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May 1, 2024

Board of Trustees
Hancock Health
Hancock County, Indiana

We have reviewed the audit report of Hancock Health which was opined by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2022 to December 31, 2022. Per the *Report of Independent Auditors*, the financial statements included in the report present fairly the financial condition of Hancock Health as of December 31, 2022, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner



FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2022 AND 2021

CPAs / ADVISORS



HANCOCK HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Hancock Health
Greenfield, Indiana

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of Hancock Health (the Hospital), a component unit of Hancock County, which comprise the statements of net position as of December 31, 2022 and 2021, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principles

As described in Note 2 to the financial statements, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 87 – *Leases* and early adopted GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*. Our opinion was not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

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

Board of Trustees
Hancock Health
Greenfield, Indiana

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

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

Board of Trustees
Hancock Health
Greenfield, Indiana

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2024 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
April 5, 2024

REQUIRED SUPPLEMENTARY INFORMATION

HANCOCK HEALTH

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

This section of Hancock Health's (the Hospital) annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the years ended December 31, 2022 and 2021. This MD&A includes a discussion and analysis of the activities and results of the Hospital's blended component units, Hancock Regional Hospital Foundation, Inc., Hancock Regional Surgery Center, LLC, Hancock Health Gateway Services, Inc., and Suburban Hospice, Inc. and should be read in conjunction with the Hospital's financial statements that follow this MD&A. Please read it in conjunction with the Hospital's financial statements, which begin on page 4. Unless otherwise indicated, amounts are in thousands and are approximates.

FINANCIAL HIGHLIGHTS

- The Hospital reported a decrease in net position of \$17,142 or 5% in 2022.
- Operating income (loss) in 2022 compared to 2021 decreased by \$26,011 or 177%.
- Nonoperating income (loss) in 2022 compared to 2021 decreased by \$26,276 or 116%.
- The Hospital recognized \$3,168 and \$2,102 during 2022 and 2021, respectively, in nonoperating income from grants related to COVID-19.
- In 2022, the Hospital adopted Governmental Accounting Standards Board Statement No. 87 – *Leases*, which requires certain leases to be recorded in the statements of net position. This statement was applied retrospectively to the financial statements within the MD&A.

USING THIS ANNUAL REPORT

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

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

Our analysis of 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 statement of net position and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These 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.

HANCOCK HEALTH

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

THE STATEMENT OF CASH FLOWS

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

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets and liabilities reported in the statement of net position. The Hospital's net position decreased in 2022 by \$17,142 (5%) as you can see from Table 1.

Table 1: Statements of Net Position

	2022	Restated 2021	2022 - 2021 \$ Change	Restated 2020
Assets				
Current assets	\$ 152,777	\$ 156,702	\$ (3,925)	\$ 174,658
Capital assets, net	137,070	131,355	5,715	128,151
Restricted and limited use assets	124,604	137,314	(12,710)	122,399
Other noncurrent assets	36,671	34,441	2,230	29,445
Total assets	<u>\$ 451,122</u>	<u>\$ 459,812</u>	<u>\$ (8,690)</u>	<u>\$ 454,653</u>
Liabilities				
Current liabilities	\$ 99,939	\$ 91,896	\$ 8,043	\$ 121,780
Other noncurrent liabilities	2,376	1,967	409	2,385
Total liabilities	102,315	93,863	8,452	124,165
Net Position				
Net investment in capital assets	133,972	128,970	5,002	125,356
Donor restricted - expendable	12,581	13,361	(780)	10,847
Restricted nonexpendable	3,956	3,762	194	3,243
Unrestricted	198,298	219,856	(21,558)	191,042
Total net position	348,807	365,949	(17,142)	330,488
Total liabilities and net position	<u>\$ 451,122</u>	<u>\$ 459,812</u>	<u>\$ (8,690)</u>	<u>\$ 454,653</u>

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

A significant component in the Hospital's assets increase in 2021 from 2020 is restricted and limited use assets, which increased in 2021 by \$14,915 or 12% due to investment income from positive market performance. Additionally, capital assets, net increased in 2021 by \$3,204 or 3% due to construction projects to expand the Hospital's operations in Hancock County. Finally, other noncurrent assets increased in 2021 by \$4,996 or 17% due to investment in property in Hancock County and positive performance of investment in other entities.

HANCOCK HEALTH

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2022, the Hospital's change in net position decreased by \$52,603 compared to 2021 as shown in Table 2.

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

	2022	Restated 2021	2022 - 2021 \$ Change	Restated 2020
Operating Revenue				
Net patient service revenue	\$ 558,996	\$ 523,327	\$ 35,669	\$ 517,096
Other operating revenue	9,388	15,411	(6,023)	7,004
Total operating revenue	<u>568,384</u>	<u>538,738</u>	<u>29,646</u>	<u>524,100</u>
Operating expenses				
Salaries and benefits	88,438	80,711	7,727	74,751
Medical supplies and drugs	68,759	60,697	8,062	81,893
Purchased services and medical fees	374,995	338,475	36,520	350,207
Depreciation and amortization	18,940	18,380	560	15,747
Hospital assessment fee	8,605	7,198	1,407	6,247
Other operating expense	20,002	18,621	1,381	18,593
Total operating expense	<u>579,739</u>	<u>524,082</u>	<u>55,657</u>	<u>547,438</u>
Operating income (loss)	(11,355)	14,656	(26,011)	(23,338)
Nonoperating income (loss)				
Noncapital contributions	3,369	3,745	(376)	2,411
Other nonoperating expense	8,886	1,901	6,985	4,514
COVID-19 grant revenue	3,168	2,102	1,066	28,178
Investment return	(18,986)	14,965	(33,951)	16,928
Total nonoperating income (loss)	<u>(3,563)</u>	<u>22,713</u>	<u>(26,276)</u>	<u>52,031</u>
Change in net position before capital distributions	(14,918)	37,369	(52,287)	28,693
Capital distributions	<u>(2,224)</u>	<u>(1,908)</u>	<u>(316)</u>	<u>(1,192)</u>
Change in net position	(17,142)	35,461	(52,603)	27,501
Net position				
Beginning of year	365,949	330,488	35,461	302,987
End of year	<u>\$ 348,807</u>	<u>\$ 365,949</u>	<u>\$ (17,142)</u>	<u>\$ 330,488</u>

SOURCES OF REVENUE

During 2022, 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. Table 3 presents the percentages of gross revenue for patient services by payor for the Hospital's acute care operations.

