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May 10, 2021

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

We have reviewed the audit report of Harrison County Hospital which was opined upon by Monroe Shine & Co., Independent Public Accountants, for the period January 1, 2019 to December 31, 2019. 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, 2019, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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.

Paul D. Joyce, CPA
State Examiner

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

**CONSOLIDATED FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY
INFORMATION**

**YEARS ENDED
DECEMBER 31, 2019 AND 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 sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

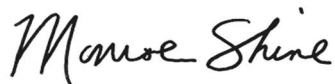
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2019 and 2018, and the results of its operations, its changes in net position, and its cash flows for the years then ended in accordance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

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 33-35 is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual entities, 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 supplementary 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole



New Albany, Indiana

April 21, 2021

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2019 AND 2018**

Management's discussion and analysis of the financial performance of Harrison County Hospital ("HCH") and Affiliated Organization, 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, 2019. 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 \$1,160,415 from 2018 to 2019 and included loss from operations of \$1,318,820. During 2019, the Hospital operations total operating revenue increased by 56% to \$84,767,045, while total operating expenses increased by 49.10% to \$86,085,865. Non-operating revenues and expenses increased by \$525,640.

- The Hospital raised rates by 4.5% in 2019.
- 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 \$2,148,846 in Hospital Assessment Fees expense in 2019, an increase of \$326,474 over the \$1,822,372 incurred in 2018.
- An average 2% increase in wage and salary pay rates was implemented in November 2019.
- In 2019, Pursuant to provision of long-term care, the Hospital owns the operations of four 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 operation of the facilities are the property of the Hospital and the Hospital 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 the Hospital and the Hospital retains the authority of the operation of the facilities.
- The Hospital has entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities. Concurrently, the Hospital entered into agreements with the long-term care facilities to manage the above-leased facilities, collectively referred to as the Managers. 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. The management fees consist of base management fees, subordinated management fees, and quarterly incentive payments.
- 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 results in a permanent loss of net position totaling \$758,000, only due to following applicable Stark laws. However, to avoid a modified audit opinion on the consolidated financial statements, we are following applicable GASB guidance.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
DECEMBER 31, 2019 AND 2018**

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.

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.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
DECEMBER 31, 2019 AND 2018**

CONDENSED FINANCIAL INFORMATION

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

	2019			2018		
	<u>Hospital</u>	<u>Long Term</u>				
	<u>Operations</u>	<u>Care</u>	<u>Total</u>	<u>Total</u>	<u>\$ Change</u>	<u>% Change</u>
ASSETS						
Cash and investments	\$ 11,370,833	\$ (750)	\$ 11,370,083	\$ 11,481,382	\$ (111,299)	-1.0%
Capital assets	26,914,052	142,853	27,056,905	29,269,714	(2,212,809)	-7.6%
Other assets	10,454,172	6,334,240	16,788,412	10,327,937	6,460,475	62.6%
Deferred outflows	198,402	-	198,402	227,795	(29,393)	-12.9%
Total Assets and Deferred Outflows	<u>\$ 48,937,459</u>	<u>\$ 6,476,343</u>	<u>\$ 55,413,802</u>	<u>\$ 51,306,828</u>	<u>\$ 4,106,974</u>	<u>8.0%</u>
LIABILITIES						
Current liabilities	\$ 7,274,576	\$ 5,697,571	\$ 12,972,147	\$ 6,338,000	\$ 6,634,147	104.7%
Long-term liabilities	9,627,444	-	9,627,444	10,994,202	(1,366,758)	-12.4%
Total Liabilities	16,902,020	5,697,571	22,599,591	17,332,202	5,267,389	30.4%
NET POSITION						
Net investment in capital assets	16,140,984	142,853	16,283,837	17,286,531	(1,002,694)	-5.8%
Unrestricted	15,894,455	635,919	16,530,374	16,688,095	(157,721)	-0.9%
Total Net Position	<u>32,035,439</u>	<u>778,772</u>	<u>32,814,211</u>	<u>33,974,626</u>	<u>(1,160,415)</u>	<u>-3.4%</u>
Total Liabilities and Net Position	<u>\$ 48,937,459</u>	<u>\$ 6,476,343</u>	<u>\$ 55,413,802</u>	<u>\$ 51,306,828</u>	<u>\$ 4,106,974</u>	<u>8.0%</u>

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
DECEMBER 31, 2019 AND 2018**

