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July 29, 2021

Board of Trustees  
Highpoint Health  
600 Wilson Creek Road  
Lawrenceburg, IN 47025

We have reviewed the audit report of Highpoint Health, which was opined upon by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2020 to February 28, 2021. Per the *Report of Independent Auditors* the financial statements included in the report present fairly the financial condition of Highpoint Health as of February 28, 2021, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

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

Paul D. Joyce, CPA  
State Examiner



**FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**FEBRUARY 28, 2021**

*CPAs / ADVISORS*



# HIGHPOINT HEALTH

## TABLE OF CONTENTS FEBRUARY 28, 2021

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	Page
<b>Report of Independent Auditors</b> .....	1
<b>Financial Statements</b>	
Balance Sheet .....	4
Statement of Revenues, Expenses and Changes in Net Position .....	5
Statement of Cash Flows .....	6
Statement of Fiduciary Net Position .....	8
Statement of Changes in Fiduciary Net Position .....	9
Notes to Financial Statements .....	10
<b>Required Supplementary Information</b>	
Schedule of Changes in Net Pension Liability and Related Ratios .....	28
Schedule of Contributions .....	29
<b>Reporting Under <i>Government Auditing Standards</i></b>	
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	30

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Highpoint Health  
Lawrenceburg, Indiana

We have audited the accompanying financial statements of Highpoint Health (the Hospital), a component unit of Dearborn County, and its discretely presented component unit, Highpoint Health Foundation, Inc., (the Foundation), as of February 28, 2021 and for the fourteen month period ended February 28, 2021 and the related notes to the financial statements. We have also audited the Hospital's statement of fiduciary net position as of February 28, 2021 and the related statement of changes in fiduciary net position for the fourteen month period ended February 28, 2021 and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the 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 Hospital'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 financial statements.

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

### Opinions

In our opinions, the financial statements referred to in the first paragraph present fairly, in all material respects the financial position of the business-type activities, the discretely presented component unit and the fiduciary activities of the Hospital as of February 28, 2021, and the respective changes in financial position and where applicable, cash flows thereof for the fourteen month period ended February 28, 2021 in accordance with US GAAP.

### Change in Accounting Principles

As described in Note 2 to the financial statements, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 84 – *Fiduciary Activities* and GASB Statement No. 97 - *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Our opinions are not modified with respect to these matters.

### Emphasis of Matter – Transfer of Operations

As discussed in Note 3 to the financial statements, effective November 1, 2020, the Hospital entered into an asset acquisition agreement (the Agreement) with Saint Elizabeth Medical Center, Inc. d/b/a Saint Elizabeth Healthcare (SEH). The Agreement included, among other terms, conditions, and stipulations, SEH's acquisition of certain Hospital assets and assumption of certain Hospital liabilities as identified in the Agreement. In conjunction with the execution of the Agreement, the Hospital terminated its long-term care lease agreements effective November 1, 2020. As a result, the Hospital transferred assets of approximately \$71,939,000 with corresponding liabilities of \$71,939,000 to the managers of the long-term care facilities. The Foundation's designation as a discretely presented component unit of the Hospital terminated effective December 31, 2020 when the Foundation dissolved. Upon dissolution, the Foundation's net assets of approximately \$3,139,000 were transferred to SEH. Our opinions are not modified with respect to these matters.

### Report on Required Supplementary Information

Management has omitted the management's discussion and analysis that US GAAP requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

US GAAP requires that the Schedule of Changes in Net Pension Liability and Related Ratios and the Schedule of Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Trustees  
Highpoint Health  
Lawrenceburg, Indiana

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2021 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

**Blue & Co., LLC**

Indianapolis, Indiana  
May 14, 2021

# HIGHPOINT HEALTH

## BALANCE SHEET FEBRUARY 28, 2021

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	Total Hospital	Foundation	Total Reporting Entity
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	\$ 56,089,251	\$ -0-	\$ 56,089,251
Patient accounts receivable, net of allowance for uncollectible accounts of \$3,019,000	778,048	-0-	778,048
Other current assets	81,510	-0-	81,510
Total current assets	<u>\$ 56,948,809</u>	<u>\$ -0-</u>	<u>\$ 56,948,809</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 13,918	\$ -0-	\$ 13,918
Accrued health insurance claims	220,365	-0-	220,365
Contribution payable for pension plan	39,284,924	-0-	39,284,924
Refundable advances - COVID-19	6,300,000	-0-	6,300,000
Estimated third-party payor settlements	3,647,068	-0-	3,647,068
Total current liabilities	49,466,275	-0-	49,466,275
<b>Net position - unrestricted</b>	7,482,534	-0-	7,482,534
Total liabilities and net position	<u>\$ 56,948,809</u>	<u>\$ -0-</u>	<u>\$ 56,948,809</u>

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See accompanying notes to financial statements.