HANCOCK HEALTH

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

Table 3: Sources of Revenue

	2022	2021	2020
Medicare	54%	52%	55%
Medicaid	12%	12%	12%
Commercial	31%	33%	31%
Self-pay	3%	3%	2%
	<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 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 \$29,646 or 6% in 2022 compared to 2021. This increase was primarily the result of an increase in volumes. Disproportionate Share Hospital Payment (DSH) for years 2022 and 2021 was \$2,282.

OPERATING INCOME (LOSS)

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 2022, the Hospital reported an operating loss, due to increased labor and other operational expenses as a result of inflation and economic pressures. The Hospital's operations began in 1951 as a county owned and operated hospital under Indiana Code 16-22. In 2021, the Hospital reported operating income, which is consistent with the Hospital's entire operating history.

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

The increase in the Hospital's operating income (loss) in 2021 of \$37,994 or 163% from 2020 was the result of the increase in operating revenues and the decrease in operating expenses. The Hospital increased gross charge rates by 5% for both 2021 and 2020, respectively. More importantly, the Hospital's volumes increased during 2021. Total operating expenses decreased \$23,356 or 4% in 2021 compared to 2020. The decrease in operating expenses was the result of medical supplies and drugs and purchased services and medical fees. Medical supplies and drugs decreased due to long-term care operations and personal protective equipment purchased in response to the COVID-19 pandemic during 2020.

HANCOCK HEALTH

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

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

Table 4: Statistics

Statistic	2022	2021	2022 - 2021	2020
			% Increase / <Decrease>	
Patient Days	15,184	14,152	7.29%	12,536
Diagnostic Imaging Procedures	61,194	69,817	-12.35%	62,757
Laboratory Procedures	386,353	343,659	12.42%	313,974
Pharmaceutical Medication Units	399,591	379,718	5.23%	318,947
Rehab Procedures	52,135	49,383	5.57%	39,340
Home Health Units of Service	18,298	14,346	27.55%	12,515
Outpatient Clinic Procedures	5,985	5,797	3.24%	5,442

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 \$3,370 were waived during 2022. 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 RESULTS

Nonoperating income (loss) is the result of changes in the Hospital's investment return and other non-capital grants and contributions. The Hospital recognized \$3,168 in 2022 from COVID-19 grant revenue compared to \$2,102 in 2021. The Hospital's nonoperating income (loss) decreased in 2022 by \$26,276 from 2021 primarily due to negative investment return.

GRANTS AND CONTRIBUTIONS

Other than the COVID-19 grant revenue, the Hospital receives other operating grants from various state and federal agencies for specific programs. Operating grants recognized as revenue in 2022 totaled \$724 compared to \$1,056 in 2021. Some of the significant grants recognized as revenue by the Hospital were:

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

HANCOCK HEALTH

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

THE HOSPITAL'S CASH FLOWS

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

Table 5: Statements of Cash Flows

	2022	Restated 2021	2022 - 2021 \$ Change	Restated 2020
Net cash flows from				
Operating activities	\$ 11,344	\$ 7,849	\$ 3,495	\$ 12,926
Noncapital financing activities	15,463	7,763	7,700	35,103
Capital and related financing	(26,160)	(23,907)	(2,253)	(45,690)
Investing	(8,258)	(6,892)	(1,366)	1,719
Change in cash and cash equivalents	<u>\$ (7,611)</u>	<u>\$ (15,187)</u>	<u>\$ 7,576</u>	<u>\$ 4,058</u>

CAPITAL ASSETS

During 2022, the Hospital's net capital assets increased by approximately \$5,715. This compares to an increase of approximately \$3,204 for 2021 compared to 2020. The increases in 2022 and 2021 were due to construction projects to expand the Hospital's operations in Hancock County. The change in capital assets is outlined in Table 6:

Table 6: Capital Assets

	2022	Restated 2021	2022 - 2021 \$ Change	Restated 2020
Non-depreciable capital assets	\$ 13,593	\$ 3,890	\$ 9,703	\$ 3,405
Depreciable capital assets, net	335,673	322,204	13,469	301,498
Intangible right-to-use assets, net	2,247	898	1,349	898
	<u>351,513</u>	<u>326,992</u>	<u>24,521</u>	<u>305,801</u>
Accumulated depreciation	(213,450)	(195,062)	(18,388)	(177,248)
Accumulated amortization	(993)	(575)	(418)	(402)
	<u>\$ 137,070</u>	<u>\$ 131,355</u>	<u>\$ 5,715</u>	<u>\$ 128,151</u>

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 financial statements.

DEBT

The Hospital's debt consists of a note payable. Debt decreased \$230 in 2022 from 2021 and in 2021 from 2020 due to principal payments paid during 2022 and 2021. This note payable was a new borrowing in 2020. More detailed information about the Hospital's long-term debt is presented in the notes to the financial statements.

HANCOCK HEALTH

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

ECONOMIC FACTORS

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

CONTACTING 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 HEALTH

STATEMENTS OF NET POSITION DECEMBER 31, 2022 AND 2021

	ASSETS	
	2022	Restated 2021
Current assets		
Cash and cash equivalents	\$ 52,572,014	\$ 60,182,716
Investments	4,009,620	4,258,262
Patient accounts receivable, net	67,401,617	62,293,321
Inventories and other current assets	28,793,369	29,967,380
Total current assets	<u>152,776,620</u>	<u>156,701,679</u>
Assets whose use is limited		
Board designated funds	112,023,032	123,952,195
Donor restricted funds	12,581,097	13,361,483
Total assets whose use is limited	<u>124,604,129</u>	<u>137,313,678</u>
Capital assets		
Non-depreciable capital assets	13,592,727	3,890,064
Depreciable capital assets, net	122,223,039	127,140,861
Intangible right-to-use assets, net	1,254,061	323,577
Capital assets, net	<u>137,069,827</u>	<u>131,354,502</u>
Other assets	<u>36,671,796</u>	<u>34,441,534</u>
Total assets	<u>\$ 451,122,372</u>	<u>\$ 459,811,393</u>

See accompanying notes to financial statements.