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

	2019			2018		
	<u>Hospital</u>	<u>Long Term</u>		<u>Total</u>	<u>\$ Change</u>	<u>% Change</u>
	<u>Operations</u>	<u>Care</u>	<u>Total</u>			
Operating Revenues						
Net patient service revenue	\$ 54,228,848	\$ 28,485,829	\$ 82,714,677	\$ 52,354,440	\$ 30,360,237	58.0%
Other revenue	1,865,308	187,060	2,052,368	1,982,810	69,558	3.5%
Total Operating Revenues	56,094,156	28,672,889	84,767,045	54,337,250	30,429,795	56.0%
Operating Expenses						
Salaries and benefits	33,450,958	12,985,020	46,435,978	33,959,340	12,476,638	36.7%
Supplies and drugs	7,920,178	2,577,173	10,497,351	7,380,246	3,117,105	42.2%
Depreciation and amortization	3,275,495	5,778	3,281,273	3,233,919	47,354	1.5%
Other operating expenses	13,545,060	12,326,203	25,871,263	13,161,575	12,709,688	96.6%
Total Operating Expenses	58,191,691	27,894,174	86,085,865	57,735,080	28,350,785	49.1%
Loss from Operations	(2,097,535)	778,715	(1,318,820)	(3,397,830)	2,079,010	-61.2%
Nonoperating revenues (expenses)	158,348	57	158,405	(367,235)	525,640	-143.1%
Change in Net Position	(1,939,187)	778,772	(1,160,415)	(3,765,065)	2,604,650	-69.2%
Net Position, Beginning of Year	33,974,626	-	33,974,626	37,739,691	(3,765,065)	-10.0%
Net position, End of Year	\$ 32,035,439	\$ 778,772	\$ 32,814,211	\$ 33,974,626	\$ (1,160,415)	-3.4%

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
DECEMBER 31, 2019 AND 2018**

The Hospital's percentages of gross revenue by payor for 2019, 2018, and 2017 are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Medicare	44%	43%	42%
Medicaid	20%	21%	22%
Blue Cross	14%	15%	16%
Other third-party payors	14%	19%	18%
Patients	7%	2%	2%
Medicaid Upper Payment Limit Program	1%	0%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

OPERATING AND FINANCIAL PERFORMANCE

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

Revenues

Net patient service revenues of the Hospital increased by \$30,360,237 or 57.99% in 2019. Highlights of this are as follows:

- Net patient service revenues of the hospital operations increased by \$1,874,408 or 3.6% in 2019.
- The addition of the long-term care facilities in 2019 contributed \$28,485,829 to the increase in net patient service revenues.
- There was a 4.5% rate increase in 2019.
- Contractual adjustments as a percent of gross revenue increased by 2.07% in 2019 due to impact of higher rates and higher Medicare contractals.
- Patient volumes increased for physician practices, surgery procedures, CT scans, occupational and physical therapy treatments.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
DECEMBER 31, 2019 AND 2018**

Expenses

Total operating expenses increased by \$28,350,785 or 49.1% in 2019. Highlights of this increase are as follows:

- Total operating expenses for hospital operations increased by \$456,611 or .8% in 2019.
- The addition of the long-term care facilities in 2019 contributed \$27,894,174 to the increase in operating expenses.
- Salary costs related to hospital operations increased by \$706,413 (2.6%) in 2019 over 2018. Annual pay rate increase and additional providers along with their staff also contributed to this increase.
- The total cost of employee benefits related to hospital operations decreased by \$1,214,795 (17.1%) in 2019, primarily due to lower health insurance claims.
- The total cost of supplies and drugs related to hospital operations increased by \$539,932 (7.3%) in 2019. This is the result of increasing costs of medical supplies and drugs and an increase in the amount of surgeries performed in 2019.
- The Hospital assessment fee increased by \$326,474 (17.9%) due to increased Medicaid volumes and higher assessment fees.

FINANCIAL ANALYSIS – CASH FLOWS

Net cash and cash equivalents decreased by \$547,585 in 2019. 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>2019</u>	<u>2018</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	41,551,916	41,249,261	302,655	0.7%
Fixed equipment	28,251,032	27,380,235	870,797	3.2%
Construction in progress	82,082	232,414	(150,332)	-64.7%
	<u>79,870,736</u>	<u>78,847,616</u>	<u>1,023,120</u>	<u>1.3%</u>
Less accumulated depreciation	<u>52,813,831</u>	<u>49,577,902</u>	<u>3,235,929</u>	<u>6.5%</u>
Capital assets, net	<u>\$ 27,056,905</u>	<u>\$ 29,269,714</u>	<u>\$ (2,212,809)</u>	<u>-7.6%</u>

The Hospital's capital assets increased \$1,023,120 in 2019. The increase in capital assets was a result of the addition of \$1.1 million in assets with minimal disposals. Major capital expenditures included \$224,048 for an ambulance and \$233,399 for the Elizabeth Building Project.

See additional information on capital assets in Note 5 to the consolidated financial statements.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
DECEMBER 31, 2019 AND 2018**

Long-Term Debt

At December 31, 2019, the Hospital had total long-term debt (including \$1,325,787 current portion) of \$10,953,231. This is comprised of \$5,332,813 in Hospital revenue bonds outstanding, an equipment loan of \$1,283,569 and \$4,336,849 in MOB revenue bonds.