# HIGHPOINT HEALTH

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOURTEEN MONTH PERIOD ENDED FEBRUARY 28, 2021

	Total Hospital	Foundation	Total Reporting Entity
<b>Operating revenues</b>			
Net patient service revenue	\$ 122,027,093	\$ -0-	\$ 122,027,093
Other operating revenue	5,734,988	-0-	5,734,988
Total operating revenues	127,762,081	-0-	127,762,081
<b>Operating expenses</b>			
Salaries and wages	38,625,331	-0-	38,625,331
Pension benefits	29,721,350	-0-	29,721,350
Other employee benefits	8,708,546	-0-	8,708,546
Professional fees and contract services	39,320,383	-0-	39,320,383
Supplies	16,571,462	-0-	16,571,462
Insurance	2,078,314	-0-	2,078,314
Facility and equipment leases	6,843,526	-0-	6,843,526
Repairs and maintenance	2,593,224	-0-	2,593,224
Utilities	1,795,728	-0-	1,795,728
HAF and HIP programs	4,000,296	-0-	4,000,296
Depreciation	3,776,732	-0-	3,776,732
Other	21,884,245	-0-	21,884,245
Total operating expenses	175,919,137	-0-	175,919,137
Operating loss	(48,157,056)	-0-	(48,157,056)
<b>Nonoperating revenues (expenses)</b>			
Investment return	2,093,340	75,681	2,169,021
Interest expense	(676,733)	-0-	(676,733)
COVID-19 grant funds	11,781,173	-0-	11,781,173
Contributions	-0-	787,898	787,898
Other	(854,692)	(1,255,555)	(2,110,247)
Total nonoperating revenues (expenses)	12,343,088	(391,976)	11,951,112
<b>Other changes in net position</b>			
Transfer to Saint Elizabeth Healthcare	(35,475,389)	-0-	(35,475,389)
Change in component unit determination	-0-	(3,139,271)	(3,139,271)
Total other changes in net position	(35,475,389)	(3,139,271)	(38,614,660)
Change in net position	(71,289,357)	(3,531,247)	(74,820,604)
<b>Net position</b>			
Beginning of period	78,771,891	3,531,247	82,303,138
End of period	\$ 7,482,534	\$ -0-	\$ 7,482,534

See accompanying notes to financial statements.

# HIGHPOINT HEALTH

## STATEMENT OF CASH FLOWS FOURTEEN MONTH PERIOD ENDED FEBRUARY 28, 2021

	Total Hospital	Foundation	Total Reporting Entity
<b>Operating activities</b>			
Cash received from patients and third-party payors	\$ 144,003,638	\$ -0-	\$ 144,003,638
Cash paid for employees' salaries, wages and benefits	(41,688,050)	-0-	(41,688,050)
Cash paid to vendors for goods and services	(104,985,033)	-0-	(104,985,033)
Other operating receipts, net	4,323,272	-0-	4,323,272
Net cash from operating activities	1,653,827	-0-	1,653,827
<b>Noncapital financing activities</b>			
COVID-19 grant funds	18,081,173	-0-	18,081,173
Contributions	-0-	787,898	787,898
Change in component unit determination	-0-	(3,139,271)	(3,139,271)
Net cash from noncapital financing activities	18,081,173	(2,351,373)	15,729,800
<b>Capital and related financing activities</b>			
Acquisition and construction of capital assets	(2,269,170)	-0-	(2,269,170)
Loss on disposal of capital assets	(736,672)	-0-	(736,672)
Interest paid on debt	(676,733)	-0-	(676,733)
Principal payments on debt	(30,992,372)	-0-	(30,992,372)
Net cash from capital and related financing activities	(34,674,947)	-0-	(34,674,947)
<b>Investing activities</b>			
Investment return	2,093,340	75,681	2,169,021
Sale of investments	47,582,209	1,638,976	49,221,185
Purchase of investments	-0-	(1,331,236)	(1,331,236)
Net cash from investing activities	49,675,549	383,421	50,058,970
Net change in cash	34,735,602	(1,967,952)	32,767,650
<b>Cash</b>			
Beginning of period	21,353,649	1,967,952	23,321,601
End of period	\$ 56,089,251	\$ -0-	\$ 56,089,251
<b>Reconciliation of cash to balance sheet</b>			
Cash in current assets	\$ 56,089,251	\$ -0-	\$ 56,089,251

See accompanying notes to financial statements.

# HIGHPOINT HEALTH

## STATEMENT OF CASH FLOWS FOURTEEN MONTH PERIOD ENDED FEBRUARY 28, 2021

	Total Hospital	Foundation	Total Reporting Entity
<b>Reconciliation of operating loss</b>			
<b>to net cash from operating activities</b>			
Operating loss	\$ (48,157,056)	\$ -0-	\$ (48,157,056)
Adjustments to reconcile operating loss to net cash from operating activities			
Depreciation	3,776,732	-0-	3,776,732
Provision for bad debts	7,275,431	-0-	7,275,431
Changes in operating assets and liabilities			
Patient accounts receivable	12,037,084	-0-	12,037,084
Inventory	1,409,098	-0-	1,409,098
Other current assets	15,060,143	-0-	15,060,143
Pension asset	2,655,476	-0-	2,655,476
Other assets	(154,171)	-0-	(154,171)
Deferred outflows	3,080,782	-0-	3,080,782
Accounts payable	(26,741,468)	-0-	(26,741,468)
Accrued health insurance claims and other liabilities	(6,573,223)	-0-	(6,573,223)
Contribution payable for pension plan	39,284,924	-0-	39,284,924
Deferred inflows	(3,963,955)	-0-	(3,963,955)
Estimated third-party payor settlements	2,664,030	-0-	2,664,030
Net cash flows from operating activities	<u>\$ 1,653,827</u>	<u>\$ -0-</u>	<u>\$ 1,653,827</u>
<b>Noncash capital financing activities</b>			
Transfer of assets and liabilities to Saint Elizabeth Healthcare	\$ 35,475,389	\$ -0-	\$ 35,475,389
Assets and liabilities removed due to termination of long-term care lease agreements	\$ 71,938,957	\$ -0-	\$ 71,938,957

See accompanying notes to financial statements.