HANCOCK HEALTH

STATEMENTS OF NET POSITION DECEMBER 31, 2022 AND 2021

LIABILITIES AND NET POSITION

	2022	Restated 2021
Current liabilities		
Accounts payable and other liabilities	\$ 85,561,836	\$ 78,082,478
Accrued salaries and related liabilities	7,873,654	7,248,252
Refundable advances	-0-	47,400
Estimated third-party settlements	5,781,919	6,099,020
Current portion of long-term debt	230,004	230,004
Current portion of lease liabilities	492,010	187,425
Total current liabilities	99,939,423	91,894,579
Long-term debt, net of current portion	1,590,821	1,820,825
Long-term lease liabilities, net of current portion	784,987	146,340
Total liabilities	102,315,231	93,861,744
Net position		
Net investment in capital assets	133,972,005	128,969,908
Donor restricted expendable	12,581,097	13,361,483
Restricted nonexpendable	3,956,391	3,762,119
Unrestricted	198,297,648	219,856,139
Total net position	348,807,141	365,949,649
Total liabilities and net position	\$ 451,122,372	\$ 459,811,393

See accompanying notes to financial statements.

HANCOCK HEALTH

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	Restated 2021
Operating revenue		
Net patient service revenue	\$ 558,995,633	\$ 523,327,399
Other operating revenue	9,387,623	15,411,079
Total operating revenue	568,383,256	538,738,478
Operating expenses		
Salaries and wages	72,151,422	65,736,160
Employee benefits	16,286,889	14,974,558
Professional medical fees	3,326,733	3,737,932
Supplies and drugs	68,758,920	60,696,597
Purchased services	371,668,228	334,736,867
Utilities and insurance	12,532,568	11,397,407
Depreciation and amortization	18,939,957	18,379,691
Hospital assessment fee	8,604,969	7,197,815
Other	7,470,568	7,226,066
Total operating expenses	579,740,254	524,083,093
Operating income (loss)	(11,356,998)	14,655,385
Nonoperating income (loss)		
Noncapital contributions	3,368,778	3,745,386
Other nonoperating income	8,886,499	1,900,716
COVID-19 grant revenue	3,168,468	2,102,401
Investment return	(18,985,638)	14,965,415
Total nonoperating income (loss)	(3,561,893)	22,713,918
Change in net position before capital distributions	(14,918,891)	37,369,303
Capital distributions - noncontrolling interest	(2,223,617)	(1,907,565)
Change in net position	(17,142,508)	35,461,738
Net position		
Beginning of year	365,949,649	330,487,911
End of year	\$ 348,807,141	\$ 365,949,649

See accompanying notes to financial statements.

HANCOCK HEALTH

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	Restated 2021
Operating activities		
Cash received from patients and third party payors	\$ 553,522,836	\$ 516,882,717
Cash paid to employees for wages and benefits	(87,812,909)	(80,890,565)
Cash paid to vendors for goods and services	(463,753,887)	(443,554,402)
Other operating receipts	9,387,623	15,411,079
Net cash from operating activities	11,343,663	7,848,829
Noncapital financing activities		
Noncapital contributions	3,368,778	3,745,386
Other nonoperating	8,925,924	1,915,848
COVID-19 grant funds	3,168,468	2,102,401
Net cash from noncapital financing activities	15,463,170	7,763,635
Capital and related financing activities		
Acquisition and construction of capital assets	(23,260,964)	(21,573,718)
Principal payments on long-term debt	(230,004)	(230,004)
Principal payments on lease liabilities	(405,816)	(180,989)
Interest paid on lease liabilities	(39,425)	(15,132)
Capital distributions - noncontrolling interest	(2,223,617)	(1,907,565)
Net cash from capital and related financing activities	(26,159,826)	(23,907,408)
Investing activities		
Other assets	(2,230,262)	(4,998,211)
Investment income	(18,985,638)	14,965,415
Other changes in assets whose use is limited, net	12,958,191	(16,859,304)
Net cash from investing activities	(8,257,709)	(6,892,100)
Net change in cash and cash equivalents	(7,610,702)	(15,187,044)
Cash and cash equivalents		
Beginning of year	60,182,716	75,369,760
End of year	\$ 52,572,014	\$ 60,182,716

See accompanying notes to financial statements.

HANCOCK HEALTH

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	Restated 2021
Reconciliation of operating income (loss) to net cash from operating activities		
Operating income (loss)	\$ (11,356,998)	\$ 14,655,385
Adjustment to reconcile operating income to net cash from operating activities		
Depreciation and amortization	18,939,957	18,379,691
Bad debts	13,183,472	10,663,645
Changes in assets and liabilities		
Patient accounts receivable	(18,291,768)	(7,677,925)
Other current assets	1,174,011	1,729,079
Accounts payable and other liabilities	7,434,088	(20,290,797)
Accrued salaries and related liabilities	625,402	(179,847)
Medicare accelerated/advance payments	-0-	(10,936,462)
Refundable advances	(47,400)	(130,089)
Estimated third-party settlements	(317,101)	1,636,149
Net cash from operating activities	\$ 11,343,663	\$ 7,848,829
 Reconciliation of cash and cash equivalents to the statements of net position		
Cash and cash equivalents:		
In current assets	\$ 52,572,014	\$ 60,182,716
 Supplementary disclosure of cash flows information		
Acquisition and construction of capital assets		
in accounts payable and other liabilities	\$ 45,270	\$ 9,015
Capital assets acquired with leases	\$ 1,349,048	\$ -0-

See accompanying notes to financial statements.

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Hancock Regional Hospital, doing business as Hancock Health (HH), 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. HH also provides long-term healthcare services. HH 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 HH and a financial benefit/burden relationship exists between Hancock County and HH. For these reasons, HH is considered a component unit of Hancock County.

Pursuant to the provision of long-term care, HH 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 HH and HH 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 HH and HH retains the authority and legal responsibility for the operations of the facilities.

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

Accounting principles generally accepted in the United States of America require that these financial statements present HH and its blended component units. The component units discussed below are included in HH's reporting entity because of the significance of their operation or financial relationship with HH. 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 HH.

Blended Component Units

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

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. HH's membership interest in HRSC is 51%. HH maintains substantial participation in the operations of HRSC in addition to an economic interest in HRSC's financial position.

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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. HH'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. HH's membership interest in Hospice is 100%.

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

Use of Estimates

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

Measurement Focus and Basis of Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid assets with maturity dates of 90 days or less when purchased. 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.

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.

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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 HH'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 2019. There were no significant differences reflected as deductions from revenue during 2022 and 2021. Amounts for unresolved cost reports for 2020 through 2022 are reflected in estimated third-party settlements on the statements of net position.

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 statements of revenues, expenses and changes in net position. Previously, the State's share was funded by governmental entities through intergovernmental transfers.

