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April 14, 2020

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

We have reviewed the report of Harrison County Hospital which was opined upon by Monroe Shine & Co., Independent Public Accountants, for the period January 1, 2018 to December 31, 2018. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of Harrison County Hospital as of December 31, 2018, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the Emphasis-of-Matter Regarding Going Concern paragraph included in the *Independent Auditor's Report* and further detailed in Note 23 along with Note 10 regarding long-term debt which includes Harrison County, Indiana Economic Development Revenue Refunding Bonds.

In our opinion, Monroe Shine & Co. prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

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

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

Paul D. Joyce, CPA
State Examiner

**HARRISON COUNTY HOSPITAL AND
AFFILIATED ORGANIZATION
CORYDON, INDIANA**

**CONSOLIDATED FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY
INFORMATION**

**YEAR ENDED
DECEMBER 31, 2018**

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION

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Independent Auditor's Report

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

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Harrison County Hospital and Affiliated Organization** (collectively the "Hospital"), a component unit of Harrison County, Indiana, which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of operations and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

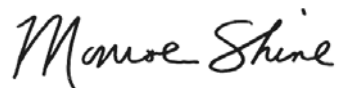
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2018, and the results of its operations, its changes in net position, and its cash flows for the year then ended in accordance with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

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note 23 to the financial statements, the Hospital has suffered a loss from operations for the year ended December 31, 2018, is in default of its loan agreements, and has stated that substantial doubt exists about the Hospital's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 23. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter

Report on Required Supplementary Information

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



New Albany, Indiana
March 9, 2020

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2018**

Management's discussion and analysis of the financial performance of Harrison County Hospital ("HCH") and Affiliated Organizations, which include Harrison MOB, LLC ("the MOB"), (collectively described as "the Hospital") provides an overview of the Hospital's financial activities and performance for the year ended December 31, 2018. This discussion and analysis should be read in conjunction with the Hospital's accompanying consolidated financial statements.

FINANCIAL HIGHLIGHTS

The Hospital's net position decreased \$3,765,065 from 2017 to 2018 and included loss from operations of \$3,397,830. During 2018, the Hospital's total operating revenue increased by 3.5% to \$54,337,250, while total operating expenses increased by 6.0% to \$57,735,080. Non-operating revenues and expenses decreased by \$392,643.

- The Hospital raised rates by 4.5% in 2018.
- In an effort to increase Medicaid reimbursement to hospitals, the State of Indiana implemented a Hospital Assessment Fee program in 2012. Indiana hospitals are assessed a fee which allows the state to access Federal funds allowing it to pay Medicaid patient claims at higher rates, not to exceed Medicare reimbursement. The Hospital incurred \$1,822,372 in Hospital Assessment Fees expense in 2018, an increase of \$432,903 over the \$1,389,469 incurred in 2017.
- An average 3% increase in wage and salary pay rates was implemented in May 2018.
- In 2017, the Hospital purchased the physician-owned non-controlling interest of the Harrison MOB, LLC. As required by the appropriate federal law, Stark law, the purchase was performed at fair market value. The fair market value exceeded the book value by \$758,500. According to the Governmental Accounting Standards Board ("GASB"), that difference was required to be recorded as a loss. Management vehemently disagrees with GASB's requirement to record a loss in the consolidated statements of operations that resulted in a permanent loss of net position totaling \$758,500, only due to following applicable Stark laws. However, we are following applicable GASB guidance.

FINANCIAL STATEMENTS

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

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
YEAR ENDED DECEMBER 31, 2018**

FINANCIAL ANALYSIS

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

CONDENSED FINANCIAL INFORMATION

A summary of the Hospital's consolidated balance sheets as of December 31, 2018 and 2017 is presented below:

	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
ASSETS				
Cash and investments	\$ 11,481,382	\$ 14,617,040	\$ (3,135,658)	-21.5%
Capital assets	29,269,714	29,856,029	(586,315)	-2.0%
Other assets	10,327,937	9,276,665	1,051,272	11.3%
Deferred outflows	227,795	257,188	(29,393)	-11.4%
Total Assets and Deferred Outflows	\$ 51,306,828	\$ 54,006,922	\$ (2,700,094)	-5.0%
 LIABILITIES				
Current liabilities	\$ 6,338,000	\$ 5,619,966	\$ 718,034	12.8%
Long-term liabilities	10,994,202	10,647,265	346,937	3.3%
Total Liabilities	17,332,202	16,267,231	1,064,971	6.5%
 NET POSITION				
Net investment in capital assets	17,286,531	18,467,725	(1,181,194)	-6.4%
Unrestricted	16,688,095	19,271,966	(2,583,871)	-13.4%
Total Net Position	33,974,626	37,739,691	(3,765,065)	-10.0%
Total Liabilities and Net Position	\$ 51,306,828	\$ 54,006,922	\$ (2,700,094)	-5.0%