# HIGHPOINT HEALTH

## STATEMENT OF FIDUCIARY NET POSITION FEBRUARY 28, 2021

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	Pension Trust Funds
<b>Assets</b>	
Cash	\$ 6,488
Employer contribution receivable	39,284,924
Total assets	39,291,412
<b>Net position restricted for pension</b>	<b>\$ 39,291,412</b>

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See accompanying notes to financial statements.

## HIGHPOINT HEALTH

### STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FOURTEEN MONTH PERIOD ENDED FEBRUARY 28, 2021

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	<u>Pension Trust Funds</u>
<b>Additions</b>	
Investment return	
Interest and dividends	\$ 462,730
Net change in fair value of investments	<u>(1,910,907)</u>
Total investment return	(1,448,177)
Employer contributions	<u>39,618,193</u>
Total additions	38,170,016
<b>Deductions</b>	
Benefits paid to participants	40,042,244
Administrative fees	<u>22,188</u>
Total deductions	40,064,432
<b>Transfer to Highpoint Health</b>	<u>(11,842,284)</u>
Change in fiduciary net position	(13,736,700)
<b>Net position</b>	
Beginning of period	<u>53,028,112</u>
End of period	<u><u>\$ 39,291,412</u></u>

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See accompanying notes to financial statements.

# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

Highpoint Health (the Hospital) is a county facility and operates under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient, outpatient, physician and long-term health care services. The Board of County Commissioners of Dearborn County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between Dearborn County (the County) and the Hospital. For these reasons, the Hospital is considered a component unit of the County. In November 2020, the Hospital entered into an asset acquisition agreement (the Agreement) with Saint Elizabeth Medical Center, Inc. d/b/a Saint Elizabeth Healthcare (SEH). See Note 3 for further discussion.

The financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital and its component units. They do not purport to, and do not, present the financial position of the County as of February 28, 2021 and the changes in its financial position or its cash flows for the fourteen month period ended February 28, 2021.

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

#### Blended and Discretely Presented Component Units

The accompanying financial statements include the accounts of the blended component units, Health Services Corporation of Southeastern Indiana (HSC) and Rising Sun Medical Center (RSMC). The Hospital appoints the majority of HSC's and RSMC's boards. In addition, there is a financial benefit/burden relationship between the Hospital and the blended component units. Although HSC and RSMC are legally separate from the Hospital, they are reported as if they were a part of the Hospital because they provide services entirely or almost entirely to the Hospital. All significant intercompany transactions with blended component units have been eliminated in the financial statements.

Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Highpoint Health Foundation, Inc., formerly known as Dearborn County Hospital Foundation, Inc. (the Foundation) was considered a discrete component unit for reporting purposes.

The Hospital, HSC, RSMC and the Foundation are collectively referred to as "the Hospital" for the remainder of the financial statements notes where appropriate.

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# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

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

### Use of Estimates

The preparation of the financial statements includes only the financial position, results of operations, changes in net position and cash flows of the Hospital in conformity with US GAAP. The financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Measurement Focus and Basis of Accounting

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

### Cash

Cash includes primarily demand deposits. The Hospital maintains its cash in accounts, which at times, may exceed federally insured limits. As a supplement to federally insured limits, the Hospital's practice is to maintain its cash accounts at Indiana Public Deposit Insurance Fund approved financial institutions. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash.

### Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's period end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program.

These programs have audited the period end cost report filed with the Medicare program through December 31, 2016 with differences reflected as deductions from revenue in the period the cost report is settled. Amounts for unresolved cost reports for 2017 through 2020 are reflected in estimated third-party settlements on the balance sheet. During the fourteen month period ended February 28, 2021, the Hospital did not recognize any amounts in change in net position in the statement of revenues, expenses and changes in net position due to differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

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# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

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The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies. Patient charges under these programs, on which no interim payments have been received, are included in patient accounts receivable at the estimated net realizable value of such charges.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

### Other Current Assets

Other current assets consist of other reimbursement receivables and various other current items. These assets are classified as current as they are expected to be collected and utilized within a year from February 28, 2021.

### Capital Assets and Depreciation

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at historical cost. Contributed or donated assets are reported at estimated fair value at the time received. The capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) is \$2,500 per item, or a group of items with an aggregate cost of at least \$5,000. Depreciation is calculated on the straight-line method over the estimated useful lives of capital assets which range from 3-40 years. For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

### Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest cost was capitalized during the fourteen month period ended February 28, 2021.

### Net Position

The net position of the Hospital is classified into three components. (1) Net investment in capital assets represents capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Restricted nonexpendable net position includes the principal portion of permanent endowments. Restricted expendable net position includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributions external to the Hospital, including amounts deposited with trustees as required by revenue note indentures. (3) Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted. The Hospital first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

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### Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonoperating revenues include contributions received and other nonoperating activities and are reported as nonoperating revenues or expenses. Operating expenses are generally all expenses incurred to provide health care services, other than financing costs.

### Grants and Contributions

From time to time, the Hospital and Foundation receive contributions from government agencies, individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts, if any, restricted to capital acquisitions are reported as nonoperating revenues and expenses.

### Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because the Hospital does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue. Of the Hospital's total expenses reported within the statement of revenues, expenses and changes in net position, an estimated \$171,000 arose from providing services to charity patients for fourteen month period ended February 28, 2021.

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 expenses including interest expense to gross patient service revenue.

### Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Retirement Plan for Employees of Highpoint Health (the Plan), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### Advertising Costs

The Hospital expenses advertising costs as incurred. Advertising expense for the fourteen month period ended February 28, 2021 was approximately \$71,000.