The Medicaid enhanced payments relate to both fee for service and managed care claims. Under the HAF Program, the enhanced Medicaid payments follow the patients and are realized through increased Medicaid rates. During 2022 and 2021, HH recognized HAF Program expense of approximately \$8,605,000 and \$7,198,000, respectively. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the statements of revenues, expenses and changes in net position.

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

The Hospital recognized revenue related to the Medicaid Disproportionate Share Hospital and the Upper Payment Limitation programs of approximately \$2,282,000 for the years ended December 31, 2022 and 2021. These amounts are reimbursements for providing care to the uninsured and underinsured and are included in net patient service revenue within the statements of revenues, expenses and changes in net position.

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.

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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 statements of revenues, expenses and changes in net position, an estimated \$1,249,000 and \$1,198,000 arose from providing services to charity patients during 2022 and 2021, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue.

Inventories and Other Current Assets

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventory at year-end consists mainly of pharmaceuticals and medical supplies. Other current assets consist of prepaid expenses and various other items. These assets are classified as current as they are expected to be utilized during 2023.

Assets Whose Use is Limited and Investments

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

Capital Assets

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

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

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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

Other Assets

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

Income Taxes

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

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, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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

Advertising and Community Relations

The Hospital records advertising and promotion expense in the period incurred. Total expense for advertising and promotion was approximately \$6,534,000 and \$1,320,000 for 2022 and 2021, respectively.

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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

Grants and Contributions

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

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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 statements of net position. Noncontrolling interests represent the portion of the net position that is attributable to investors that are external to and not included in the Hospital's financial statements.

Reclassification

Certain amounts in the prior year 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.

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the statement of net position date for recognition and disclosure in the accompanying financial statements through the date the financial statements were available to be issued which is April 5, 2024.

2. CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 87 - Leases

In 2022, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 87 – *Leases* (GASB 87), which requires all leases that have a maximum possible term greater than 12 months to be recorded in the statements of net position. Previously, leases classified as operating leases were not recorded in the statements of net position.

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

The following table outlines the retrospective adjustments necessary to adopt this GASB statement.

	December 31,	
	2021	2020
Net position, previously reported	\$ 365,959,837	\$ 330,506,712
GASB 87 implementation effect:		
Capital assets, net	323,577	495,953
Lease liabilities	(333,765)	(514,754)
Net change in net position	(10,188)	(18,801)
Net position, restated	<u>\$ 365,949,649</u>	<u>\$ 330,487,911</u>

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITAs)

During 2022, the Hospital early adopted GASB Statement No. 96 – SBITAs (GASB 96), which requires SBITAs that have a maximum possible term greater than 12 months to be recorded in the statements of net position. Previously, SBITAs classified as expense were not recorded in the statements of net position. This GASB statement was adopted, applied retrospectively, and did not have a significant impact on Hospital's financial statements.

3. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Board Designated Funds

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

Donor Restricted Funds

The Hospital has assets, which have been donated for a specific purpose. The following represents assets whose use is limited and investments as of December 31, 2022 and 2021:

	2022	2021
Board designated funds	\$ 112,023,032	\$ 123,952,195
Donor restricted funds	12,581,097	13,361,483
Total assets whose use is limited	124,604,129	137,313,678
Investments	4,009,620	4,258,262
	<u>\$ 128,613,749</u>	<u>\$ 141,571,940</u>

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

The following represents the makeup of assets whose use is limited and investments as of December 31, 2022 and 2021:

	2022	2021
Money market funds	\$ 5,544,466	\$ 2,513,220
Certificates of deposit	494,665	-0-
US Government securities	5,196,337	-0-
Common stocks	4,776,320	7,448,374
Mutual funds - equities	69,109,541	82,644,720
Mutual funds - fixed income	43,492,420	48,965,626
	\$ 128,613,749	\$ 141,571,940

4. DEPOSITS AND INVESTMENTS

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

Investments and assets whose use is limited are carried at fair market value except for certificates of deposit, which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. As of December 31, 2022 and 2021, 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, 2022					
Investment Maturities (in years)					
Carrying Amount	Less than 1	1-5	6-10	More than 10	
Money market funds	\$ 5,544,466	\$ 5,544,466	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	494,665	494,665	-0-	-0-	-0-
US Government securities	5,196,337	5,196,337	-0-	-0-	-0-
Common stocks	4,776,320	4,776,320	-0-	-0-	-0-
Mutual funds - equities	69,109,541	69,109,541	-0-	-0-	-0-
Mutual funds - fixed income	43,492,420	43,492,420	-0-	-0-	-0-
	\$ 128,613,749	\$ 128,613,749	\$ -0-	\$ -0-	\$ -0-

December 31, 2021					
Investment Maturities (in years)					
Carrying Amount	Less than 1	1-5	6-10	More than 10	
Money market funds	\$ 2,513,220	\$ 2,513,220	\$ -0-	\$ -0-	\$ -0-
Common stocks	7,448,374	7,448,374	-0-	-0-	-0-
Mutual funds - equities	82,644,720	82,644,720	-0-	-0-	-0-
Mutual funds - fixed income	48,965,626	48,965,626	-0-	-0-	-0-
	\$ 141,571,940	\$ 141,571,940	\$ -0-	\$ -0-	\$ -0-

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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.

Deposits and investments consist of the following as of December 31, 2022 and 2021:

	2022	2021
Carrying amount		
Deposits	\$ 52,572,014	\$ 60,182,716
Investments	128,613,749	141,571,940
	<u>\$ 181,185,763</u>	<u>\$ 201,754,656</u>
Included in statement of net position captions		
Cash and cash equivalents	\$ 52,572,014	\$ 60,182,716
Investments	4,009,620	4,258,262
Board designated funds	112,023,032	123,952,195
Donor restricted funds	12,581,097	13,361,483
	<u>\$ 181,185,763</u>	<u>\$ 201,754,656</u>

5. FAIR VALUE MEASUREMENTS

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

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

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

- 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 2022 and 2021.

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, 2022 and 2021.

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

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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, 2022.

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

* Certificates of deposit are reported at contract value

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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, 2021.

