



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2020 AND 2019

CPAs / ADVISORS



HENRY COMMUNITY HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Henry Community Health
New Castle, Indiana

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Henry County Memorial Hospital d/b/a Henry Community Health (the Hospital), a component unit of Henry County, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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 did not audit the financial statements of Henry County Hospital Foundation (the Foundation), a blended component unit, which statements reflect total assets of approximately \$66.7 million and \$59.9 million as of December 31, 2020 and 2019, respectively, and total revenues of approximately \$9.7 million and \$9.5 million, respectively, for the years then ended. Also, we did not audit the financial statements of HCMH Diversified Management Corporation (DMC), a blended component unit, which statements reflect total assets of approximately \$3.0 million and \$5.0 million as of December 31, 2020 and 2019, respectively, and total revenues of approximately \$16.7 million and \$19.4 million, respectively, for the years then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for the Foundation and DMC, is based solely on the reports of the other auditors.

Board of Trustees
Henry Community Health
New Castle, Indiana

We conducted our 2020 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. The 2019 consolidated financial statements were not audited under *Government Auditing Standards* and were audited 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, based on our audits and the reports of other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Hospital as of December 31, 2020 and 2019, and its respective changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CHANGE IN ACCOUNTING PRINCIPLES

As described in Notes 2 and 3 to the consolidated financial statements, the Hospital early adopted Governmental Accounting Standards Board Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Our opinion is not modified with respect to this matter.

REPORT ON REQUIRED SUPPLEMENTARY INFORMATION

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

REPORT ON SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated 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 consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to the Foundation and DMC, is based on the reports of other auditors, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Board of Trustees
Henry Community Health
New Castle, Indiana

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 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
July 28, 2021

REQUIRED SUPPLEMENTARY INFORMATION

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

Management's discussion and analysis of Henry Community Health's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2020. Please read it in conjunction with the Hospital's financial statements, which begin on page 5. As mentioned in Note 1, the financial statements include the Hospital, as well as Henry County Hospital Foundation, Inc. and HCMH Diversified Management Corporation, collectively referred to as the Hospital.

USING THIS ANNUAL REPORT

This annual report consists of two parts—*management's discussion and analysis*, and the *consolidated financial statements*.

- In the "*management's discussion and analysis*" section of this report, management discusses various components of the annual report and provides an analysis of the current consolidated financial statement information.
- The "*consolidated financial statements*" section of this report includes a series of consolidated financial statements, which provide information about the activities of the Hospital as a whole. The Consolidated Balance Sheets reveal the assets, deferred outflows, liabilities, and net position of the Hospital on December 31, 2020 and 2019 while the Statements of Operations and Changes in Net Position summarize the revenues and expenses, including nonoperating items for the years then ended. The Consolidated Statements of Cash Flows summarize the change in cash and cash equivalents as a result of operating, investing, and financing activities during the year. The Notes to the Consolidated Financial Statements disclose additional information addressed within the body of the consolidated financial statements.

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

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

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

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

THE STATEMENT OF CASH FLOWS

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

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets compared to its liabilities reported in the Balance Sheet on page 5. The Hospital's net position increased by approximately \$12.7 million or 8.9% from 2019 to 2020 and increased by approximately \$14.5 million or 11.2% from 2018 to 2019 as you can see from Table 1.

Table 1: Consolidated Balance Sheets

	2020	2019	2020-2019 Change	2018
Assets				
Current assets	\$ 131,647,721	\$ 103,018,523	\$ 28,629,198	\$ 97,727,132
Capital assets, net	69,759,980	64,883,209	4,876,771	63,763,035
Other investments and assets	55,674,854	49,408,496	6,266,358	32,928,025
Total assets	<u>\$ 257,082,555</u>	<u>\$ 217,310,228</u>	<u>\$ 39,772,327</u>	<u>\$ 194,418,192</u>
Liabilities				
Current liabilities	\$ 87,275,271	\$ 58,913,430	\$ 28,361,841	\$ 49,280,453
Long term debt, net of current portion	12,087,233	13,533,109	(1,445,876)	14,920,881
Other long term liabilities	1,169,228	1,052,305	116,923	935,382
Total liabilities	<u>\$ 100,531,732</u>	<u>\$ 73,498,844</u>	<u>\$ 27,032,888</u>	<u>\$ 65,136,716</u>
Net Position				
Net investment in capital assets	\$ 56,226,871	\$ 49,943,493	\$ 6,283,378	\$ 47,464,265
By donor - expendable - for capital acquisition	1,331,766	1,103,312	228,454	996,860
Unrestricted	98,992,186	92,764,579	6,227,607	80,820,351
Total net position	<u>\$ 156,550,823</u>	<u>\$ 143,811,384</u>	<u>\$ 12,739,439</u>	<u>\$ 129,281,476</u>