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
YEAR ENDED DECEMBER 31, 2018**

A summary of the Hospital's consolidated statements of operations and changes in net position for the years ended December 31, 2018 and 2017 is presented below:

	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenues				
Net patient service revenue	\$ 52,354,440	\$ 50,910,303	\$ 1,444,137	2.8%
Other revenue	1,982,810	1,612,906	369,904	22.9%
Total Operating Revenues	54,337,250	52,523,209	1,814,041	3.5%
Operating Expenses				
Salaries and benefits	33,959,340	31,538,622	2,420,718	7.7%
Supplies and drugs	7,380,246	7,098,670	281,576	4.0%
Depreciation and amortization	3,233,919	3,547,405	(313,486)	-8.8%
Other operating expenses	13,161,575	12,259,079	902,496	7.4%
Total Operating Expenses	57,735,080	54,443,776	3,291,304	6.0%
Loss from Operations	(3,397,830)	(1,920,567)	(1,477,263)	76.9%
Nonoperating revenues (expenses)	(367,235)	25,408	(392,643)	-1545.4%
Loss on purchase of non-controlling interest	-	(758,500)	758,500	-100.0%
Member distributions	-	(31,503)	31,503	-100.0%
Change in Net Position	(3,765,065)	(2,685,162)	(1,079,903)	40.2%
Net position, End of Year	<u>\$ 33,974,626</u>	<u>\$ 37,739,691</u>	<u>\$ (3,765,065)</u>	-10.0%

SOURCES OF REVENUE

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

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
YEAR ENDED DECEMBER 31, 2018**

The Hospital's percentages of gross revenue by payor for 2018, 2017, and 2016 are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Medicare	43%	42%	41%
Medicaid	21%	22%	22%
Blue Cross	15%	16%	17%
Other third-party payors	19%	18%	18%
Patients	2%	2%	2%
	100%	100%	100%

OPERATING AND FINANCIAL PERFORMANCE

The Hospital's financial performance from operations declined in 2018 in comparison to 2017. A discussion of the highlights of 2018 operations and changes in activity is presented below:

Revenues

Net patient service revenues of the Hospital increased by \$1,444,137 or 2.8% in 2018. Highlights of this are as follows:

- There was a 4.5% rate increase in 2018.
- Contractual adjustments as a percent of gross revenue increased by 1.8% in 2018 due to impact of higher rates and higher Medicare contractuals.
- Gross revenues from the professional fees generated by Hospital-owned physician practices increased by \$3,534,195 (21%) in 2018 due to increased volumes primarily in First Capital Medical Group, Dermatology, Pediatrics, Orthopedics, and Anesthesia.
- Patient volumes increased for physician practices, admissions, surgery procedures, CT scans, and physical therapy treatments.

Expenses

Total operating expenses increased by \$3,291,304 or 6.0% in 2018. Highlights of this increase are as follows:

- Salary costs increased by \$1,091,285 (4.2%) in 2018 over 2017. This was due to the annual pay rate increase and additional providers along with their staff.
- The total cost of employee benefits increased by \$1,329,433 (23%) in 2018, primarily due to higher health care claims on the Hospital's self-insurance policy.
- The total cost of supplies and drugs increased by \$281,576 (3.9%) in 2018. This was primarily a result of increasing costs of medical supplies and drugs and an increase in the amount of surgeries performed in 2018 due to the hiring of a new orthopedic surgeon.
- The Hospital assessment fee increased by \$432,903 (31.2%) due to increased Medicaid volumes and higher assessment fees.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
YEAR ENDED DECEMBER 31, 2018**

FINANCIAL ANALYSIS – CASH FLOWS

Net cash and cash equivalents decreased by \$3,031,406 in 2018. This is primarily due to the impact of the loss from operations and the Hospital's investing and capital and related financing activities during the year.