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and assets whose use is limited				
Mutual funds - equities				
Large blend	\$ 41,426,796	\$ 41,426,796	\$ -0-	\$ -0-
Large growth	23,601,888	23,601,888	-0-	-0-
Large value	12,558,695	12,558,695	-0-	-0-
Medium blend	2,567,509	2,567,509	-0-	-0-
Medium growth	683,976	683,976	-0-	-0-
Medium value	756,417	756,417	-0-	-0-
Small blend	505,532	505,532	-0-	-0-
Small growth	505,341	505,341	-0-	-0-
Small value	38,566	38,566	-0-	-0-
Total mutual funds - equities	82,644,720	82,644,720	-0-	-0-
Mutual funds - fixed income				
Intermediate-term bond	41,862,562	41,862,562	-0-	-0-
Short-term bond	7,103,064	7,103,064	-0-	-0-
Total mutual funds - fixed income	48,965,626	48,965,626	-0-	-0-
Common stocks				
Consumer goods	1,080,784	1,080,784	-0-	-0-
Financial	356,040	356,040	-0-	-0-
Healthcare	618,743	618,743	-0-	-0-
Services	680,929	680,929	-0-	-0-
Technology	2,528,018	2,528,018	-0-	-0-
Utilities	209,451	209,451	-0-	-0-
Other	1,974,409	1,974,409	-0-	-0-
Total common stocks	7,448,374	7,448,374	-0-	-0-
Money market funds	2,513,220	-0-	2,513,220	-0-
	<u>\$ 141,571,940</u>	<u>\$ 139,058,720</u>	<u>\$ 2,513,220</u>	<u>\$ -0-</u>

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

6. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities as of December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 42,359,709	\$ 40,549,276
Receivable from Medicare	33,764,535	26,873,147
Receivable from Medicaid	8,910,719	8,459,770
Receivable from long-term care operations	46,157,117	41,327,275
Total patient accounts receivable	<u>131,192,080</u>	<u>117,209,468</u>
Less contractual allowances	(46,385,760)	(40,529,008)
Less allowance for uncollectible amounts	(17,404,703)	(14,387,139)
Patient accounts receivable, net	<u>\$ 67,401,617</u>	<u>\$ 62,293,321</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	\$ 7,873,654	\$ 7,248,252
Payable to suppliers and other accrued expenses	85,561,836	78,082,478
Total accounts payable and accrued expenses	<u>\$ 93,435,490</u>	<u>\$ 85,330,730</u>

7. INVESTMENTS IN AFFILIATES

HH owns 50% of Hancock Physician Network, LLC (Network) and has recorded the investment on the equity method of accounting in the amount of approximately \$3,982,000 and \$3,611,000 as of December 31, 2022 and 2021, respectively. This investment is included within other assets in the financial statements. HH paid the Network approximately \$3,073,000 and \$2,676,000 during 2022 and 2021, respectively, for management and other operating expenses. HH received approximately \$5,009,000 and \$7,444,000 for 2022 and 2021, respectively from the Network for rental, housecleaning and related income. HH contributed capital of approximately \$7,827,000 and \$7,810,000 to the Network during 2022 and 2021, respectively. HH has a receivable from the Network of approximately \$556,000 and \$738,000 as of December 31, 2022 and 2021, respectively. HH has a payable to the Network of approximately \$960,000 and \$597,000 as of December 31, 2022 and 2021, respectively. HH expects to continue providing capital contributions to the Network at a commensurate level with its past experience. Subsequent to year-end and effective January 1, 2023, HH acquired the remaining 50% of the Network and is the 100% owner of the Network.

HH also owns 50% of a Physician Hospital Organization (PHO), approximately 32% of Suburban Home Health, LLC, and approximately 49% of Parkway, LLC. HH has recorded these investments in affiliates on the equity method of accounting within other assets in the financial statements. HH 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 HH.

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

8. CAPITAL ASSETS

A summary of capital assets including assets under leases for 2022 and restated 2021 follows. Additionally, the December 31, 2020 balances are restated:

	December 31, 2021	Additions	Retirements	Transfers	December 31, 2022
Non-depreciable capital assets					
Land	\$ 2,494,664	\$ -0-	\$ -0-	\$ -0-	\$ 2,494,664
Construction in progress	1,395,400	9,702,663	-0-	-0-	11,098,063
Total non-depreciable capital assets	3,890,064	9,702,663	-0-	-0-	13,592,727
Depreciable capital assets					
Land improvements	26,453,388	725,484	-0-	-0-	27,178,872
Buildings and improvements	173,797,168	4,103,858	-0-	-0-	177,901,026
Equipment	121,952,518	8,774,229	(133,690)	-0-	130,593,057
Total depreciable capital assets	322,203,074	13,603,571	(133,690)	-0-	335,672,955
Accumulated depreciation					
Land improvements	(12,131,399)	(4,162,245)	-0-	-0-	(16,293,644)
Buildings and improvements	(96,193,342)	(6,561,305)	-0-	-0-	(102,754,647)
Equipment	(86,737,472)	(7,797,843)	133,690	-0-	(94,401,625)
Total accumulated depreciation	(195,062,213)	(18,521,393)	133,690	-0-	(213,449,916)
Total depreciable capital assets, net	127,140,861	(4,917,822)	-0-	-0-	122,223,039
Intangible right-to-use assets					
Leased equipment	898,390	1,349,048	-0-	-0-	2,247,438
Accumulated amortization					
Leased equipment	(574,813)	(418,564)	-0-	-0-	(993,377)
Total intangible right-to-use assets, net	323,577	930,484	-0-	-0-	1,254,061
Capital assets, net	\$ 131,354,502	\$ 5,715,325	\$ -0-	\$ -0-	\$ 137,069,827
	December 31, 2020	Additions	Retirements	Transfers	December 31, 2021
Non-depreciable capital assets					
Land	\$ 2,494,664	\$ -0-	\$ -0-	\$ -0-	\$ 2,494,664
Construction in progress	910,327	9,366,350	-0-	(8,881,277)	1,395,400
Total non-depreciable capital assets	3,404,991	9,366,350	-0-	(8,881,277)	3,890,064
Depreciable capital assets					
Land improvements	22,239,308	-0-	-0-	4,214,080	26,453,388
Buildings and improvements	162,620,792	6,744,884	-0-	4,431,492	173,797,168
Equipment	116,638,064	5,471,499	(392,750)	235,705	121,952,518
Total depreciable capital assets	301,498,164	12,216,383	(392,750)	8,881,277	322,203,074
Accumulated depreciation					
Land improvements	(8,539,459)	(3,591,940)	-0-	-0-	(12,131,399)
Buildings and improvements	(89,642,182)	(6,551,160)	-0-	-0-	(96,193,342)
Equipment	(79,066,007)	(8,064,215)	392,750	-0-	(86,737,472)
Total accumulated depreciation	(177,247,648)	(18,207,315)	392,750	-0-	(195,062,213)
Total depreciable capital assets, net	124,250,516	(5,990,932)	-0-	8,881,277	127,140,861
Intangible right-to-use assets					
Leased equipment	898,390	-0-	-0-	-0-	898,390
Accumulated amortization					
Leased equipment	(402,437)	(172,376)	-0-	-0-	(574,813)
Total intangible right-to-use assets, net	495,953	(172,376)	-0-	-0-	323,577
Capital assets, net	\$ 128,151,460	\$ 3,203,042	\$ -0-	\$ -0-	\$ 131,354,502

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

At December 31, 2022, the Hospital has remaining commitments of approximately \$14,500,000 primarily for updates and renovations to the second floor buildout of Gateway, catheterization lab departments, and general patient monitoring and medical equipment which are being financed internally.