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# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

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### Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 22, of the Indiana statutes. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only. HSC, RSMC and the Foundation are tax-exempt organizations under Internal Revenue Code 501(c)(3). As such, they are generally exempt from income taxes. However, they are required to file Federal Form 990 – Return of Organization Exempt from Income Tax.

US GAAP requires management to evaluate tax positions taken by the Hospital and its component units and recognize a tax liability if the Hospital or its component units have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and its component units and has concluded that as of February 28, 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

HSC, RSMC and the Foundation have filed their federal and state income tax returns for periods through December 31, 2019. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions). HSC, RSMC and the Foundation are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

### 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; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. The Hospital is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that any matters will be resolved without material adverse effect on the Hospital's future financial position, results from operations or cash flows.

### Fiduciary Funds

Following the Hospital's financial statements are separate financial statements for fiduciary funds. Fiduciary funds are excluded from the Hospital's financial statements as these assets are held in trust capacity for the various associates and cannot be used to support the Hospital's programs. These funds include the Retirement Plan for Employees of Dearborn County Hospital.

### Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements were available to be issued which was May 14, 2021.

# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

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### 2. CHANGE IN ACCOUNTING PRINCIPLES

On January 1, 2020, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Generally, this statement requires governmental entities, who control assets of a fiduciary activity in which a fiduciary relationship exists with beneficiaries, to include those activities in two separate, interrelated financial statements, the statement of fiduciary net position and the statement of changes in fiduciary net position. Prior to the adoption of this statement, the assets, net position and activity related to the Hospital's pension plan were not included in the Hospital's financial statements. The Hospital's fiduciary activities related to its pension plan has been presented in the pension trust funds column of the newly added statement of fiduciary net position and accompanying statement of changes in fiduciary net position.

On January 1, 2020, the Hospital adopted GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This statement addressed the determination of financial accountability for a potential component unit and the financial burden criteria of a potential component unit. The Hospital's 403(b) retirement savings plan did not meet the financial accountability and financial burden criteria for fiduciary activities to be included as component units under this statement. There was no other impact to the financial statements as a result of adoption of this statement.

### 3. TRANSFER OF OPERATIONS AND LONG-TERM CARE LEASE TERMINATIONS

#### Transfer of Operations

In November 2020, the Hospital entered into the Agreement with SEH. The Agreement included among other terms, conditions, and stipulations, SEH would acquire certain assets and assume certain liabilities of the Hospital as identified in the Agreement. The assets and liabilities were transferred to SEH on November 1, 2020. The following is a summary of the transfer to SEH:

<b>Assets</b>	
Inventory	\$ 2,372,151
Capital assets, net	33,445,021
Total assets	<u>35,817,172</u>
<b>Liabilities</b>	
Accounts payable	<u>(341,783)</u>
Transfer to SEH	<u>\$ 35,475,389</u>

# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

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The Foundation's designation as a discretely presented component unit of the Hospital terminated effective December 31, 2020 when the Foundation was dissolved as reflected in other changes in net position on the statement of revenues, expenses and changes in net position. The Foundation's net assets of approximately \$3,139,000 were transferred to SE upon dissolution.

### Long-Term Care Operations

The Hospital owned the operations of multiple long-term care facilities by way of arrangements with the managers of those facilities. Upon the execution of the Agreement, the Hospital terminated all of its long-term care agreements effective November 1, 2020. These facilities provided inpatient and therapy services. Generally, gross revenues from the operation of the facilities were the property of the Hospital and the Hospital was responsible for the associated operating expenses and working capital requirements.

The Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the lessors, to lease the facilities managed by the managers. Concurrently, the Hospital entered into agreements with the managers to manage the above leased facilities. As part of the agreements, the Hospital paid the managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consisted of base management fees, subordinated management fees and incentive management fees. While the management and related lease agreements were in effect, the performance of all activities of the managers was on behalf of the Hospital and the Hospital retained the authority and legal responsibility for the operation of the facilities. The following is a summary of assets and liabilities transferred from the Hospital to the respective managers of the long-term care facilities on November 1, 2020.

#### **Assets**

Cash	\$ 11,874,951
Patient accounts receivable	7,137,091
Other current assets	<u>52,926,915</u>
Total assets	<u>\$ 71,938,957</u>

#### **Liabilities**

Accounts payable and accrued expenses	<u>\$ 71,938,957</u>
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# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

### 4. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at the period end consisted of the following amounts as of February 28, 2021:

Patient accounts receivable	
Receivable from patients and their insurance carriers	\$ 3,697,460
Receivable from Medicare	2,619,034
Receivable from Medicaid	1,386,548
Total patient accounts receivable	7,703,042
Allowance for contractual agreements	(3,905,838)
Allowance for uncollectible amounts	(3,019,156)
Patient accounts receivable, net	\$ 778,048
Accounts payable and accrued expenses	
Payable to suppliers and others	\$ 13,918
Payable to employees and related liabilities	220,365
Total accounts payable and accrued expenses	\$ 234,283

### 5. CAPITAL ASSETS

Capital asset activity for the fourteen month period ended February 28, 2021 is as follows:

	Balance			Balance	
	December 31, 2019	Additions	Retirements	Transfers	February 28, 2021
Land	\$ 1,408,112	\$ -0-	\$ -0-	\$ (1,408,112)	\$ -0-
Land improvements	2,615,940	-0-	-0-	(2,615,940)	-0-
Buildings and improvements	75,034,198	1,867,029	(1,786,975)	(75,114,252)	-0-
Equipment	60,248,368	402,141	(1,079,728)	(59,570,781)	-0-
Construction in process	1,075,797	-0-	-0-	(1,075,797)	-0-
Total capital assets	140,382,415	2,269,170	(2,866,703)	(139,784,882)	-0-
Accumulated depreciation	(104,693,160)	(3,776,732)	2,130,031	106,339,861	-0-
Capital assets, net	\$ 35,689,255	\$ (1,507,562)	\$ (736,672)	\$ (33,445,021)	\$ -0-

During the fourteen month period ended February 28, 2021, the Hospital recognized a loss of approximately \$737,000 on the disposal of capital assets primarily related to the Hospital buildings and improvements and equipment. There were no significant outstanding commitments on capital assets as of February 28, 2021.

# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

### 6. LONG-TERM DEBT

The Dearborn County, Indiana, Economic Development Revenue Refunding Bonds, Series 2017 (Series 2017 Bonds) for \$25,800,000 were issued in September 2017. The Hospital, the County and Fifth Third Bank (Fifth Third) entered into a Bond Purchase Agreement (the Agreement) whereby Fifth Third purchased from the County all of the Series 2017 Bonds in a private placement. The Series 2017 Bonds had final maturity date of April 2036 with fixed interest at 2.99% and were secured ultimately by the gross revenues of the Hospital. The Series 2017 bonds required maintenance of certain debt service income ratios, debt to total capitalization, days cash on hand and require compliance with various other restrictive covenants.

The Hospital had a note payable for a medical office building (MOB) it acquired in 2016. The note payable had fixed interest at 1.0% and was due in monthly installments of principal and interest of approximately \$11,000 with a final maturity of April 2035. The note payable was secured by the building.

The Hospital entered into a master loan agreement with Fifth Third whereby Fifth Third issued separate notes to the Hospital to fund certain capital purchases. These notes had fixed interest rates ranging from 3.6% to 4.9%, with final maturity dates ranging from July 2021 to June 2024.

During 2020, the Hospital's Board of Trustees released the internal designation of funded depreciation for assets whose use is limited. As a result, these funds were available to pay the Series 2017 Bonds, the MOB note and the Fifth Third notes in full in during 2020.

A progression of the Hospital's debt follows:

	Balance December 31, 2019			Balance February 28, 2021		Current portion
		Additions	Payments			
Direct borrowing						
Series 2017 Bonds	\$ 24,400,000	\$ -0-	\$ (24,400,000)	\$ -0-	\$ -0-	
Other borrowings						
MOB Note	1,917,780	-0-	(1,917,780)	-0-	-0-	
Fifth Third notes	4,674,592	-0-	(4,674,592)	-0-	-0-	
Total other borrowings	<u>6,592,372</u>	<u>-0-</u>	<u>(6,592,372)</u>	<u>-0-</u>	<u>-0-</u>	
	<u>\$ 30,992,372</u>	<u>\$ -0-</u>	<u>\$ (30,992,372)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	

### 7. PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

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### Medicare

Medicare inpatient services are reimbursed based on a predetermined amount for each case based on the diagnosis associated with the patient (Prospective Payment Hospital). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment. The Hospital's classification of patients under the Prospective Payment System and the appropriateness of patient admissions are subject to validation reviews by the Medicare peer review organization which is under contract with the Hospital to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

### Medicaid and Hospital Assessment Fee (HAF) Program and Healthy Indiana Plan (HIP)

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and for Medicaid outpatient services on a predetermined fee schedule. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments.

The Hospital participates in the State of Indiana's HAF Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF Program expense reported in the statement of revenues, expenses and changes in net position. 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 payments are designed to follow the patients and result in increased Medicaid rates. Hospitals also started funding HIP, the State's Medicaid expansion program. The payments related to HIP mirror the Medicaid payments under the HAF Program, but the funding includes physician, state administration, and certain non-hospital expenditures. During the fourteen month period ended February 28, 2021, the Hospital recognized HAF Program and HIP expenses of approximately \$4,000,000, which resulted in increased Medicaid reimbursement. The HAF Program and HIP assessments are included in operating expenses in the statement of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program and HIP payments are included in patient service revenue in the statement revenues, expenses and changes in net position. Included in estimated third party settlements is \$1,904,000 as of February 28, 2021 due to the State under the HAF Program and HIP.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Hospital Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient service revenue of approximately \$6,931,000 during the fourteen month period ended February 28, 2021. These programs are administered by the State of Indiana, but rely on Federal funding.

### Other Payors

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

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# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

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The following is a summary of patient service revenue for the fourteen month period ended February 28, 2021:

Inpatient services	\$ 88,417,580
Outpatient services	146,358,844
Long-term care services	<u>28,041,007</u>
Gross patient service revenue	262,817,431
Contractual allowances	(133,065,716)
Charity care	(449,191)
Provision for bad debts	<u>(7,275,431)</u>
Deductions from revenue	<u>(140,790,338)</u>
Net patient service revenue	<u>\$ 122,027,093</u>

### 8. EMPLOYEE HEALTH AND DENTAL BENEFITS

The Hospital is self-insured for employee health and dental claims. 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. Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends, including frequency and amounts of payouts, and other economic and social factors. An excess policy through commercial insurance covers individual claims in excess of \$300,000 with no overall annual aggregate limit. Health and dental insurance expense for the fourteen month period ended February 28, 2021 was approximately \$3,598,000. Changes in the balance of claim liabilities are as follows:

Unpaid claims, beginning of period	\$ 950,000
Incurred claims and changes in estimates	3,598,000
Claim payments	<u>(4,327,635)</u>
Unpaid claims, end of period	<u>\$ 220,365</u>