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

The following discussion includes changes from 2019 to 2020. The significant changes in the Hospital's assets included current assets, which increased by approximately \$28.6 million, with growth in revenues and long-term care operations. Current liabilities increased by approximately \$28.4 million. Current liabilities increased due to advances on Medicare payments received during 2020 in response to the Coronavirus (COVID-19) pandemic, and due to timing and increased expenses during the year. The net position increased due to gains from operating revenue and nonoperating revenue, which was partially offset by an increase in operating expenses.

The significant changes from 2018 to 2019 in the Hospital's assets included other investments and assets, which increased by approximately \$16.5 million. Current liabilities increased by approximately \$9.6 million. Investments increased during 2019 due to strong market returns and transfers of cash into investments during the year. Current liabilities increased due to timing and increased expenses during the year. The net position increased approximately \$14.5 million due to gains from operating revenue and nonoperating revenue, which was partially offset by an increase in operating expenses.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION AND CASH FLOWS

In 2020, the Hospital's operating revenues increased by approximately \$15.1 million as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2020	2019	2020-2019 Change	2018
Operating revenues				
Net patient service revenues	\$ 301,877,870	\$ 286,442,146	\$ 15,435,724	\$ 270,149,378
Other operating revenues	6,046,990	6,367,065	(320,075)	6,875,251
Total operating revenues	307,924,860	292,809,211	15,115,649	277,024,629
Operating expenses				
Salaries and benefits	80,009,382	74,289,563	5,719,819	68,279,935
Medical supplies and drugs	25,526,431	23,489,849	2,036,582	22,737,784
Depreciation and amortization	7,330,825	7,314,130	16,695	7,338,048
Other operating expenses	214,081,824	178,373,592	35,708,232	170,112,295
Total operating expenses	326,948,462	283,467,134	43,481,328	268,468,062
Operating income (loss)	(19,023,602)	9,342,077	(28,365,679)	8,556,567
Non-operating revenues (expenses)				
Investment income (loss)	6,080,988	5,375,749	705,239	(2,225,033)
Other non-operating revenues and expenses, net	25,682,053	(187,918)	25,869,971	(1,292,768)
Total non-operating revenues (expenses)	31,763,041	5,187,831	26,575,210	(3,517,801)
Change in net position	12,739,439	14,529,908	(1,790,469)	5,038,766
Net position beginning of year	143,811,384	129,281,476	14,529,908	124,242,710
Net position end of year	\$ 156,550,823	\$ 143,811,384	\$ 12,739,439	\$ 129,281,476

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

OPERATING LOSS

During 2020, expenses increased at a greater rate compared to revenues primarily due to increased expenses incurred in response to the COVID-19 pandemic, which contributed to the operating loss during 2020.

NONOPERATING INCOME

Nonoperating income was primarily driven by Provider Relief Funds (PRF) received that were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic, with a gain of approximately \$25.9 million in 2020. This contributed to the increase in non-operating revenues of \$26.6 million from 2019 to 2020.

Table 3: Hospital Cash Flows

	2020	2019	2020-2019 Change	2018
Cash flows from activities				
Operating	\$ 18,206,519	\$ 18,803,313	\$ (596,794)	\$ 14,455,942
Non-capital financing	25,916,741	-0-	25,916,741	-0-
Capital and related financing	(13,588,630)	(10,325,762)	(3,262,868)	(6,597,522)
Investing	(3,768,597)	(5,324,798)	1,556,201	(2,273,548)
	<u>\$ 26,766,033</u>	<u>\$ 3,152,753</u>	<u>\$ 23,613,280</u>	<u>\$ 5,584,872</u>

In 2020, the Hospital continued to generate strong cash flows from operations with approximately \$18.2 million generated in 2020 and approximately \$18.8 million generated in 2019. Cash flows generated from non-capital financing activities relate to PRF received in response to the COVID-19 pandemic. Cash flows used in capital and related financing activities relate primarily to the purchase of property and equipment.