Intangible Right-to-Use Assets

In 2022, the Hospital adopted the guidance in GASB 87 and recognized the value of equipment leased under long-term contracts. As of December 31, 2022 and 2021, the Hospital had six lease agreements in place for medical equipment. The values of the equipment intangible right-to-use assets are amortized over the lease terms including renewable periods the Hospital are reasonably certain to exercise. The amortization periods extend through lease expiration which are 2023 through 2026. The terms of the lease agreements are addressed in Note 10.

9. LONG-TERM DEBT

During 2020, the Hospital obtained a \$2,300,000 interest free note payable with a local institution related to utility infrastructure at the Gateway site. The note payable is due in monthly installments of \$19,167 through November 2030. The note payable is not secured and does not contain restrictive financial covenants. The Hospital determined that imputed interest expense would be insignificant to the financial statements. The following represents a progression of long-term debt for the Hospital for the years ended December 31, 2022 and 2021:

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

	Balance December 31, 2020	Additional Borrowings	Payments	Balance December 31, 2021	Current Portion	Long-term Portion
Long-term debt						
Direct borrowings						
Gateway site note payable	\$ 2,280,833	\$ -0-	\$ (230,004)	\$ 2,050,829	\$ 230,004	\$ 1,820,825

Aggregate maturities of long-term debt are as follows:

Year ending December 31,	Principal
2023	\$ 230,004
2024	230,004
2025	230,004
2026	230,004
2027	230,004
2028-2030	670,805
	<u>\$ 1,820,825</u>

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

10. LEASE LIABILITIES

In 2022, the Hospital adopted the guidance of GASB 87 for accounting and reporting leases that had previously been reported as operating leases.

Equipment Leases

The Hospital leases medical equipment under lease agreements that run from 2023 through 2026. The lease agreements have monthly payments range from approximately \$5,000 to \$12,000. The present value of each lease was determined using a discount rate based on the Hospital's incremental borrowing rates ranging from 3.50% to 7.25%. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 8. The retrospective application is discussed in Note 2. The progressions for lease liabilities for 2022 and 2021 are as follows:

	December 31, 2021	Additions	Reductions	December 31, 2022	Current Portion	Long-term Portion
Lease liabilities						
Leased equipment	\$ 333,765	\$ 1,349,048	\$ (405,816)	\$ 1,276,997	\$ 492,010	\$ 784,987
<hr/>						
	December 31, 2020	Additions	Reductions	December 31, 2021	Current Portion	Long-term Portion
Lease liabilities						
Leased equipment	\$ 514,754	\$ -0-	\$ (180,989)	\$ 333,765	\$ 187,425	\$ 146,340

There were no remeasurements of leases during 2022 and 2021. Scheduled principal and interest payments on lease liabilities for the years succeeding December 31, 2022 are as follows:

December 31,	Leased Equipment	
	Principal	Interest
2023	\$ 492,010	\$ 49,827
2024	396,119	30,111
2025	247,459	14,010
2026	141,409	3,364
	<u>\$ 1,276,997</u>	<u>\$ 97,312</u>

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

11. PATIENT SERVICE REVENUE

Patient service revenue for 2022 and 2021 consists of the following:

	2022	2021
Inpatient	\$ 75,912,985	\$ 79,460,867
Outpatient	490,065,188	414,882,544
Long-term care	380,883,460	357,761,800
Patient service revenue	946,861,633	852,105,211
Contractual allowance	371,312,587	314,844,930
Bad debts	13,183,472	10,663,645
Charity care	3,369,941	3,269,237
Deductions from revenue	387,866,000	328,777,812
Net patient service revenue	<u>\$ 558,995,633</u>	<u>\$ 523,327,399</u>

12. PENSION PLANS

Plan Descriptions

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

Funding Policy

The contribution requirements of plan participants are established by the written agreements between the Hospital's Board of Trustees and the plan administrator. The contribution requirements of participants of the plans are established and can be amended by written agreement. 403(b) Plan and 457(b) Plan participants may contribute a portion of their annual covered salary. The Hospital matches 50% of the participants' 403(b) Plan contribution up to 4% of the participants' eligible wages. The Hospital's matching contributions to the 403(b) Plan for 2022 and 2021 were approximately \$2,981,000 and \$2,332,000, respectively. The Hospital is not permitted to contribute to the 457(b) Plan.

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

13. 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	
	2022	2021	2022	2021
Medicare	39%	35%	54%	52%
Medicaid	10%	11%	12%	12%
Commercial	29%	34%	31%	33%
Self pay and other	22%	20%	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.

14. ACCOUNTING FOR NONCONTROLLING INTEREST

The following depicts the changes in net position attributable to the controlling financial interest of the Hospital and the noncontrolling interest as of December 31, 2022 and 2021:

	Controlling interest	Noncontrolling interest	Total
Net position			
December 31, 2020	\$ 327,245,245	\$ 3,242,666	\$ 330,487,911
Change in net position before capital distributions	34,942,285	2,427,018	37,369,303
Capital distributions	-0-	(1,907,565)	(1,907,565)
Change in net position	34,942,285	519,453	35,461,738
December 31, 2021	362,187,530	3,762,119	365,949,649
Change in net position before capital distributions	(17,336,780)	2,417,889	(14,918,891)
Capital distributions	-0-	(2,223,617)	(2,223,617)
Change in net position	(17,336,780)	194,272	(17,142,508)
December 31, 2022	\$ 344,850,750	\$ 3,956,391	\$ 348,807,141

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

15. 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 \$12,283,000 and \$10,785,000 for 2022 and 2021, 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 financial statements. Changes in the accrual for unpaid claims for 2022 and 2021 are as follows:

	2022	2021
Unpaid claims estimate, beginning of year	\$ 691,101	\$ 583,787
Incurred claims and changes in estimates	12,283,118	10,784,873
Claims payments	(12,149,456)	(10,677,559)
Unpaid claims estimate, end of year	<u>\$ 824,763</u>	<u>\$ 691,101</u>

16. 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 \$1,800,000 for an occurrence of malpractice. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 in the annual aggregate based on hospital bed size). The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

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

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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.