### 9. MEDICAL MALPRACTICE

#### Medical Malpractice

The Hospital purchases professional and general liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

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The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,800,000 for an occurrence of malpractice. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$15,000,000 in the annual aggregate). The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

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

### 10. CONCENTRATIONS OF CREDIT RISK

The Hospital is primarily located in Lawrenceburg, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable and gross patient revenues from self-pay and third party payors as of and for the fourteen month period ended February 28, 2021 was as follows:

	<u>Receivables</u>	<u>Revenue</u>
Medicare	34%	31%
Medicaid	18%	16%
Blue Cross	9%	10%
Commercial and other payors	19%	21%
Self-pay payors	20%	22%
	<u>100%</u>	<u>100%</u>

### 11. DEFINED BENEFIT PENSION PLAN

#### Plan Description

The Hospital has a defined benefit pension plan, Retirement Plan for Employees of Dearborn County Hospital (the Plan) as authorized by IC 16-22-3-11. The Plan provides retirement and death benefits to plan members and beneficiaries. The Plan was established by written agreement by the Hospital Board of Trustees. Buck Consultants is the actuary of the Plan. Fifth Third Bank is the custodian and third-party administrator. The Plan period runs from November 1, 2019 through February 28, 2021. For more information on the Plan, participants should contact the administrative offices at the Hospital.

# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

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### Freezing of Plan Benefits and Plan Termination

The Hospital froze the Plan with no new benefit accruals after the effective date of April 30, 2020. Employees that are not participants of the Plan as of April 30, 2020 are not eligible for the Plan. The Plan was terminated effective October 31, 2020 with all obligations settled by annuity purchase for those in receipt of benefits on the plan termination date, or by lump sum payment on June 1, 2021 for all other participants.

### Benefits Provided

The Plan principally provided retirement benefits. For those participants who continued to accrue benefits through April 30, 2020, the following summarizes benefits available.

Participants were fully vested after 10 years of service or attaining normal retirement age. For a participant entering the Plan before November 1, 2015, the normal retirement date was the first day of the month coincident with or following age 65. Normal retirement age for a participant entering the Plan after November 1, 2015 meant the later of (i) the participant's age at which the participant first became entitled to full or unreduced old age insurance benefits pursuant to the social security act, as amended, based solely on the participant's year of birth, or (ii) the participant's age on the fifth anniversary of the date the participant first entered the Plan. The early retirement date for vested participants who entered the Plan before November 1, 2015 and terminated employment prior to the normal retirement date occurred once an employee attained age 55 with 10 years of credited service. Participants entering the Plan after November 1, 2015, who terminated employment prior to normal retirement date, were eligible for an early retirement benefit on the first day of the calendar month coincident with or next following the later of: (a) the date which was 10 years prior to the date the participant attains normal retirement age; or (b) the date on which the participant completed 10 years of credited service. The monthly amount of normal retirement benefit payable to a participant on the normal form of retirement benefit was equal to the greatest of: 1) the sum of \$4.50 multiplied by years of credited service not in excess of 15 years; plus \$6.00 multiplied by years of credited service in excess of 15 years up to 30 year; or 2) the sum of .675% of average monthly compensation multiplied by years of credited service not in excess of 15 years; plus .9% of average monthly compensation multiplied by years of credited service in excess of 15 years up to 30 years; plus .65% of average monthly compensation in excess of monthly covered compensation multiplied by years of credited service not in excess of 30 years. For a participant entering the Plan before November 1, 2015, the early retirement benefit was reduced by 1/180 for each year month after age 60 and 1/360 for each month prior to age 60 by which the commencement of the early retirement benefit preceded the participant's normal retirement date.

For participants entering the Plan after November 1, 2015, the participant's early retirement benefit was the actuarial equivalent value of the deferred vested accrued benefit. Disability retirement benefits are not available under the Plan. Death benefits under the Plan vary based on the participant's years of credited service, average annual compensation and other factors as defined under the Plan.

### Funding Policy

The contributions of the Hospital to the Plan met the minimum funding requirements established by the Plan. The entire cost of the Plan is borne by the Hospital. Therefore, active plan members are not required to contribute to the Plan. The Hospital is required to contribute at actuarially determined amounts. The contribution requirement is determined using an accepted actuarial cost method.

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# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

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### Employees Covered by Benefit Terms

As of February 28, 2021, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	-0-
Inactive plan members entitled to but not yet receiving benefits	287
Active plan members	691
	<hr/>
	978
	<hr/>

### Contributions

The contribution requirements of plan members are established and can be amended by the Hospital Board of Trustees. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Hospital is required to contribute at an actuarially determined rate. The Hospital expects to contribute approximately \$39,285,000 subsequent to February 28, 2021 to fund annuities for participants. This includes the actuarially determined amount of \$27,443,000 as of February 28, 2021 combined with \$11,842,000 that was transferred from the Plan's assets to Hospital during the period ended February 28, 2021 to fund the participant annuities.

### Net Pension Asset

As a result of the Plan termination effective October 31, 2020, there was no net pension asset or liability as of February 28, 2021. The Hospital's net pension asset was measured as of February 28, 2021, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

### *Actuarial assumptions*

The total pension asset in the February 28, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	0.0%
Salary increases	0.0%
Investment rate of return	0.0%

### *Discount Rate*

The discount rate used to measure the total pension asset was 0.00% for the fourteen month period ended February 28, 2021. The Plan obligations are fixed amounts and not dependent on a discount rate as of February 28, 2021.