For the year ended December 31, 2019, the Hospital did not meet all of the debt covenants. First Harrison Bank, as the lead bank on the \$4,336,849 MOB revenue bonds, signed a waiver regarding these covenants.

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

ECONOMIC FACTORS AND 2020 BUDGET

The Hospital's Board and management considered many factors when establishing the 2020 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

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

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
DECEMBER 31, 2019 AND 2018**

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

CONTACTING THE HOSPITAL

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 Charles Wiley, Chief Financial Officer at 812-734-3861.

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,983,673	\$ 3,082,235
Patient accounts receivable, net of estimated uncollectibles		
\$7,475,629 in 2019 and \$6,783,017 in 2018	12,561,297	7,808,130
Inventories	1,344,121	1,264,854
Prepaid expenses and other current assets	1,684,640	1,243,837
Estimated third-party payor settlements	1,138,206	-
Other assets	60,148	11,116
Total Current Assets	<u>18,772,085</u>	<u>13,410,172</u>
Assets whose use is limited	9,386,410	8,399,147
Property and Equipment, net	<u>27,056,905</u>	<u>29,269,714</u>
Total Assets	55,215,400	51,079,033
Deferred outflows - deferred loss on bond refunding	<u>198,402</u>	<u>227,795</u>
	<u><u>\$ 55,413,802</u></u>	<u><u>\$ 51,306,828</u></u>

See accompanying notes to consolidated financial statements.

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

LIABILITIES AND NET POSITION

	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES		
Accounts payable	\$ 1,902,911	\$ 1,134,489
Accrued personnel costs	3,336,928	2,474,488
Accrued expenses	5,517,390	963,203
Estimated third-party payor settlements	870,892	549,044
Current portion of obligations under capital leases	18,239	18,046
Current portion of long-term debt	1,325,787	1,198,730
Total Current Liabilities	<u>12,972,147</u>	<u>6,338,000</u>
LONG-TERM LIABILITIES		
Capital leases, less current installments	-	36,031
Long-term debt, less current installments	9,627,444	10,958,171
Total Long-Term Liabilities	<u>9,627,444</u>	<u>10,994,202</u>
TOTAL LIABILITIES	<u>22,599,591</u>	<u>17,332,202</u>
NET POSITION		
Net investment in capital assets	16,283,837	17,286,531
Unrestricted	16,530,374	16,688,095
Total Net Position	<u>32,814,211</u>	<u>33,974,626</u>
	<u><u>\$ 55,413,802</u></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
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Net patient service revenue	\$ 82,714,677	\$ 52,354,440
Rent revenue	416,700	474,631
Other revenue	1,635,668	1,508,179
Total Operating Revenues	84,767,045	54,337,250
Operating Expenses		
Salaries and wages	38,446,640	26,856,520
Employee benefits and payroll taxes	7,989,338	7,102,820
Professional medical fees	5,093,251	2,089,757
Medical supplies	6,551,303	4,747,935
Other supplies	2,368,248	1,077,108
Drugs	1,577,800	1,555,203
Purchased services	6,948,466	6,016,213
Utilities	1,897,415	1,223,212
Insurance	1,115,071	766,762
Depreciation and amortization	3,281,273	3,233,919
Hospital assessment fee	2,148,846	1,822,372
Rent	3,072,819	349,966
Management fees	3,826,375	-
Other operating expenses	1,769,020	893,293
Total Operating Expenses	86,085,865	57,735,080
Operating Loss	(1,318,820)	(3,397,830)
Nonoperating Revenues (Expenses)	158,405	(367,235)
Excess Revenue (Expense)	(1,160,415)	(3,765,065)
Change in Net Position	(1,160,415)	(3,765,065)
Net Position, Beginning of Year	33,974,626	37,739,691
Net Position, End of Year	<u><u>\$ 32,814,211</u></u>	<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
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Cash paid for patient services	\$ 78,193,219	\$ 52,566,001
Cash paid to/for employees	(45,573,537)	(33,919,203)
Cash paid to vendors and suppliers	(32,625,847)	(21,354,029)
Other receipts, net	2,052,367	1,982,810
Net cash flows from operating activities	<u>2,046,202</u>	<u>(724,421)</u>
NONCAPITAL FINANCING ACTIVITIES		
Noncapital contributions	<u>31,000</u>	<u>25,476</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on obligations under capital leases	(35,838)	(42,347)
Principal payments on long-term debt	(1,203,670)	(956,845)
Interest paid	(355,482)	(345,274)
Purchase of capital assets	(1,056,759)	(2,654,171)
Proceeds from sale of capital assets	3,650	39,633
Gain on disposal of capital assets	(3,650)	(13,227)
Borrowings on long-term debt	-	1,564,678
Change in deferred outflows	29,393	29,393
Net cash flows from capital and related financing activities	<u>(2,622,356)</u>	<u>(2,378,160)</u>
INVESTING ACTIVITIES		
Investment income	479,237	(60,664)
Other nonoperating revenues	3,650	13,227
Change in assets whose use is limited	(436,286)	104,252
Change in other assets	(49,032)	(11,116)
Net cash flows from investing activities	<u>(2,431)</u>	<u>45,699</u>
 Net change in cash and cash equivalents	 (547,585)	 (3,031,406)
 Cash and Cash Equivalents at Beginning of Year	 <u>9,235,308</u>	 <u>12,266,714</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 8,687,723</u></u>	<u><u>\$ 9,235,308</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET:		
Cash and cash equivalents in current assets	\$ 1,983,673	\$ 3,082,235
Cash and cash equivalents in assets whose use is limited	<u>6,704,050</u>	<u>6,153,073</u>
Total Cash and Cash Equivalents	<u><u>\$ 8,687,723</u></u>	<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
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from operations	\$ (1,318,820)	\$ (3,397,830)
Adjustments to reconcile loss from operations to net cash flows from operating activities		
Depreciation	3,281,273	3,233,919
Provision for bad debts	7,424,538	7,101,209
Changes in operating assets and liabilities		
Patient accounts receivable	(12,177,705)	(7,796,187)
Inventories	(79,267)	(147,575)
Prepaid expenses and other current assets	(440,803)	(555,098)
Accounts payable	756,717	(585,830)
Accrued personnel costs	862,440	40,137
Accrued expenses	4,554,187	476,295
Estimated third-party payor settlements	(816,358)	906,539
Net cash flows from operating activities	<u><u>\$ 2,046,202</u></u>	<u><u>\$ (724,421)</u></u>

SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES

Property and equipment acquired included in accounts payable	\$ 11,705	\$ 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, 2019 AND 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.

During 2019, HCH entered into several lease agreements under which HCH operates four long-term care nursing facilities. These facilities provide inpatient and therapy services in their geographic area and supports the Hospital’s mission to provide quality care and services to the facilities’ residents. The facilities are managed by a third party under management agreements. The revenues from operations are the property of HCH and the HCH is responsible for the associated operating expenses and working capital requirements.

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

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

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

(1 – continued)

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.

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, 2019 AND 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, 2019 and 2018 allowance for doubtful accounts balance was comprised of the following:

	<u>2019</u>	<u>2018</u>
Reserve for third-party payor balances	\$ 652,551	\$ 744,766
Reserve for self-pay balances	6,823,078	6,038,251
Total allowance for doubtful accounts	<u>\$ 7,475,629</u>	<u>\$ 6,783,017</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, 2019 AND 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, 2019 AND 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 \$394,127 and \$269,575 for the years ended December 31, 2019 and 2018, respectively, 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, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. 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, 2019 AND 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 April 21, 2021.

(2) **DEPOSITS AND INVESTMENTS**

Deposits and investments are comprised of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Carrying amount:		
Cash and cash equivalents	\$ 8,687,723	\$ 9,235,308
Mutual funds	2,682,360	2,246,074
	<u>\$ 11,370,083</u>	<u>\$ 11,481,382</u>
Included in the consolidated balance sheet captions:		
Cash and cash equivalents	\$ 1,983,673	\$ 3,082,235
Assets whose use is limited	9,386,410	8,399,147
	<u>\$ 11,370,083</u>	<u>\$ 11,481,382</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 Depositary 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, 2019 AND 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, 2019 AND 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, 2019 and 2018:

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

The table below presents the balances of the Hospital's assets measured at fair value on a recurring basis as of December 31, 2019:

	YEAR ENDED DECEMBER 31, 2019			
	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Mutual funds				
Large cap	\$ 1,253,948	\$ -	\$ -	\$ 1,253,948
World allocation	371,980	-	-	371,980
Allocation -- 50 to 85% equity	836,339	-	-	836,339
World stock	220,093	-	-	220,093
Total assets at fair value	<u>\$ 2,682,360</u>	<u>\$ -</u>	<u>\$ -</u>	<u>2,682,360</u>
Cash and cash equivalents				<u>8,687,723</u>
Total deposits and investments				<u>\$11,370,083</u>

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

(2 – continued)

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

	YEAR ENDED 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>

(3) **PATIENT ACCOUNTS RECEIVABLE**

Patient accounts receivable amounts are reported as current assets at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 9,800,987	\$ 8,819,338
Medicaid	5,221,554	5,418,894
Blue Cross	2,907,384	2,991,090
Other insurance carriers	6,711,029	6,276,232
Patients	8,068,415	6,824,780
Medicaid Upper Payment Limit (UPL) program	3,075,474	-
Total patient accounts receivable	35,784,843	30,330,334
Less allowance for contractals	15,747,917	15,739,187
Less allowance for uncollectible amounts	7,475,629	6,783,017
Patient accounts receivable, net	<u>\$ 12,561,297</u>	<u>\$ 7,808,130</u>