17. COVID-19

During 2022 and 2021, Provider Relief Fund (PRF) grants authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan Act (ARP) were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic primarily under Federal Assistance Listing Number (FALN) #93.498. Revenues from PRF grants can be recognized to the extent of expenses incurred specific to responding to the COVID-19 pandemic. Eligible expenses must not be reimbursed from another source and not obligated to be reimbursed from another source. PRF grants that are not fully expended on eligible expenses can then be applied to lost revenues as defined by the guidance issued by the grantor.

The Hospital received PRF grants of approximately \$3,121,000 and \$1,972,000 during 2022 and 2021, respectively. PRF funds are subject to recoupment by the grantor in the event that the conditions for recognition are not satisfied. The Hospital recognized PRF grants of approximately \$3,168,000 and \$2,102,000 in 2022 and 2021, respectively, which are included in COVID-19 grant revenue within nonoperating income (loss) in the statements of revenues, expenses and changes in net position. Amounts received prior to incurring qualifying expenditures or lost revenues are reported as refundable advances in the statements of net position. As of December 31, 2022, no amounts were recorded as refundable advances related to the PRF grants. As of December 31, 2021, approximately \$47,000 was recorded as refundable advances related to the PRF grants and is included in refundable advances on the statements of net position.

Under terms and conditions of PRF under the CARES and ARP Acts, the Hospital is required to report COVID-19 related expenses and lost revenue to the U.S. Department of Health and Human Services (HHS). Guidance from HHS has required the reporting of the COVID-19 related expenses and lost revenue in certain reporting periods based on when the funds were received. HHS requires PRF amounts received during 2021 to be reported on the 2022 Schedule of Expenditures of Federal Awards (SEFA), rather than the 2021 SEFA. HHS requires PRF amounts received during 2022 to be reported on the 2023 SEFA, rather than the 2022 SEFA.

The CARES Act also allowed health care providers to request accelerated and advanced payments for Medicare services. During 2020, the Hospital requested and received approximately \$10,936,000 of accelerated and advanced Medicare payments under this CARES Act provision. The amounts due for Medicare accelerated and advance payments was reported in current liabilities on the statements of net position and repaid during 2021.

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

18. BLENDED COMPONENT UNITS

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

	2022				
	Foundation	HRSC	Gateway	Hospice	Total
Assets					
Current assets	\$ 5,926,640	\$ 7,288,673	\$ 859,257	\$ 1,910,861	\$ 15,985,431
Capital assets	-0-	5,389,526	1,082,395	-0-	6,471,921
Assets whose use is limited	12,581,097	-0-	-0-	-0-	12,581,097
Total assets	<u>\$ 18,507,737</u>	<u>\$ 12,678,199</u>	<u>\$ 1,941,652</u>	<u>\$ 1,910,861</u>	<u>\$ 35,038,449</u>
Liabilities					
Accounts payable and other liabilities	\$ 547,942	\$ 715,437	\$ 6,888,018	\$ 2,350,668	\$ 10,502,065
Lease liabilities	-0-	4,867,501	-0-	-0-	4,867,501
Total liabilities	<u>547,942</u>	<u>5,582,938</u>	<u>6,888,018</u>	<u>2,350,668</u>	<u>15,369,566</u>
Net position					
Unrestricted	5,378,698	6,573,236	(6,028,761)	(439,807)	5,483,366
Net investment in capital assets	-0-	522,025	1,082,395	-0-	1,604,420
Donor restricted-expendable	12,581,097	-0-	-0-	-0-	12,581,097
Total net position	<u>17,959,795</u>	<u>7,095,261</u>	<u>(4,946,366)</u>	<u>(439,807)</u>	<u>19,668,883</u>
Total liabilities and net position	<u>\$ 18,507,737</u>	<u>\$ 12,678,199</u>	<u>\$ 1,941,652</u>	<u>\$ 1,910,861</u>	<u>\$ 35,038,449</u>
Operating revenues (patient and other)	\$ -0-	\$ 19,633,679	\$ 2,705,965	\$ 3,398,206	\$ 25,737,850
Expenses					
Depreciation	-0-	145,439	538,101	2,237	685,777
Other expenses	-0-	14,757,586	4,694,014	2,976,921	22,428,521
Total expenses	<u>-0-</u>	<u>14,903,025</u>	<u>5,232,115</u>	<u>2,979,158</u>	<u>23,114,298</u>
Operating income (loss)	-0-	4,730,654	(2,526,150)	419,048	2,623,552
Nonoperating income (loss), net	(1,931,528)	13,969	-0-	-0-	(1,917,559)
Capital distributions	-0-	(4,537,995)	-0-	-0-	(4,537,995)
Change in net position	(1,931,528)	206,628	(2,526,150)	419,048	(3,832,002)
Net position, beginning of year	<u>19,891,323</u>	<u>6,888,633</u>	<u>(2,420,216)</u>	<u>(858,855)</u>	<u>23,500,885</u>
Net position, end of year	<u>\$ 17,959,795</u>	<u>\$ 7,095,261</u>	<u>\$ (4,946,366)</u>	<u>\$ (439,807)</u>	<u>\$ 19,668,883</u>
Net cash flows from					
Operating activities	\$ -0-	\$ 4,876,093	\$ (1,988,049)	\$ 421,285	\$ 3,309,329
Noncapital financing activities	683,467	-0-	-0-	-0-	683,467
Capital and related financing activities	-0-	(5,470,806)	1,809,818	152,711	(3,508,277)
Investing activities	(1,082,854)	(13,969)	-0-	-0-	(1,096,823)
Total	<u>(399,387)</u>	<u>(608,682)</u>	<u>(178,231)</u>	<u>573,996</u>	<u>(612,304)</u>
Cash and cash equivalents:					
Beginning of year	<u>2,072,795</u>	<u>5,201,173</u>	<u>628,766</u>	<u>1,012,927</u>	<u>8,915,661</u>
End of year	<u>\$ 1,673,408</u>	<u>\$ 4,592,491</u>	<u>\$ 450,535</u>	<u>\$ 1,586,923</u>	<u>\$ 8,303,357</u>

