land                           | \$ 718,083                      | \$ 316               | \$ -0-              | \$ -0-        | \$ 718,399                      |
| Land improvements              | 7,802,643                       | -0-                  | -0-                 | -0-           | 7,802,643                       |
| Buildings and fixed equipment  | 121,637,934                     | 1,829,769            | (22,405)            | 983,300       | 124,428,598                     |
| Major movable equipment        | 83,907,538                      | 8,413,497            | (3,594,690)         | 21,205        | 88,747,550                      |
| Construction in progress       | 1,166,758                       | 4,029,553            | -0-                 | (1,004,505)   | 4,191,806                       |
| Total capital assets           | <u>215,232,956</u>              | <u>14,273,135</u>    | <u>(3,617,095)</u>  | <u>-0-</u>    | <u>225,888,996</u>              |
| Less accumulated depreciation  |                                 |                      |                     |               |                                 |
| Land improvements              | (5,059,267)                     | (415,727)            | 1,623               | -0-           | (5,473,371)                     |
| Buildings and fixed equipment  | (76,510,284)                    | (4,301,391)          | 747                 | -0-           | (80,810,928)                    |
| Major movable equipment        | (62,273,240)                    | (5,825,248)          | 3,508,364           | -0-           | (64,590,124)                    |
| Total accumulated depreciation | <u>(143,842,791)</u>            | <u>(10,542,366)</u>  | <u>3,510,734</u>    | <u>-0-</u>    | <u>(150,874,423)</u>            |
| Capital assets, net            | <u>\$ 71,390,165</u>            | <u>\$ 3,730,769</u>  | <u>\$ (106,361)</u> | <u>\$ -0-</u> | <u>\$ 75,014,573</u>            |

At December 31, 2019, the Hospital has remaining commitments of approximately \$60,000,000 primarily for the construction of a wellness center and office space, renovations for surgery, pain management and oncology departments, as well as new and replacement equipment, all of which are being financed internally.

## HANCOCK REGIONAL HOSPITAL

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

#### 8. PATIENT SERVICE REVENUE

Patient service revenue for 2019 and 2018 consists of the following:

|                             | 2019           | 2018           |
|-----------------------------|----------------|----------------|
| Inpatient                   | \$ 66,022,808  | \$ 60,299,569  |
| Outpatient                  | 377,141,603    | 336,566,104    |
| Long-term care              | 388,315,513    | 358,479,092    |
| Patient service revenue     | 831,479,924    | 755,344,765    |
| Contractual allowance       | 272,698,552    | 244,638,843    |
| Bad debts                   | 12,164,287     | 12,122,423     |
| Charity care                | 7,009,688      | 4,997,665      |
| Deductions from revenue     | 291,872,527    | 261,758,931    |
| Net patient service revenue | \$ 539,607,397 | \$ 493,585,834 |

#### 9. PENSION PLAN

The Hospital offers a defined contribution plan that covers all employees who meet eligibility requirements as to age and length of service and who elect to participate. The name of plan is the Hancock Regional Hospital 403(b) Plan and is administered by MetLife. The plan was established by written agreement between the Board of Trustees and the plan administrator. The contribution requirements of participants of the plan are established and can be amended by written agreement. The Hospital matches 50% of the employee contribution up to 4% of the eligible wages. Pension expense related to this plan was approximately \$2,330,000 and \$1,707,000 in 2019 and 2018, respectively.

#### 10. CONCENTRATION OF CREDIT RISK

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

|                    | Receivables |      | Revenue |      |
|--------------------|-------------|------|---------|------|
|                    | 2019        | 2018 | 2019    | 2018 |
| Medicare           | 44%         | 47%  | 55%     | 53%  |
| Medicaid           | 8%          | 5%   | 10%     | 11%  |
| Commercial         | 30%         | 30%  | 32%     | 33%  |
| Self pay and other | 18%         | 18%  | 3%      | 3%   |
|                    | 100%        | 100% | 100%    | 100% |

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

## HANCOCK REGIONAL HOSPITAL

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

#### 11. ACCOUNTING FOR NONCONTROLLING INTEREST

The following depicts the changes in consolidated net position attributable to the controlling financial interest of the Hospital and the noncontrolling interest as of December 31, 2019 and 2018:

|   | Controlling<br>interest | Noncontrolling<br>interest | Total                 |
|---|-------------------------|----------------------------|-----------------------|
| Net position  |                         |                            |                       |
| December 31, 2017                                   | \$ 236,628,306          | \$ 2,153,951               | \$ 238,782,257        |
| Change in net position before capital distributions | 16,090,533              | 1,359,921                  | 17,450,454            |
| Capital distributions                               | -0-                     | (1,669,254)                | (1,669,254)           |
| Change in net position                              | <u>16,090,533</u>       | <u>(309,333)</u>           | <u>15,781,200</u>     |
| December 31, 2018                                   | 252,718,839             | 1,844,618                  | 254,563,457           |
| Change in net position before capital distributions | 47,550,206              | 2,020,851                  | 49,571,057            |
| Capital distributions                               | -0-                     | (1,148,148)                | (1,148,148)           |
| Change in net position                              | <u>47,550,206</u>       | <u>872,703</u>             | <u>48,422,909</u>     |
| December 31, 2019                                   | <u>\$ 300,269,045</u>   | <u>\$ 2,717,321</u>        | <u>\$ 302,986,366</u> |

#### 12. SELF-INSURED HEALTH CLAIMS

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

The Hospital maintains reinsurance including a stop loss for specific incident claims generally over \$300,000. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$7,470,000 and \$7,119,000 for 2019 and 2018, respectively.