Detailed information about the pension plan's fiduciary net position is available in the separately issued plan financial report.

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# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

### *Changes in the Net Pension Asset*

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Liability) Asset (a) - (b)
Balances at 12/31/2019	\$ (48,296,652)	\$ (50,952,128)	\$ 2,655,476
Changes in the period			
Service cost	(755,316)	-0-	(755,316)
Interest	(3,737,007)	-0-	(3,737,007)
Changes of benefit terms	(26,908,589)	-0-	(26,908,589)
Benefit payments, including refunds of member contributions	40,406,152	40,406,152	-0-
Contributions - employer	-0-	(27,949,047)	27,949,047
Net investment return	-0-	(796,389)	796,389
Net change	9,005,240	11,660,716	(2,655,476)
Balances at 2/28/2021	<u>\$ (39,291,412)</u>	<u>\$ (39,291,412)</u>	<u>\$ -0-</u>

### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For fourteen month period ended February 28, 2021, the Hospital recognized pension expense of approximately \$29,721,000. As of February 28, 2021, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, 12/31/2019	\$ 3,080,782	\$ 3,963,955
Differences between expected and actual experience	(224,721)	-0-
Differences between projected and actual earnings on plan investments	-0-	(3,116,979)
Amortization of projected versus actual earnings on plan investments	(1,149,876)	(1,773,272)
Recognition of deferred inflows and outflows	(1,706,185)	926,296
Balance, 2/28/2021	<u>\$ -0-</u>	<u>\$ -0-</u>

# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

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### 12. DEFINED CONTRIBUTION PENSION PLAN

The Hospital maintains a 403(b) retirement savings plan administered by Lincoln Financial Group. The 403(b) Plan provides retirement benefits to plan members and beneficiaries. Reports for the 403(b) are available by contacting the Hospital's administrative offices. The contribution requirements of members of the plan are established and can be amended by written agreement. Eligible employees are not required to contribute to the plan. The Hospital can elect discretionary contributions to the plan as determined by the Board of Trustees. There was no expense related to the plan for the fourteen month period ended February 28, 2021.

### 13. OPERATING LEASES

The Hospital had various operating leases expiring through 2024 with initial or remaining noncancelable terms exceeding one year for rental of office space. Rent for these leases was approximately \$340,000 for the fourteen month period ended February 28, 2021. Effective November 1, 2020, SEH assumed the responsibility for the operating leases and the annual minimum rental payments.

### 14. BLENDED COMPONENT UNITS

The Hospital's financial statements include the accounts of the blended component units, HSC and RSMC. Below is condensed financial information of HSC and RSMC as of and for the fourteen month period ended February 28, 2021.

	<u>HSC</u>	<u>RSMC</u>
<b>Balance sheet</b>		
Assets		
Current assets	\$ 8,839	\$ -0-
Liabilities		
Accounts payable and accrued expenses	\$ 722	\$ -0-
Due to Hospital	29,003,336	-0-
Total liabilities	29,004,058	-0-
Net position		
Unrestricted	(28,995,219)	-0-
Total liabilities and net position	\$ 8,839	\$ -0-

# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2021

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<b>Statement of revenues, expenses and changes in net position</b>	<u>HSC</u>	<u>RSMC</u>
Operating revenues (patient and other)	\$ 13,399,427	\$ 676,131
Operating expenses		
Depreciation and amortization	449,297	-0-
Other expenses	20,470,573	952,837
Total expenses	<u>20,919,870</u>	<u>952,837</u>
Operating loss	(7,520,443)	(276,706)
Nonoperating revenues, net	<u>258,810</u>	<u>276,706</u>
Change in net position	(7,261,633)	-0-
Net position, beginning of period	<u>(21,733,586)</u>	<u>-0-</u>
Net position, end of period	<u>\$ (28,995,219)</u>	<u>\$ -0-</u>
<b>Statement of cash flows</b>		
Net cash flows from		
Operating activities	\$ (5,692,771)	\$ (399,296)
Noncapital financing activities	5,566,330	(241,325)
Investing activities	<u>-0-</u>	<u>518,031</u>
Total	(126,441)	(122,590)
Cash		
Beginning of period	<u>135,280</u>	<u>122,590</u>
End of period	<u>\$ 8,839</u>	<u>\$ -0-</u>

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

### 15. COVID-19

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

# HIGHPOINT HEALTH

## NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2021

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During 2020, Provider Relief Funds (PRF) authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. The Hospital received approximately \$18,081,000 in PRF from the CARES Act. PRF amounts are recognized to the extent the Hospital meets the terms and conditions. The Hospital recognized PRF of \$11,781,000 as COVID-19 grant funds in nonoperating revenue (expenses) in the statement of revenues, expenses, and changes in net position for the fourteen month period ended February 28, 2021. The Hospital recorded refundable advances related to PRF of \$6,300,000, which is included in other current liabilities in the balance sheet. Compliance with the terms and conditions may also be subject to future government review and interpretation as they are emerging and uncertain at the time the financial statements were available to be issued. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with the terms and conditions, and it is not possible to determine the impact (if any) such claims would have upon the Hospital.