Capital Assets

	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Land and land improvements	\$ 6,380,571	\$ 6,380,571	\$ -	0.0%
Leasehold improvements	3,605,135	3,605,135	-	0.0%
Buildings	41,249,261	41,058,650	190,611	0.5%
Fixed equipment	27,380,235	28,124,986	(744,751)	-2.6%
Construction in progress	232,414	52,296	180,118	344.4%
	<u>78,847,616</u>	<u>79,221,638</u>	<u>(374,022)</u>	<u>-0.5%</u>
Less accumulated depreciation	<u>49,577,902</u>	<u>49,365,609</u>	<u>212,293</u>	<u>0.4%</u>
Capital assets, net	<u>\$ 29,269,714</u>	<u>\$ 29,856,029</u>	<u>\$ (586,315)</u>	<u>-2.0%</u>

The Hospital's capital assets decreased \$374,024 in 2018. The decrease in capital assets was a result of the retirement of \$3 million in assets. Major capital expenditures included \$165,240 for an ambulance, \$686,117 for a CT Machine, \$738,206 for a MRI machine and \$144,559 for a telephone system.

See additional information on capital assets in the notes to the consolidated financial statements in footnote number 5.

Long-Term Debt

At December 31, 2018, the Hospital had total long-term debt (including \$1,198,730 current portion) of \$12,156,901. This is comprised of \$5,978,690 in Hospital revenue bonds outstanding, an equipment loan of \$1,564,679 and \$4,613,532 in MOB revenue bonds.

For the year ended December 31, 2018, the Hospital did not meet all of the debt covenants. Regions Bank, as the lead bank on the \$4,613,532 MOB revenue bonds, was unwilling to sign a waiver regarding these covenants. Therefore, the Hospital is in the process of restructuring this debt.

See additional information on long-term debt in the notes to the consolidated financial statements in footnote number 10.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
YEAR ENDED DECEMBER 31, 2018**

ECONOMIC FACTORS AND 2019 BUDGET

The Hospital's Board and management considered many factors when establishing the 2019 budget. Included was the status of the economy, which takes into consideration market factors and other environmental factors such as the following items:

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

CONTACTING THE HOSPITAL

This report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances. These consolidated financial statements include the activities of Harrison County Hospital ("HCH"), and Harrison MOB, LLC ("MOB"). Separate financial statements are available for the MOB. If you have questions about this report or need additional information, contact Chuck Wiley, Chief Financial Officer at 812-734-3861.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2018**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,082,235
Patient accounts receivable, net of estimated uncollectibles of \$6,783,017	7,808,130
Inventories	1,264,854
Prepaid expenses and other current assets	1,243,837
Other assets	11,116
Total Current Assets	<u>13,410,172</u>

Assets whose use is limited	8,399,147
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Property and Equipment, net	<u>29,269,714</u>
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Total Assets	51,079,033
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Deferred outflows - deferred loss on bond refunding	<u>227,795</u>
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	<u><u>\$ 51,306,828</u></u>
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See accompanying notes to consolidated financial statements.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2018**

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 1,134,489
Accrued personnel costs	2,474,488
Accrued expenses	963,203
Estimated third-party payor settlements	549,044
Current portion of obligations under capital leases	18,046
Current portion of long-term debt	1,198,730
Total Current Liabilities	<u>6,338,000</u>

LONG-TERM LIABILITIES

Capital leases, less current installments	36,031
Long-term debt, less current installments	10,958,171
Total Long-Term Liabilities	<u>10,994,202</u>

TOTAL LIABILITIES	<u>17,332,202</u>
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NET POSITION

Net investment in capital assets	17,286,531
Unrestricted	16,688,095
Total Net Position	<u>33,974,626</u>
	<u><u>\$ 51,306,828</u></u>

See accompanying notes to consolidated financial statements.

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2018

Operating Revenues	
Net patient service revenue	\$ 52,354,440
Rent revenue	474,631
Other revenue	<u>1,508,179</u>
Total Operating Revenues	54,337,250
Operating Expenses	
Salaries and wages	26,856,520
Employee benefits and payroll taxes	7,102,820
Professional medical fees	2,089,757
Medical supplies	4,747,935
Other supplies	1,077,108
Drugs	1,555,203
Purchased services	6,016,213
Utilities	1,223,212
Insurance	766,762
Depreciation and amortization	3,233,919
Hospital assessment fee	1,822,372
Other operating expenses	<u>1,243,259</u>
Total Operating Expenses	<u>57,735,080</u>
Operating Loss	(3,397,830)
Nonoperating Revenues (Expenses)	<u>(367,235)</u>
Excess Revenue (Expense)	<u>(3,765,065)</u>
Change in Net Position	(3,765,065)
Net Position, Beginning of Year	<u>37,739,691</u>
Net Position, End of Year	<u><u>\$ 33,974,626</u></u>

See accompanying notes to consolidated financial statements.