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

(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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Investment Summary by Type		
Cash and cash equivalents	\$ 6,704,050	\$ 6,153,073
Mutual funds	2,682,360	2,246,074
Total assets whose use is limited	\$ 9,386,410	\$ 8,399,147
Investment Summary by Fund		
Board-Designated Funds	\$ 9,386,410	\$ 8,399,147

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, 2019 AND 2018

(5) **CAPITAL ASSETS**

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

	YEAR ENDED DECEMBER 31, 2019			
	<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	41,249,261	69,256	233,399	41,551,916
Fixed equipment	27,380,235	647,465	223,332	28,251,032
Construction in progress	232,414	351,743	(502,075)	82,082
Total historical cost	78,847,616	1,068,464	(45,344)	79,870,736
Less accumulated depreciation for				
Land improvements	(2,382,005)	(105,971)		(2,487,976)
Leasehold improvements	(2,154,381)	(196,346)		(2,350,727)
Buildings	(22,004,768)	(1,524,151)		(23,528,919)
Fixed equipment	(23,036,748)	(1,454,805)	45,344	(24,446,209)
Total accumulated depreciation	(49,577,902)	(3,281,273)	45,344	(52,813,831)
Capital assets, net	\$ 29,269,714	\$ (2,212,809)	\$ -	\$ 27,056,905

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

(5 – continued)

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

	YEAR ENDED DECEMBER 31, 2018			
	<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	<u>\$ 29,856,029</u>	<u>\$ (559,909)</u>	<u>\$ (26,406)</u>	<u>\$ 29,269,714</u>

(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, 2019 and 2018 was \$1,121,219 and \$1,040,525, respectively, 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, 2019 AND 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 years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Accrued liability, beginning of year	\$ 307,500	\$ 235,000
Incurred claims, changes in estimates, and fees/premiums	2,385,740	3,253,011
Claim payments	<u>(2,438,240)</u>	<u>(3,180,511)</u>
Accrued liability, end of year	<u>\$ 255,000</u>	<u>\$ 307,500</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 \$1,028,551 and \$958,886 for the years ended December 31, 2019 and 2018, respectively.

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

(9) OBLIGATIONS UNDER CAPITAL LEASES

The Hospital is the lessee of certain equipment under interest bearing capital leases that expire in 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 \$31,909 and \$40,803 for the years ended December 31, 2019 and 2018, respectively. Following is a summary of property held under capital leases:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 204,015	\$ 204,015
Less accumulated depreciation	<u>(189,399)</u>	<u>(157,489)</u>
	<u><u>\$ 14,616</u></u>	<u><u>\$ 46,526</u></u>

Minimum future lease payments under capital leases as of December 31, 2019 are as follows:

Minimum lease payments required during the year ending: December 31:	
2020	\$ 18,658
Less amount representing interest	<u>419</u>
Present value of minimum lease payments	<u><u>\$ 18,239</u></u>

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018**

(10) LONG-TERM DEBT

At December 31, 2019 and 2018, the Hospital was obligated for long-term debt agreements as follows:

	<u>2019</u>	<u>2018</u>
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 \$1,139,729 at December 31, 2019.	\$ 1,283,569	\$ 1,564,678
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 \$15,970,568 as of December 31, 2019.	5,332,813	5,978,690
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.	4,336,849	4,613,533
	10,953,231	12,156,901
Less current installments	(1,325,787)	(1,198,730)
Long-term debt, net of current portion	<u>\$ 9,627,444</u>	<u>\$ 10,958,171</u>

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

(10 – continued)

Long-term debt activity for the year ended December 31, 2019 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	\$ 5,978,690	\$ -	\$ 645,877	\$ 5,332,813	\$ 722,349
Revenue bonds, series 2017	4,613,533	-	276,684	4,336,849	283,942
Note payable	<u>1,564,678</u>	<u>-</u>	<u>281,109</u>	<u>1,283,569</u>	<u>319,496</u>
Total long-term debt	<u>\$ 12,156,901</u>	<u>\$ -</u>	<u>\$ 1,203,670</u>	<u>\$ 10,953,231</u>	<u>\$ 1,325,787</u>

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	\$ -	\$ 687,378	\$ 5,978,690	\$ 645,811
Revenue bonds, series 2017	4,883,000	-	269,467	4,613,533	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, 2019 are based on the interest rate modes in effect and are as follows:

Year ending December 31:

2020	\$ 1,325,787
2021	1,365,550
2022	1,406,560
2023	1,373,148
2024	1,116,902
Later years	<u>4,365,284</u>
Total	<u>\$ 10,953,231</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 certain covenants and has obtained waivers of the defaults.