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

Changes in the accrual for unpaid claims for 2019 and 2018 are as follows:

|   | 2019               | 2018               |
|---|--------------------|--------------------|
| Unpaid claims estimate, beginning of year | \$ 848,761         | \$ 983,316         |
| Incurred claims and changes in estimates  | 7,470,084          | 7,119,165          |
| Claims payments                           | <u>(7,826,895)</u> | <u>(7,253,720)</u> |
| Unpaid claims estimate, end of year       | <u>\$ 491,950</u>  | <u>\$ 848,761</u>  |

# HANCOCK REGIONAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### 13. COMMITMENTS AND CONTINGENCIES

#### Malpractice Insurance

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

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence (\$8,000,000 in the annual aggregate) until June 30, 2019. Starting July 1, 2019, the Act will require the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 in the annual aggregate). The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

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

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

**HANCOCK REGIONAL HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

**14. BLENDED COMPONENT UNITS**

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

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

# HANCOCK REGIONAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Below is condensed, combining financial information of the blended component units as of and for the year ended December 31, 2018:

|  | 2018                |                     |                     |                      |
|--|---------------------|---------------------|---------------------|----------------------|
|  | Foundation          | HRSC                | O3PureMed           | Total                |
| <b>Assets</b>                            |                     |                     |                     |                      |
| Current assets                           | \$ 2,226,774        | \$ 4,305,962        | \$ 71,789           | \$ 6,604,525         |
| Capital assets                           | 5,275               | 558,901             | 998,106             | 1,562,282            |
| Assets whose use is limited              | 7,211,658           | -0-                 | -0-                 | 7,211,658            |
| Total assets                             | <u>\$ 9,443,707</u> | <u>\$ 4,864,863</u> | <u>\$ 1,069,895</u> | <u>\$ 15,378,465</u> |
| <b>Liabilities</b>                       |                     |                     |                     |                      |
| Accounts payable and other liabilities   | \$ 34,077           | \$ 511,291          | \$ 14,361           | \$ 559,729           |
| Total liabilities                        | 34,077              | 511,291             | 14,361              | 559,729              |
| <b>Net position</b>                      |                     |                     |                     |                      |
| Unrestricted                             | 2,192,697           | 3,794,671           | 57,428              | 6,044,796            |
| Net investment in capital assets         | 5,275               | 558,901             | 998,106             | 1,562,282            |
| Donor restricted-expendable              | 7,211,658           | -0-                 | -0-                 | 7,211,658            |
| Total net position                       | <u>9,409,630</u>    | <u>4,353,572</u>    | <u>1,055,534</u>    | <u>14,818,736</u>    |
| Total liabilities and net position       | <u>\$ 9,443,707</u> | <u>\$ 4,864,863</u> | <u>\$ 1,069,895</u> | <u>\$ 15,378,465</u> |
| Operating revenues (patient and other)   | \$ -0-              | \$ 12,878,289       | \$ 352,827          | \$ 13,231,116        |
| <b>Expenses</b>                          |                     |                     |                     |                      |
| Depreciation                             | -0-                 | 250,341             | 291,830             | 542,171              |
| Other expenses                           | -0-                 | 9,926,264           | 351,268             | 10,277,532           |
| Total expenses                           | <u>-0-</u>          | <u>10,176,605</u>   | <u>643,098</u>      | <u>10,819,703</u>    |
| Operating income (loss)                  | -0-                 | 2,701,684           | (290,271)           | 2,411,413            |
| Nonoperating revenues, net               | 693,931             | 8,992               | -0-                 | 702,923              |
| Capital contributions (distributions)    | -0-                 | (3,130,562)         | 278,630             | (2,851,932)          |
| Change in net position                   | 693,931             | (419,886)           | (11,641)            | 262,404              |
| Net position, beginning of year          | 8,715,699           | 4,773,458           | 1,067,175           | 14,556,332           |
| Net position, end of year                | <u>\$ 9,409,630</u> | <u>\$ 4,353,572</u> | <u>\$ 1,055,534</u> | <u>\$ 14,818,736</u> |
| <b>Net cash flows from</b>               |                     |                     |                     |                      |
| Operating activities                     | \$ -0-              | \$ 2,952,025        | \$ (351,268)        | \$ 2,600,757         |
| Noncapital financing activities          | 1,159,530           | -0-                 | -0-                 | 1,159,530            |
| Capital and related financing activities | -0-                 | (3,458,188)         | 399,232             | (3,058,956)          |
| Investing activities                     | (1,012,918)         | (8,992)             | -0-                 | (1,021,910)          |
| Total                                    | 146,612             | (515,155)           | 47,964              | (320,579)            |
| <b>Cash and cash equivalents:</b>        |                     |                     |                     |                      |
| Beginning of year                        | 292,204             | 3,182,922           | 25,041              | 3,500,167            |
| End of year                              | <u>\$ 438,816</u>   | <u>\$ 2,667,767</u> | <u>\$ 73,005</u>    | <u>\$ 3,179,588</u>  |

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

# HANCOCK REGIONAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### **15. SUBSEQUENT EVENT**

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