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

OPERATING ACTIVITIES

Cash paid for patient services	\$ 52,566,001
Cash paid to/for employees	(33,919,203)
Cash paid to vendors and suppliers	(21,354,029)
Other receipts, net	1,982,810
Net cash flows from operating activities	<u>(724,421)</u>

NONCAPITAL FINANCING ACTIVITIES

Noncapital contributions	25,476
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CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payments on obligations under capital leases	(42,347)
Principal payments on long-term debt	(956,845)
Interest paid	(345,274)
Purchase of capital assets	(2,654,171)
Proceeds from sale of capital assets	39,633
Gain on disposal of capital assets	(13,227)
Borrowings on long-term debt	1,564,678
Change in deferred outflows	29,393
Net cash flows from capital and related financing activities	<u>(2,378,160)</u>

INVESTING ACTIVITIES

Investment income	(60,664)
Other nonoperating revenues (expenses)	13,227
Change in assets whose use is limited	104,252
Change in other assets	(11,116)
Net cash flows from investing activities	<u>45,699</u>

Net change in cash and cash equivalents	(3,031,406)
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Cash and Cash Equivalents at Beginning of Year	<u>12,266,714</u>
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Cash and Cash Equivalents at End of Year	<u><u>\$ 9,235,308</u></u>
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RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET:

Cash and cash equivalents in current assets	\$ 3,082,235
Cash and cash equivalents in assets whose use is limited	<u>6,153,073</u>
Total Cash and Cash Equivalents	<u><u>\$ 9,235,308</u></u>

See accompanying notes to consolidated financial statements.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018**

**RECONCILIATION OF INCOME FROM OPERATIONS TO
NET CASH FLOWS FROM OPERATING ACTIVITIES**

Loss from operations	\$ (3,397,830)
Adjustments to reconcile loss from operations to net cash flows from operating activities	
Depreciation	3,233,919
Provision for bad debts	7,101,209
Changes in operating assets and liabilities	
Patient accounts receivable	(7,796,187)
Inventories	(147,575)
Prepaid expenses and other current assets	(555,098)
Accounts payable	(585,830)
Accrued personnel costs	40,137
Accrued expenses	476,295
Estimated third-party payor settlements	906,539
Net cash flows from operating activities	<u><u>\$ (724,421)</u></u>

SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES

Property and equipment acquired included in accounts payable	\$ 19,839
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See accompanying notes to consolidated financial statements.

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations

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

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

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

Reporting Entity and Consolidation Policy

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

Harrison County Hospital
1141 Hospital Drive NW
Corydon, IN 47112

Management’s Estimates

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

Measurement Focus and Basis of Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis of accounting using the economic resources measurement focus. Substantially all revenues and expenses are subject to accrual.

When both restricted and unrestricted resources are available for use, the Hospital’s policy is to use restricted resources first, then unrestricted resources as they are needed.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

(1 – continued)

Risk Management

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

Cash and Cash Equivalents

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

Patient Accounts Receivable and Net Patient Service Revenue

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

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

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

(1 – continued)

Allowance for Doubtful Accounts

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

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

The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The December 31, 2018 allowance for doubtful accounts balance was comprised of the following:

Reserve for third-party payor balances	\$ 744,766
Reserve for self-pay balances	<u>6,038,251</u>
Total allowance for doubtful accounts	<u><u>\$ 6,783,017</u></u>

Inventories

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

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

(1 – continued)

Assets Whose Use is Limited and Investments

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

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

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

Capital Assets

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

Classification of Net Position

The net position of the Hospital is classified in four components. (1) *Net investment in capital assets* consists of capital assets net of accumulated depreciation plus deferred outflows related to losses on bond refunding which are reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) *Restricted expendable net position* includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. (3) *Restricted nonexpendable net position* includes the principal portion of permanent endowments and non-controlling interests owned by external investors. (4) *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

(1 – continued)

Consolidated Statement of Operations

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

Advertising and Marketing Costs

Advertising and marketing costs are charged to operations when incurred. Advertising and marketing costs charged to operations were \$269,575 and for the year ended December 31, 2018, and are included within the line item purchased services on the consolidated statements of operations.

Income Taxes

HCH has been granted exemption from taxation as a not-for-profit organization by the Internal Revenue Service under Section 115, and in 2005 was also granted exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code for purposes of maintaining a 403b deferred compensation plan. Therefore, no provision for income taxes has been provided in the consolidated statement of operations. The MOB is considered a disregarded entity and is not required to file a separate tax return. Accordingly, no income tax expense has been recorded in the consolidated financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by each entity comprising the Hospital and recognize a tax liability if any Hospital entity has taken an uncertain tax position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by each entity of the Hospital, and has concluded that as of December 31, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. Each entity of the Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Grants and Contributions

From time to time, the Hospital receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

(1 – continued)

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued, which is March 9, 2020.