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018

(11) NET PATIENT SERVICE REVENUE

For the years ended December 31, 2019 and 2018, net patient service revenue was as follows:

	<u>2019</u>	<u>2018</u>
Gross patient service revenue:		
Inpatient services	\$ 34,992,501	\$ 30,830,899
Outpatient services	157,223,285	147,807,191
Long-term care services	26,535,334	-
Total gross patient service revenue	<u>218,751,120</u>	<u>178,638,090</u>
Deductions from revenue:		
Contractual allowances	(129,863,980)	(119,011,089)
Charity care	(2,082,331)	(1,479,020)
Bad debts	(7,424,538)	(7,101,209)
Medicaid DSH payments recognized	1,306,999	1,307,668
Medicaid Upper Payment Limit	2,027,407	-
Total deductions from revenue	<u>(136,036,443)</u>	<u>(126,283,650)</u>
 Total net patient service revenue	 <u><u>\$ 82,714,677</u></u>	 <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, 2019 and 2018 was as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Revenues</u>	<u>Receivables</u>	<u>Revenues</u>	<u>Receivables</u>
Medicare	44%	27%	43%	29%
Medicaid	20%	15%	21%	18%
Anthem Blue Cross	14%	8%	15%	10%
Other third-party payors	14%	19%	19%	21%
Patients	7%	22%	2%	22%
Medicaid Upper Payment Limit program	1%	9%	0%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 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, 2019, 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 years ended December 31, 2019 and 2018, the Hospital incurred estimated costs of \$643,142 and \$487,915, respectively.
- **Medicaid Upper Payment Limit Program.** The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital is responsible for funding the IGT long-term care operations. Revenue of \$3,075,474 associated with the UPL program is recorded net of IGT payments made to the program of \$1,048,067 and are included in other operating revenue. At December 31, 2019, \$3,075,474 is included in patient accounts receivable, and \$1,048,067 is included in accrued expenses.
- **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.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018**

(11 – continued)

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.

(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 years ended December 31, 2019 and 2018, the Hospital recognized \$25,500 and \$17,000, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Hospital records income at the end of EHR reporting period in which compliance is achieved. EHR incentive income is included in other revenue on the consolidated statements of operations. EHR incentive income is recognized based on management’s estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

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

(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.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018**

(13 – continued)

During the years ended December 31, 2019 and 2018, the Hospital recognized HAF program expense of \$2,148,846 and \$1,822,372, respectively, which resulted in Medicaid rate increases. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the consolidated statements of operations. The HAF Program was approved for extension through June 30, 2020.

(14) NONOPERATING REVENUES (EXPENSES)

For the years ended December 31, 2019 and 2018, nonoperating revenues (expenses) were as follows:

	<u>2019</u>	<u>2018</u>
Investment gain (loss)	\$ 479,237	\$ (60,665)
Interest expense	(355,482)	(345,274)
Contributions and grants	31,000	25,476
Miscellaneous	3,650	13,228
Total nonoperating revenues (expenses)	<u>\$ 158,405</u>	<u>\$ (367,235)</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, 2019 AND 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, 2019 were as follows:

Year ending December 31:	
2020	\$ 257,162
2021	257,162
2022	<u>84,732</u>
Total	<u>\$ 599,056</u>

The Hospital incurred \$3,072,819 and \$349,966 in total rent expense for the years ended December 31, 2019 and 2018, respectively, 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, 2019:

Year ending December 31:	
2020	\$ 91,751
2021	91,751
2022	91,751
2023	<u>22,938</u>
Total	<u>\$ 298,191</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, 2019 AND 2018

(19) **COMMITMENTS**

As of December 31, 2019, 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 12/31/2019</u>
Automated Messaging System	7/31/2020	\$ 4,290	\$ 4,290
Controlled Substance Prescription:	1/31/2020	29,150	14,575
MOB Provider Based Project	7/29/2020	17,750	4,400
MOB Cooling Tower Project	1/31/2020	79,964	58,817
		<u>\$ 131,154</u>	<u>\$ 82,082</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 years ended December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Balance Sheet		
Assets		
Current assets	\$ 550,695	\$ 315,163
Capital assets, net	4,680,596	4,891,418
Total assets	<u>\$ 5,231,291</u>	<u>\$ 5,206,581</u>
Liabilities		
Current liabilities	\$ 337,862	\$ 295,712
Long-term liabilities	4,052,907	4,336,897
Total liabilities	<u>4,390,769</u>	<u>4,632,609</u>
Net Position		
Net investment in capital assets	343,746	277,885
Unrestricted	496,776	296,087
Total net position	<u>840,522</u>	<u>573,972</u>
Total liabilities and net position	<u>\$ 5,231,291</u>	<u>\$ 5,206,581</u>

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018**

(20 – continued)