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

CAPITAL ASSETS

During 2020, the Hospital's net capital assets have increased by approximately \$4.9 million, compared to an increase of approximately \$1.1 million in 2019. The change in capital assets is outlined in the following table:

	2020	2019	2020-2019 Change	2018
Land and improvements	\$ 7,495,291	\$ 5,403,920	\$ 2,091,371	\$ 5,303,732
Buildings and improvements	78,717,179	75,627,637	3,089,542	74,732,584
Equipment	72,995,925	64,208,278	8,787,647	68,177,473
Construction in progress	51,701	3,314,300	(3,262,599)	242,374
Total capital assets	159,260,096	148,554,135	10,705,961	148,456,163
Less accumulated depreciation	89,500,116	83,670,926	5,829,190	84,693,128
Capital assets, net	\$ 69,759,980	\$ 64,883,209	\$ 4,876,771	\$ 63,763,035

Net capital assets have increased due to capital additions in the current year outpacing the current year depreciation. The Hospital continually evaluates facilities and equipment to ensure that everything is upgraded as necessary. See the notes to the consolidated financial statements for additional information about capital assets.

DEBT

The Hospital has the following debt outstanding, which approximates \$13.5 million as of December 31, 2020:

- 2015 tax-exempt revenue bonds
- Capital lease obligation

More detailed information about the Hospital's long-term debt is presented in the Notes to the Consolidated Financial Statements.

BAD DEBT AND CHARITY CARE

Bad debt expense and charity care write-offs decreased in 2020 compared to 2019 experience due to payor mix shifts during the fiscal year.

	<u>Bad Debt</u>	<u>Charity</u>	<u>Total</u>	<u>% Chg</u>
2017	\$5,303,514	\$1,001,255	\$6,304,769	
2018	\$7,092,633	\$1,745,666	\$8,838,299	40%
2019	\$10,114,271	\$1,749,010	\$11,863,281	34%
2020	\$8,706,480	\$1,262,734	\$9,969,214	-16%

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2020

(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

ECONOMIC OUTLOOK

In March 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 healthcare personnel, shortages of clinical supplies, increased demand for services, delays, or loss of or reduction to revenue, and investment portfolio declines.

Management believes that the healthcare industry 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 healthcare 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 healthcare workers. The Hospital is also affected by the uncertainty of federal healthcare reform.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide fiscal reporting to patients, county residents, suppliers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Controller at Henry Community Health, 1000 North 16th Street, New Castle, Indiana 47362.

HENRY COMMUNITY HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 AND 2019

	2020	2019
Current assets		
Cash and money market deposit accounts	\$ 69,521,293	\$ 39,059,545
Patient accounts receivable, net of estimated allowance for uncollectible accounts of approximately \$6,700,000 in 2020 and \$8,600,000 in 2019	31,186,818	33,881,830
Supplies and other current assets	29,578,930	24,780,376
Estimated third-party settlements	-0-	3,972,777
Current portion of assets whose use is limited	1,360,680	1,323,995
Total current assets	131,647,721	103,018,523
Investments	36,423,038	31,791,083
Assets whose use is limited		
Internally designated	12,900,936	11,572,692
By donor - expendable - for capital acquisition	1,331,766	1,103,312
	14,232,702	12,676,004
Less current portion	1,360,680	1,323,995
Total assets whose use is limited	12,872,022	11,352,009
Capital assets, net	69,759,980	64,883,209
Other assets	6,379,794	6,265,404
Total assets	\$ 257,082,555	\$ 217,310,228