(2) **DEPOSITS AND INVESTMENTS**

Deposits and investments are comprised of the following at December 31, 2018:

Carrying amount:

Cash and cash equivalents	\$ 9,235,308
Mutual funds	<u>2,246,074</u>
	<u><u>\$ 11,481,382</u></u>

Included in the consolidated balance sheet captions:

Cash and cash equivalents	\$ 3,082,235
Assets whose use is limited	<u>8,399,147</u>
	<u><u>\$ 11,481,382</u></u>

Custodial Credit Risk - Deposits

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

Interest Rate Risk

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

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

(2 – continued)

Credit Risk – Investments

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

Concentration of Credit Risk

The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Foreign Currency Risk

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

Fair Value Measurements and Disclosures

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

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

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

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

(2 – continued)

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, 2018:

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

The table below presents the balances of the Hospital's assets measured at fair value on a recurring basis as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Mutual funds				
Large cap	\$ 1,035,430	\$ -	\$ -	\$ 1,035,430
World allocation	317,065	-	-	317,065
Allocation -- 50 to 85% equity	717,943	-	-	717,943
World stock	175,636	-	-	175,636
Total assets at fair value	<u>\$ 2,246,074</u>	<u>\$ -</u>	<u>\$ -</u>	2,246,074
Cash and cash equivalents				<u>9,235,308</u>
Total deposits and investments				<u>\$ 11,481,382</u>

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

(3) PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable amounts are reported as current assets at December 31, 2018:

Medicare	\$ 8,819,338
Medicaid	5,418,894
Blue Cross	2,991,090
Other insurance carriers	6,276,232
Patients	<u>6,824,780</u>
 Total patient accounts receivable	 30,330,334
 Less allowance for contractals	 15,739,187
Less allowance for uncollectible amounts	<u>6,783,017</u>
 Patient accounts receivable, net	 <u><u>\$ 7,808,130</u></u>

(4) ASSETS WHOSE USE IS LIMITED

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. Assets whose use is limited are reported at market value and include the following at December 31, 2018:

Investment Summary by Type

Cash and cash equivalents	\$ 6,153,073
Mutual funds	<u>2,246,074</u>
 Total assets whose use is limited	 <u><u>\$ 8,399,147</u></u>

Investment Summary by Fund

Board-Designated Funds	<u><u>\$ 8,399,147</u></u>
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Board-Designated Funds

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

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

(5) CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Ending Balance</u>
Land	\$ 3,001,138	\$ -	\$ -	\$ 3,001,138
Land improvements	3,379,433	-	-	3,379,433
Leasehold improvements	3,605,135	-	-	3,605,135
Buildings	41,058,650	36,973	153,638	41,249,261
Fixed equipment	28,124,986	743,695	(1,488,446)	27,380,235
Construction in progress	52,296	1,893,342	(1,713,224)	232,414
Total historical cost	79,221,638	2,674,010	(3,048,032)	78,847,616
Less accumulated depreciation for				
Land improvements	(2,262,011)	(119,994)		(2,382,005)
Leasehold improvements	(1,940,030)	(214,351)		(2,154,381)
Buildings	(20,405,347)	(1,599,421)		(22,004,768)
Fixed equipment	(24,758,221)	(1,300,153)	3,021,626	(23,036,748)
Total accumulated depreciation	(49,365,609)	(3,233,919)	3,021,626	(49,577,902)
Capital assets, net	\$ 29,856,029	\$ (559,909)	\$ (26,406)	\$ 29,269,714

(6) COMPENSATED ABSENCES

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

Paid days off are accrued when incurred and reported as a liability. The paid days off accrual at December 31, 2018 was \$1,040,525 and is reported in accrued personnel costs in the consolidated financial statements.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

(7) EMPLOYEE HEALTH BENEFIT PLAN

The Hospital operates a self-funded health plan covering substantially all employees. The Hospital has an annual stop loss limit on the plan of \$60,000 per insured per year. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay out, and other economic and social factors. The accrued liability for claims liabilities is recorded in accrued expenses on the consolidated balance sheets.