	<u>2019</u>	<u>2018</u>
Statement of Operations and Changes in Net Position		
Operating revenues		
Other operating revenues	\$ 900,214	\$ 960,524
Operating expenses		
Depreciation and amortization	278,940	275,755
Other operating expenses	237,971	266,137
Total operating expenses	516,911	541,892
Income from operations	383,303	418,632
Nonoperating revenues (expenses)	(116,753)	(123,353)
Change in net position	266,550	295,279
Member distributions	-	(375,000)
Net position - beginning of year	573,972	653,693
Net position - end of year	\$ 840,522	\$ 573,972
Statement of Cash Flows		
Cash provided by		
Operating activities	\$ 183,119	\$ 211,801
Capital and related financing activities	(344,800)	(285,677)
Total	(161,681)	(73,876)
Cash - beginning of year	322,626	396,502
Cash - end of year	\$ 160,945	\$ 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 June 15, 2021. 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, 2019 AND 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, 2019. 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, 2020. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost 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) **LONG-TERM CARE OPERATING LEASES AND MANAGEMENT AGREEMENTS**

The Hospital has entered into several agreements to lease the facilities and equipment for the operation of four long-term care nursing facilities. Along with the lease agreements, the Hospital also entered into management agreements with the facilities' previous manager (Manager) to continue to operate the facilities, and loan agreements to provide working capital for the facilities. The agreements have original terms of two years and include provisions for automatic two-year extensions. The management agreements include optional termination clauses by either party if material changes in circumstances, as defined in the agreements, occur. The lease agreements include termination clauses where the leases shall automatically end at the termination of the management agreements between the Hospital and Managers.

The lease agreements call for monthly base rent payments as outlined in the agreements. The facilities include potential annual rent increases of 2% depending on changes in the consumer price index. Rental expense totaled \$2,754,095 in 2019. Future minimum lease payments under these agreements are \$2,991,535, \$3,051,366, and \$3,112,393 in 2020, 2021, and 2022, respectively.

Advances totaling \$2,872,179 are allowed under the loan agreements. These advances are made at the discretion of the manager, and are to be used to provide working capital for the facilities, and no other purpose. The advances bear interest at the applicable federal rate plus 3%. Other than the obligation under the management agreement to deposit net patient revenue into the operating accounts of the facilities, the Hospital has no separate or other obligation to repay any of the advances or interest accrued thereon.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019 AND 2018**

(22 – continued)

The management agreements include management fees consisting of base management fees, subordinated management fees and incentive management fees. Base and subordinate management fees are determined on percentages of net patient service revenue of the individual facilities and are 5% and 3%, respectively. Incentive management fees are to be paid out of the net earnings of the facility, if sufficient excess cash flows exist, up to the maximum amounts as defined in the agreement. The management agreements also call for quality, royalty and capital improvement fees to be paid to the Managers. Management and other fees approximated \$3.8 million in 2019. Amounts are included in other operating expenses on the statements of operations and changes in net position.

The majority of all costs in the ordinary course of business, including the salaries and wages of the employees necessary to operate the facilities, are paid by the Manager who is then reimbursed by the Hospital from operations of the facilities. Similarly, the Manager of the facilities has provided working capital to cover insufficient cash flows from operations. Consequently, the majority of accounts payable and accrued expenses of the long-term care operations reflect amounts due to the Manager or its vendors.

The management agreements include termination payment clauses that dictate which of the two parties involved will pay certain expenses, and who will receive remaining cash and receivable balances. Per this clause, the Hospital's liability to the manager upon termination will not exceed the amount of any payments due to them.

(23) **SUBSEQUENT EVENTS**

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

In 2020, the Hospital received approximately \$8.1 million in funding through the Public Health and Social Services Emergency Fund as authorized in the Coronavirus Aid, Relief and Economic Security (CARES) Act, which was made available to prevent, prepare for and respond to the coronavirus and reimburse providers for eligible expenses and lost revenues.

In May 2020, HCH refinanced the Revenue bond, Series 2017 with essentially the same terms. As part of the refinance, an additional \$1,000,000 was borrowed. Monthly payments of \$32,813, with an interest rate of 2.61%, will continue to be made until the bond matures in December 2027.

The Hospital entered into an arrangement with the managers of three more long-term care facilities to become the owner of the facility operations effective November 1, 2020. The agreements include lease and management agreements subject to substantially the same terms as the arrangements described in Note 22, and have initial terms of two years.

**HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
DEPARTMENTAL BALANCE SHEET
DECEMBER 31, 2019**

ASSETS

	<u>Harrison County Hospital</u>	<u>Harrison MOB, LLC</u>
CURRENT ASSETS		
Cash and cash equivalents (overdrafts)	\$ 1,823,478	\$ 160,945
Patient accounts receivable, net of estimated uncollectibles \$7,475,629 in 2019 and \$6,783,017 in 2018	6,774,418	-
Inventories	1,344,121	-
Prepaid expenses and other current assets	1,679,575	389,750
Estimated third-party payor settlements	653,400	-
Other assets	342,053	-
Total Current Assets	12,617,045	550,695
 Assets whose use is limited	 9,386,410	 -
 Property and Equipment, net	 22,233,456	 4,680,596
 Total Assets	 44,236,911	 5,231,291
 Deferred outflows - deferred loss on bond refunding	 198,402	 -
	\$ 44,435,313	\$ 5,231,291