LIABILITIES AND NET POSITION

	2020	2019
Current liabilities		
Current portion of long-term debt	\$ 1,445,876	\$ 1,406,607
Accounts payable and accrued expenses	68,586,062	51,829,089
Accrued wages and related liabilities	6,324,114	5,677,734
Estimated third-party settlements	10,919,219	-0-
Total current liabilities	87,275,271	58,913,430
Other long-term liabilities	1,169,228	1,052,305
Long-term debt, net of current portion	12,087,233	13,533,109
Total liabilities	100,531,732	73,498,844
Net position		
Unrestricted	98,992,186	92,764,579
Net investment in capital assets	56,226,871	49,943,493
Restricted		
By donor - expendable - for capital acquisition	1,331,766	1,103,312
Total net position	156,550,823	143,811,384
Total liabilities and net position	\$ 257,082,555	\$ 217,310,228

See accompanying notes to consolidated financial statements.

HENRY COMMUNITY HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Operating revenue		
Net patient service revenue	\$ 301,877,870	\$ 286,442,146
Other revenue	6,046,990	6,367,065
Total revenue	307,924,860	292,809,211
Operating expenses		
Salaries and benefits	80,009,382	74,289,563
Medical professional fees	1,777,561	1,088,931
Purchased services	136,498,777	111,195,081
Medical supplies and drugs	25,526,431	23,489,849
Other supplies	14,933,647	11,671,010
Depreciation and amortization	7,330,825	7,314,130
Utilities	5,114,028	5,098,325
Rent	18,424,267	16,266,630
Hospital assessment fee	3,723,182	3,871,800
Other	33,610,362	29,181,815
Total expenses	326,948,462	283,467,134
Operating income (loss)	(19,023,602)	9,342,077
Nonoperating revenues (expenses)		
Investment income	6,080,988	5,375,749
Interest expense	(383,861)	(864,973)
COVID-19 grant funds	25,916,741	-0-
Other nonoperating	149,173	677,055
Total nonoperating revenues (expenses)	31,763,041	5,187,831
Change in net position	12,739,439	14,529,908
Net position		
Beginning of year	143,811,384	129,281,476
End of year	\$ 156,550,823	\$ 143,811,384

See accompanying notes to consolidated financial statements.

HENRY COMMUNITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash flows from operating activities		
Cash received from patients and third party payors	\$ 315,741,696	\$ 278,790,689
Cash paid to employees for wages and benefits	(79,363,002)	(73,722,669)
Cash paid to vendors for goods and services	(223,982,600)	(192,629,444)
Other operating receipts, net	5,810,425	6,364,737
Net cash flows from operating activities	18,206,519	18,803,313
Cash flows from non-capital financing activities		
COVID-19 grant funds	25,916,741	-0-
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(11,806,118)	(8,128,482)
Loss on disposal of property and equipment	7,956	26,747
Interest on long-term debt	(383,861)	(864,973)
Principal payments on long-term debt	(1,406,607)	(1,359,054)
Net cash flows from capital and related financing activities	(13,588,630)	(10,325,762)
Cash flows from investing activities		
Investment income and other non-operating	6,230,161	6,052,804
Change in other assets, net	(114,390)	(173,889)
Purchases of investments in assets whose use is limited - internally designated and investments	(14,670,575)	(13,837,802)
Proceeds from sale of investments in assets whose use is limited - internally designated and investments	5,014,661	2,740,541
Change in assets whose use is limited - restricted by donor, net	(228,454)	(106,452)
Net cash flows from investing activities	(3,768,597)	(5,324,798)
Net change in cash and money market deposit accounts	26,766,033	3,152,753
Cash and money market deposit accounts		
Beginning of year	44,188,700	41,035,947
End of year	\$ 70,954,733	\$ 44,188,700

See accompanying notes to consolidated financial statements.

HENRY COMMUNITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2020 AND 2019

Reconciliation of operating income (loss) to net cash flows from operating activities	2020	2019
Operating income (loss)	\$ (19,023,602)	\$ 9,342,077
Adjustment to reconcile operating income (loss) to net cash flows from operating activities		
Depreciation and amortization	7,330,825	7,314,130
Bad debts	8,706,480	10,114,271
Changes in assets and liabilities		
Patient accounts receivable	(6,011,468)	(10,313,540)
Supplies and other current assets	(4,798,554)	(3,461,850)
Accounts payable and accrued expenses	16,347,539	8,704,796
Accrued salaries and related liabilities	646,380	566,894
Other long-term liabilities	116,923	116,923
Estimated third-party settlements	14,891,996	(3,580,388)
Net cash flows from operating activities	\$ 18,206,519	\$ 18,803,313
Reconciliation of cash and money market deposit accounts to the balance sheets		
Cash and money market deposit accounts		
In current assets	\$ 69,521,293	\$ 39,059,545
In investments	1,433,440	5,129,155
Total cash and money market deposit accounts	\$ 70,954,733	\$ 44,188,700
Supplemental cash flows information		
Property included in accounts payable	\$ 409,434	\$ 332,569