Changes in the balance of claims liabilities during the year ended December 31, 2018 was as follows:

Accrued liability, beginning of year	\$ 235,000
Incurring claims, changes in estimates, and fees/premiums	3,253,011
Claim payments	<u>(3,180,511)</u>
Accrued liability, end of year	<u><u>\$ 307,500</u></u>

(8) DEFINED CONTRIBUTION PENSION PLAN

Plan Description

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

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are voluntary and are established by written authorization for payroll deduction into an annuity savings account. The current rate is 5 percent of annual covered payroll. Employer contributions to the plan were \$958,886 for the year ended December 31, 2018.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

(9) OBLIGATIONS UNDER CAPITAL LEASES

The Hospital is the lessee of certain equipment under interest bearing capital leases that expire in various years through 2020. The assets and liabilities under capital leases are initially recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Amortization of assets held under capital leases is included in depreciation expense and was \$40,803 for the year ended December 31, 2018, respectively. Following is a summary of property held under capital leases:

Equipment	\$ 204,015
Less accumulated depreciation	<u>(157,489)</u>
	<u><u>\$ 46,526</u></u>

Minimum future lease payments under capital leases as of December 31, 2018 are as follows:

Minimum lease payments required during the
year ending: December 31:

2019	\$ 37,859
2020	<u>18,487</u>
	56,346
Less amount representing interest	<u>2,269</u>
Present value of minimum lease payments	<u><u>\$ 54,077</u></u>

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

(10) LONG-TERM DEBT

At December 31, 2018, the Hospital was obligated for long-term debt agreements as follows:

Note payable to bank, due January 2024; monthly payments of \$30,466, including principal and interest; Fixed interest at 4.05%. Secured by equipment. The net book value of the collateral was \$1,448,452 at December 31, 2018.	\$ 1,564,678
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Harrison County, Indiana Economic Development Revenue Refunding Bonds, Series 2016 (Harrison County Hospital Project) dated September 2016, payable in monthly principal installments of \$71,207 commencing October 2016 through October 2026. Bank Qualified Tax-Exempt interest rate is fixed at 2.61% (if Event of Default or Taxability occurs, either the Default Rate of 4.61% or Taxable Rate of 4.00% will take effect). Secured by first mortgage on Hospital property (includes Hospital land, buildings, and permanent fixtures thereto). The net book value of the collateral was \$17,077,569 as of December 31, 2018.	5,978,690
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Harrison County, Indiana Economic Development Revenue Bonds, Series 2017 (Harrison County Hospital Project) dated December 2017, payable in monthly principal installments of \$32,813 commencing January 2018 through December 2027 in addition to a balloon principal payment of \$1,841,087 due at maturity. Bank Qualified Tax-Exempt interest rate is fixed at 2.61% (if Event of Default or Taxability occurs, either the Default Rate of 4.61% or Taxable Rate of 4.03% will take effect). Hospital and MOB are jointly and severally liable with the Hospital Board of Trustees as the Obligated Group Representative of the borrower. Secured by substantially all assets	4,613,533
	12,156,901
Less current installments	(1,198,730)

Long-term debt, net of current portion	\$ 10,958,171
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HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

(10 – continued)

Long-term debt activity for the year ended December 31, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue bonds, series 2016	\$ 6,666,068	\$ -	\$ 687,377	\$ 5,978,691	\$ 645,811
Revenue bonds, series 2017	4,883,000	-	269,468	4,613,532	276,284
Note payable	<u>-</u>	<u>1,564,678</u>	<u>-</u>	<u>1,564,678</u>	<u>276,635</u>
Total long-term debt	<u>\$11,549,068</u>	<u>\$ 1,564,678</u>	<u>\$ 956,845</u>	<u>\$12,156,901</u>	<u>\$ 1,198,730</u>

Debt service requirements on long-term debt at December 31, 2018 are based on the interest rate modes in effect and are as follows:

	<u>Principal</u>	<u>Interest</u>
Year ending December 31:		
2019	\$ 1,198,730	\$ 312,013
2020	<u>10,958,171</u>	<u>286,696</u>
Total	<u>\$ 12,156,901</u>	<u>\$ 598,709</u>

The Hospital's debt agreements contain various restrictive covenants, including debt service coverage ratio, days cash on hand, and audited financial statement submission requirements. The Hospital is in technical default of these covenants with one of its lenders. In addition, this default has triggered events of default contained in the loan agreements of its other debt obligations.