<u>Long Term Care</u>		
<u>Facilities</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ (750)	\$ -	\$ 1,983,673
5,786,879	-	12,561,297
-	-	1,344,121
2,507	(387,192)	1,684,640
484,806	-	1,138,206
60,048	(341,953)	60,148
6,333,490	(729,145)	18,772,085
-	-	9,386,410
142,853	-	27,056,905
6,476,343	(729,145)	55,215,400
-	-	198,402
\$ 6,476,343	\$ (729,145)	\$ 55,413,802

LIABILITIES AND NET POSITION

	<u>Harrison County</u> <u>Hospital</u>	<u>Harrison MOB,</u> <u>LLC</u>
CURRENT LIABILITIES		
Accounts payable	\$ 1,972,438	\$ 29,726
Accrued personnel costs	2,655,493	24,194
Accrued expenses	874,534	-
Estimated third-party payor settlements	761,357	-
Current portion of obligations under capital leases	18,239	-
Current portion of long-term debt	1,041,845	283,942
Total Current Liabilities	<u>7,323,906</u>	<u>337,862</u>
LONG-TERM LIABILITIES		
Capital leases, less current installments	-	-
Long-term debt, less current installments	5,574,537	4,052,907
Total Long-Term Liabilities	<u>5,574,537</u>	<u>4,052,907</u>
TOTAL LIABILITIES	<u>12,898,443</u>	<u>4,390,769</u>
NET POSITION		
Net investment in capital assets	15,797,238	343,746
Unrestricted	15,739,632	496,776
Total Net Position	<u>31,536,870</u>	<u>840,522</u>
	<u>\$ 44,435,313</u>	<u>\$ 5,231,291</u>

<u>Long Term Care</u>		
<u>Facilities</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 287,939	\$ (387,192)	\$ 1,902,911
657,241	-	3,336,928
4,642,856	-	5,517,390
109,535	-	870,892
-	-	18,239
-	-	1,325,787
5,697,571	(387,192)	12,972,147
-	-	-
-	-	9,627,444
-	-	9,627,444
5,697,571	(387,192)	22,599,591
142,853	-	16,283,837
635,919	(341,953)	16,530,374
778,772	(341,953)	32,814,211
\$ 6,476,343	\$ (729,145)	\$ 55,413,802

HARRISON COUNTY HOSPITAL AND AFFILIATED ORGANIZATION
DEPARTMENTAL STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2019

	<u>Harrison County</u> <u>Hospital</u>	<u>Harrison MOB,</u> <u>LLC</u>
Operating Revenues		
Net patient service revenue	\$ 54,228,848	\$ -
Rent revenue	296,301	900,214
Other revenue	1,448,608	-
Total Operating Revenues	55,973,757	900,214
Operating Expenses		
Salaries and wages	27,562,933	-
Employee benefits and payroll taxes	5,888,025	-
Professional medical fees	2,010,297	-
Medical supplies	5,141,410	-
Other supplies	1,200,968	-
Drugs	1,577,800	-
Purchased services	6,113,907	73,992
Utilities	1,088,996	88,002
Insurance	713,793	-
Depreciation and amortization	2,996,555	278,940
Hospital assessment fee	2,148,846	-
Rent	1,024,182	74,357
Management fees	-	-
Other operating expenses	986,883	1,620
Total Operating Expenses	58,454,595	516,911
Operating Income (Loss)	(2,480,838)	383,303
Nonoperating Revenues (Expenses)	275,101	(116,753)
Excess Revenue (Expense)	(2,205,737)	266,550
Change in Net Position	(2,205,737)	266,550
Net Position, Beginning of Year	33,742,607	573,972
Net Position, End of Year	\$ 31,536,870	\$ 840,522

<u>Long Term Care</u>		
<u>Facilities</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 28,485,829	\$ -	\$ 82,714,677
-	(779,815)	416,700
187,060	-	1,635,668
28,672,889	(779,815)	84,767,045
10,883,707	-	38,446,640
2,101,313	-	7,989,338
3,082,954	-	5,093,251
1,409,893	-	6,551,303
1,167,280	-	2,368,248
-	-	1,577,800
760,567	-	6,948,466
720,417	-	1,897,415
401,278	-	1,115,071
5,778	-	3,281,273
-	-	2,148,846
2,754,095	(779,815)	3,072,819
3,826,375	-	3,826,375
780,517	-	1,769,020
27,894,174	(779,815)	86,085,865
778,715	-	(1,318,820)
57	-	158,405
778,772	-	(1,160,415)
778,772	-	(1,160,415)
-	(341,953)	33,974,626
\$ 778,772	\$ (341,953)	\$ 32,814,211