HANCOCK HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Below is condensed, combining financial information of the blended component units as of and for the year ended December 31, 2021:

	2021				
	Foundation	HRSC	Gateway	Hospice	Total
Assets					
Current assets	\$ 6,603,469	\$ 7,557,150	\$ 999,705	\$ 1,349,452	\$ 16,509,776
Capital assets	-0-	468,792	1,607,475	-0-	2,076,267
Assets whose use is limited	13,361,483	-0-	-0-	-0-	13,361,483
Total assets	\$ 19,964,952	\$ 8,025,942	\$ 2,607,180	\$ 1,349,452	\$ 31,947,526
Liabilities					
Accounts payable and other liabilities	\$ 73,629	\$ 1,137,309	\$ 5,027,396	\$ 2,208,307	\$ 8,446,641
Total liabilities	73,629	1,137,309	5,027,396	2,208,307	8,446,641
Net position					
Unrestricted	6,529,840	6,419,841	(4,027,691)	(858,855)	8,063,135
Net investment in capital assets	-0-	468,792	1,607,475	-0-	2,076,267
Donor restricted-expendable	13,361,483	-0-	-0-	-0-	13,361,483
Total net position	19,891,323	6,888,633	(2,420,216)	(858,855)	23,500,885
Total liabilities and net position	\$ 19,964,952	\$ 8,025,942	\$ 2,607,180	\$ 1,349,452	\$ 31,947,526
Operating revenues (patient and other)	\$ -0-	\$ 18,052,901	\$ 2,330,826	\$ 2,529,135	\$ 22,912,862
Expenses					
Depreciation	-0-	169,020	614,482	12,090	795,592
Other expenses	-0-	13,205,460	4,293,512	2,751,775	20,250,747
Total expenses	-0-	13,374,480	4,907,994	2,763,865	21,046,339
Operating income (loss)	-0-	4,678,421	(2,577,168)	(234,730)	1,866,523
Nonoperating income, net	4,509,857	1,600	-0-	-0-	4,511,457
Capital distributions	-0-	(4,397,006)	-0-	-0-	(4,397,006)
Change in net position	4,509,857	283,015	(2,577,168)	(234,730)	1,980,974
Net position, beginning of year	15,381,466	6,605,618	156,952	(624,125)	21,519,911
Net position, end of year	\$ 19,891,323	\$ 6,888,633	\$ (2,420,216)	\$ (858,855)	\$ 23,500,885
Net cash flows from					
Operating activities	\$ -0-	\$ 4,847,441	\$ (1,962,686)	\$ (222,640)	\$ 2,662,115
Noncapital financing activities	2,139,068	-0-	-0-	-0-	2,139,068
Capital and related financing activities	-0-	(4,809,494)	2,475,401	427,558	(1,906,535)
Investing activities	(2,089,491)	(100)	-0-	-0-	(2,089,591)
Total	49,577	37,847	512,715	204,918	805,057
Cash and cash equivalents:					
Beginning of year	2,023,218	5,163,326	116,051	808,009	8,110,604
End of year	\$ 2,072,795	\$ 5,201,173	\$ 628,766	\$ 1,012,927	\$ 8,915,661

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



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

Board of Trustees
 Hancock Health
 Greenfield, Indiana

Report on Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hancock Health (the Hospital), a component unit of Hancock County, which comprise the statement of net position as of December 31, 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 5, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Board of Trustees
Hancock Health
Greenfield, Indiana

Report on Compliance and Other Matters

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

Purpose of this Report

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

Blue & Co., LLC

Indianapolis, Indiana
April 5, 2024



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

Board of Trustees
 Hancock Health
 Greenfield, Indiana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Hancock Health's (the Hospital) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2022. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above is that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

Board of Trustees
Hancock Health
Greenfield, Indiana

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

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

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

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

We have audited the financial statements of the Hospital as of and for the year ended December 31, 2022 and have issued our report thereon dated April 5, 2024, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by the Uniform Guidance, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
April 5, 2024

HANCOCK HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022

<u>Grantor/Program</u>	<u>Grant ID Number</u>	<u>Federal Assistance Listing Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services COVID-19 - Provider Relief Fund	N/A	93.498	<u>\$ 1,972,312</u>

See report on schedule of expenditures of federal awards as required by the Uniform Guidance on page 36.
See notes to schedule of expenditures of federal awards on page 38.

HANCOCK HEALTH

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of Hancock Health (the Hospital) under programs of the federal government for the year ended December 31, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hospital.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3. SUB-RECIPIENT PASS THROUGH

There were no entities that received pass-through federal awards from the Hospital during the year ended December 31, 2022.

4. PROVIDER RELIEF FUNDS

Under terms and conditions of the Provider Relief Funds (PRF) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan (ARP) Act, the Hospital is required to report COVID-19 related expenses and lost revenue to the U.S. Department of Health and Human Services (HHS). Guidance from HHS has required the reporting of the COVID-19 related expenses and lost revenue in certain reporting periods based on when the funds were received. The 2022 SEFA includes PRF of approximately \$1,972,000 which was received by the Hospital between January 1, 2021 and December 31, 2021. HHS required these PRF amounts be reported on the 2022 SEFA rather than the 2021 SEFA. The Hospital recognized approximately \$2,102,000 as revenue in its 2021 statement of revenues, expenses and changes in net position as the terms and conditions of the PRF grant were satisfied by the Hospital during 2021. Accordingly, as of December 31, 2021, approximately \$47,000 was recorded as a refundable advance liability on the statement of net position. During 2022, the Hospital received additional PRF of approximately \$3,121,000. HHS requires these PRF amounts be reported on the 2023 SEFA rather than the 2022 SEFA. The Hospital recognized approximately \$3,168,000 as revenue in its 2022 statement of revenues, expenses and changes in net position as the terms and conditions of the PRF grant were satisfied by the Hospital during 2022. As of December 31, 2022, there was no refundable advance liability on the statement of net position.

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

The Hospital has determined that the fair value of donated personal protective equipment (PPE) received during 2022 was immaterial to the financial statements. The donated PPE was not considered for purposes of determining the threshold for Uniform Guidance determination of major programs and is not required to be audited as a major program.

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

HANCOCK HEALTH

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2022**

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes no

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal controls over major programs:

Material weakness(es) identified? yes no

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

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? yes no

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

No matters reported

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

No matters reported

Section IV – Summary schedule of prior audit findings:

No matters reported