The holders of the debt obligations may, at their option, give notice to the Hospital that the amounts are immediately due and payable. The holders did not give notice during the twelve months immediately following year-end. As a result, all of the Hospital's long-term debt obligations have been classified as payable in the year ended December 31, 2020.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

(11) NET PATIENT SERVICE REVENUE

For the year ended December 31, 2018, net patient service revenue was as follows:

Gross patient service revenue:	
Inpatient services	\$ 30,830,899
Outpatient services	<u>147,807,191</u>
Total gross patient service revenue	178,638,090
Deductions from revenue:	
Contractual allowances	(119,011,089)
Charity care	(1,479,020)
Bad debts	(7,101,209)
Medicaid DSH payments recognized	<u>1,307,668</u>
Total deductions from revenue	<u>(126,283,650)</u>
Total net patient service revenue	<u><u>\$ 52,354,440</u></u>

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

The mix of gross revenues and receivables from patients and third-party payors at December 31, 2018 was as follows:

	<u>Revenues</u>	<u>Receivables</u>
Medicare	43%	29%
Medicaid	21%	18%
Anthem Blue Cross	15%	10%
Other third-party payors	19%	21%
Patients	<u>2%</u>	<u>22%</u>
	<u><u>100%</u></u>	<u><u>100%</u></u>

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

(11 – continued)

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

- **Medicare.** The Hospital is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The Hospital is classified as Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. As of December 31, 2018, the Hospital's submitted Medicare cost reports have been final settled with the Fiscal Intermediary through December 31, 2016.
- **Medicaid.** The Hospital is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.
- **Charity Care.** The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total operating expenses divided by gross patient service revenue. For the year ended December 31, 2018, the Hospital incurred estimated costs of \$487,915.
- **Other.** The Hospital has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes discounts from established charges, fee schedules, as well as inpatient diagnosis-related group reimbursement methodologies.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Hospital believes that it is in compliance with all applicable laws and regulations.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

(12) ELECTRONIC HEALTH RECORDS (EHR) INCENTIVE PAYMENTS

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for EHR incentive payments, the Hospital must meet “meaningful use” criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending on September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital’s cost reports. For Critical Access Hospitals, the payment calculation is based upon the net book value of the qualifying assets, multiplied by the Medicare utilization using Medicare to total inpatient days plus 20%, not to exceed 100%. The total days are multiplied by a factor of total charges excluding charity care to total charges. Critical Access Hospitals can be reimbursed over a four year period for additional qualifying assets not claimed in the first year. The transitional factor ranges from 100% in first payment year and decreases by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During the year ended December 31, 2018, the Hospital recognized \$17,000 in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Hospital records income at the end of EHR reporting period in which compliance is achieved. EHR incentive income is included in other revenue on the consolidated statements of operations. EHR incentive income is recognized based on management’s estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

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

(13) HOSPITAL ASSESSMENT FEE

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

During the year ended December 31, 2018, the Hospital recognized HAF program expense of \$1,822,372 which resulted in Medicaid rate increases. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the consolidated statements of operations. The HAF Program was approved for extension through June 30, 2019.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

(14) NONOPERATING REVENUES (EXPENSES)

For the year ended December 31, 2018, nonoperating revenues (expenses) were as follows:

Investment loss	\$ (60,665)
Interest expense	(345,274)
Contributions and grants	25,476
Miscellaneous	13,228
Total nonoperating revenues (expenses)	<u><u>\$ (367,235)</u></u>

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

(15) PROFESSIONAL LIABILITY INSURANCE

The Indiana Medical Malpractice Act, IC 34-18 (the "Act") provided for a maximum recovery of \$1,250,000 for an occurrence of malpractice through June 30, 2018. Starting July 1, 2018, the Act provides for a maximum recovery of \$1,650,000 through the period ending June 30, 2019, and \$1,800,000 beginning July 1, 2019. The Act required the Hospital to maintain medical malpractice liability insurance in the amount of at least \$250,000 per occurrence (\$5,000,000 in the annual aggregate) through June 30, 2018. Starting July 1, 2018, the Act requires the Hospital to maintain medical malpractice liability insurance of \$400,000 per occurrence (\$8,000,000 in the annual aggregate) through the period ending June 30, 2019, and \$500,000 per occurrence (\$10,000,000 in the annual aggregate) beginning July 1, 2019. The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the "Fund"). The Fund is used to pay medical malpractice claims in excess of the per occurrence and annual aggregate amounts noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

(16) OPERATING LEASES – LESSEE

The Hospital leases certain building space under cancelable and non-cancelable operating leases. Future payments under the non-cancelable operating leases at December 31, 2018 were as follows:

Year ending December 31:	
2019	\$ 245,790
2020	253,562
2021	253,562
2022	<u>84,732</u>
Total	<u>\$ 837,646</u>

The Hospital incurred \$349,966 in total rent expense for the year ended December 31, 2018, under its cancelable and non-cancelable operating leases.

(17) OPERATING LEASES – LESSOR

The Hospital leases certain space of the medical office building and hospital to tenants under operating leases expiring in 2023. The leases contain annual escalation provisions which increase rentals relative to increases in the Consumer Price Index. The leases also contain provisions which require tenants to pay their proportionate share of certain expenses and costs in connection with the Hospital's ownership and operation of the building and common area.