**REQUIRED SUPPLEMENTARY INFORMATION**

# HIGHPOINT HEALTH

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS FEBRUARY 28, 2021

	February 28, 2021	Plan Valuation Date - October 31,					
		2020	2019	2018	2017	2016	2015
Total pension liability							
Service cost	\$ -0-	\$ 755,316	\$ 743,631	\$ 758,083	\$ 804,626	\$ 774,829	\$ 732,821
Interest	-0-	3,737,007	3,586,184	3,422,525	3,269,970	3,078,168	2,895,679
Difference between expected and actual experience	-0-	-0-	(132,829)	(81,124)	421,504	558,856	-0-
Changes of assumptions	-0-	-0-	(117,098)	(105,820)	(788,160)	(462,055)	-0-
Change of benefit terms	-0-	26,908,589	-0-	-0-	-0-	-0-	-0-
Benefit payments	(38,079,218)	(2,326,934)	(1,995,176)	(1,771,093)	(1,642,440)	(1,403,242)	(1,261,223)
Net change in pension liability	(38,079,218)	29,073,978	2,084,712	2,222,571	2,065,500	2,546,556	2,367,277
Total pension liability - beginning	77,370,630	48,296,652	46,211,940	43,989,369	41,923,869	39,377,313	37,010,036
Total pension liability - ending (a)	\$ 39,291,412	\$ 77,370,630	\$ 48,296,652	\$ 46,211,940	\$ 43,989,369	\$ 41,923,869	\$ 39,377,313
Plan fiduciary net position							
Benefit payments	\$ (38,079,218)	\$ (2,326,934)	\$ (1,995,176)	\$ (1,771,093)	\$ (1,642,440)	\$ (1,403,242)	\$ (1,261,223)
Net investment income	-0-	796,389	5,517,039	(165,581)	7,097,584	921,848	997,337
Administrative expenses	-0-	-0-	(73,820)	(84,691)	(104,470)	(168,088)	(96,038)
Employer contributions	27,442,640	506,407	865,687	906,281	902,996	1,071,875	11,156,995
Net change in plan fiduciary net position	(10,636,578)	(1,024,138)	4,313,730	(1,115,084)	6,253,670	422,393	10,797,071
Plan fiduciary net position - beginning	49,927,990	50,952,128	46,638,398	47,753,482	41,499,812	41,077,419	30,280,348
Plan fiduciary net position - ending (b)	\$ 39,291,412	\$ 49,927,990	\$ 50,952,128	\$ 46,638,398	\$ 47,753,482	\$ 41,499,812	\$ 41,077,419
Net pension (asset) liability (a) - (b)	\$ -0-	\$ 27,442,640	\$ (2,655,476)	\$ (426,458)	\$ (3,764,113)	\$ 424,057	\$ (1,700,106)
Plan fiduciary net position as a % of total pension liability	100.00%	64.53%	105.50%	100.92%	108.56%	98.99%	104.32%
Covered payroll	Not applicable	Not applicable	\$ 45,543,337	\$ 46,449,083	\$ 46,419,576	\$ 43,933,434	\$ 42,464,944
Net pension liability as a % of covered payroll	Not applicable	Not applicable	-5.83%	-0.92%	-8.11%	0.97%	-4.00%

\* The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Hospital will present information for those years for which information is available.

See report of independent auditors on pages 1 through 3.

## HIGHPOINT HEALTH

### SCHEDULE OF CONTRIBUTIONS FEBRUARY 28, 2021

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Plan Period End	Actuarially Determined Contribution	Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as % of Covered Payroll
2/28/2021	\$ 27,442,640	\$ -0-	\$ 27,442,640	Not applicable	Not applicable
10/31/2020	\$ 506,407	\$ 506,407	\$ -0-	Not applicable	Not applicable
10/31/2019	\$ 859,320	\$ 865,687	\$ (6,367)	\$ 45,543,337	1.90%
10/31/2018	\$ 865,687	\$ 906,281	\$ (40,594)	\$ 46,449,083	1.95%
10/31/2017	\$ 902,996	\$ 902,996	\$ -0-	\$ 46,419,576	1.95%
10/31/2016	\$ 873,748	\$ 1,071,875	\$ (198,127)	\$ 43,933,434	2.44%
10/31/2015	\$ 1,638,125	\$ 11,156,995	\$ (9,518,870)	\$ 42,464,944	26.27%
10/31/2014	\$ 1,877,275	\$ 1,877,275	\$ -0-	\$ 42,097,830	4.46%
10/31/2013	\$ 1,706,913	\$ 1,706,913	\$ -0-	\$ 42,029,955	4.06%
10/31/2012	\$ 1,508,887	\$ 1,508,887	\$ -0-	\$ 36,153,924	4.17%
10/31/2011	\$ 1,511,254	\$ 1,511,254	\$ -0-	\$ 36,220,786	4.17%

#### Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of November 1.

Participants not in receipt of benefits on October 31, 2020 will be settled by lump sum payment on June 1, 2021. The lump sum values were based on assumptions stipulated by a plan amendment. Specifically, the amendment provided for a lump sum equal to the actuarial equivalent of the participant's vested accrued benefit using the applicable mortality table for the 2020 plan year and annual rates of interest prescribed under Section 417(e)(3)(B) of the Internal Revenue Code for March 2020.



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

Board of Trustees  
Highpoint Health  
Lawrenceburg, Indiana

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Highpoint Health (the Hospital), which comprise the balance sheet as of February 28, 2021, and the related statement of revenues, expenses, and changes in net position, and cash flows for the fourteen month period ended February 28, 2021, and the related notes to the financial statements, and have issued our report thereon dated May 14, 2021.

Internal Control over Financial Reporting

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

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

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

Board of Trustees  
Highpoint Health  
Lawrenceburg, Indiana

### Compliance and Other Matters

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

### Purpose of this Report

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

**Blue & Co., LLC**

Indianapolis, Indiana  
May 14, 2021