Following is a schedule by year of future minimum rentals to be received under the operating leases with remaining non-cancelable lease terms in excess of one year as of December 31, 2018:

Year ending December 31:	
2019	\$ 91,751
2020	91,751
2021	91,751
2022	91,751
2023	<u>22,938</u>
Total	<u>\$ 389,942</u>

(18) CONTINGENCIES

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

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

(19) **COMMITMENTS**

As of December 31, 2018, the Hospital has construction and renovation project commitments as follows:

<u>Project</u>	<u>Expected Date of Completion</u>	<u>Estimated Total Cost of Project</u>	<u>Cost Incurred as of 12/31/2018</u>
Telephone System Project	3/2019	\$ 150,000	\$ 144,559
Laufer/Elizabeth Project	3/2019	70,000	69,991
MOB Provider Based Project	6/2019	100,000	17,863
		<u>\$ 320,000</u>	<u>\$ 232,413</u>

(20) **CONDENSED FINANCIAL INFORMATION**

The Hospital includes one blended component unit, the MOB, in its reporting entity. Condensed component unit information for its blended component unit as of and for the year ended December 31, 2018 is as follows:

Balance Sheet

Assets

Current assets	\$ 315,163
Capital assets, net	4,891,418
Total assets	<u>\$ 5,206,581</u>

Liabilities

Current liabilities	\$ 295,711
Long-term liabilities	4,336,897
Total liabilities	<u>4,632,608</u>

Net Position

Net investment in capital assets	277,885
Unrestricted	296,088
Total net position	<u>573,973</u>

Total liabilities and net position	<u>\$ 5,206,581</u>
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**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

(20 – continued)

Statement of Operations and Changes in Net Position

Operating revenues	
Other operating revenues	\$ 960,524
Operating expenses	
Depreciation and amortization	275,755
Other operating expenses	266,137
Total operating expenses	541,892
Income from operations	418,632
Nonoperating revenues (expenses)	(123,353)
Change in net position	295,279
Member distributions	(375,000)
Net position - beginning of year	653,694
Net position - end of year	\$ 573,973

Statement of Cash Flows

Cash provided by	
Operating activities	\$ 211,801
Capital and related financing activities	(285,677)
Total	(73,876)
Cash - beginning of year	396,502
Cash - end of year	\$ 322,626

(21) **RECENT GASB PRONOUNCEMENTS**

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

GASB Statement No. 87, Leases, issued June 2018, will be effective for periods beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, hereby enhancing the relevance and consistency of information about governments' leasing activities.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

(21 – continued)

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, issued March 2018, will be effective for periods beginning after June 15, 2018. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, issued June 2018, will be effective for periods beginning after December 15, 2019. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost incurred for financial statements prepared using the economic resources management focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, issued June 2018, will be effective for periods beginning after December 15, 2019. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources management focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

(22) **SUBSEQUENT EVENT**

Pursuant to the provisions of long-term care, the Hospital entered into an arrangement with the managers of four long-term care facilities to become the owner of the facilities in 2019. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facility will be the property of the Hospital and the Hospital will be responsible for the associated operating expense 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 the behalf of the Hospital and the Hospital will retain authority for the operations of the facility.

During 2019, the Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above lease facilities. As part of the agreements, the Hospital will pay the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements' initial terms expire at various times in 2021. The terms of these agreements may be renewed at the end of each term for 2 successive two year terms. All parties involved can terminate the agreement without cause with 90 days written notice.

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

(23) MANAGEMENT’S PLANS FOR CONTINUING OPERATIONS

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the Hospital as a going concern. The Hospital sustained a loss from operations of \$3,397,830 for the year ended December 31, 2018. Additionally, the Hospital is in technical default of the loan agreements as described in Note 10. These factors indicate substantial doubt about the Hospital’s ability to continue as a going concern within one year from issuance of these consolidated financial statements.

The Hospital is currently negotiating with lenders to restructure a portion of its debt obligations through either refinancing or retiring a portion of the Revenue bonds, Series 2017.

Management’s plans regarding continuous operations also include increasing revenue streams through various initiatives including converting to the provider-based billing program, reducing salaries and wages and employee benefits, and increasing physician productivity. The Hospital has also entered into the Intergovernmental Transfer (“IGT”) program with 4 nursing homes as described in Note 22.

The ability of the Hospital to continue as a going concern is dependent on the success of these actions. There can be no assurance that the Hospital will be successful in accomplishing its objectives. The consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that may result should the Hospital be unable to continue as a going concern.