See accompanying notes to consolidated financial statements.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Henry County Memorial Hospital (HCMH) d/b/a Henry Community Health (the Hospital) is a county owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient healthcare.

The Board of County Commissioners of Henry County appoints the Governing Board of the Hospital (Board) and a financial benefit/burden relationship exists between Henry County and the Hospital. For these reasons, the Hospital is considered a component unit of Henry County.

On June 7, 1976, the Board of County Commissioners of Henry County, upon written request of the Henry County Hospital Board of Trustees created the Henry County Hospital Association (the Association). The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing facilities for the Hospital. The Association has no assets, no liabilities and conducts no operations.

Pursuant to the provision of long-term care, the Hospital owns the operations of certain 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 and legal responsibility for 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 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 will pay the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

Blended Component Units

The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Henry County Hospital Foundation, Inc. (the Foundation) is a significant component unit of the Hospital. The Hospital appoints a voting majority of the Foundation's Board of Directors and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

The activities of the Foundation may include capital improvements, educational programs, medical related research, and initial capital for experimental health services related to the principal purpose of the Hospital. The Foundation also manages investments and rental property, provides equipment, grants scholarships for health careers, conducts physician recruitment and other medical programs as directed under the terms of a contract with the Hospital. The Foundation's separate audited financial statements can be obtained by contacting the Foundation.

HCMH Diversified Management Corporation (DMC) is a significant component unit of the Hospital. The Hospital is the sole shareholder and appoints DMC's Board of Directors and is able to impose its will. Although it is legally separate from the Hospital, DMC is reported as if it were a part of the Hospital because the two Boards of Directors/Trustees are substantially the same.

DMC provides pharmacy services to the surrounding communities. DMC's separate audited financial statements can be obtained by directly contacting DMC.

DMC owns New Castle Clinic, Inc. (the Clinic), which operates a physician group practice. DMC's results within these financials include those of the Clinic for the years ended December 31, 2020 and 2019.

Separate financial statements related to the individual component units may be obtained by contacting Hospital management.

The Hospital, Foundation and DMC are hereby collectively referred to as the Hospital. All intercompany accounts and transactions have been eliminated.

Measurement Focus and Basis of Accounting

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

Use of Estimates

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

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Cash and Money Market Deposit Accounts

Cash and money market deposit accounts include all cash held in checking, savings, and money market deposit accounts available for operating purposes with original maturity dates of 90 days or less. The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and money market deposit accounts.

Patient Accounts Receivable, Net and Net Patient Service Revenue

Patient service revenue and patient accounts receivable are recorded at the net realizable amounts based on established charges when the patient service is rendered. The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges and per diem payments. Charges for services to patients are primarily based on the patients' ability to pay.

Patient accounts receivable are reduced by an allowance for uncollectible 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 its 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 uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary. For receivables associated with self-pay payments, 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 uncollectible accounts.

At the Hospital's year-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. The Medicare program cost reports have been audited through December 31, 2017 with immaterial differences reflected as deductions from revenue in 2020 and 2019. Amounts from unresolved cost reports through 2020 are reflected in estimated third-party payor settlements on the consolidated balance sheets. Also, included in estimated third-party payor settlements on the consolidated balance sheets is approximately \$8,564,000 received for Medicare accelerated payments during 2020, which will be repaid during 2021 and 2022.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges net of an allowance for contractual adjustments. The allowance for contractual adjustments is based on expected payment rates from payors based on current reimbursement methodologies. In addition, 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 patient base.

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.

Supplies and Other Current Assets

Supplies and other current assets consist primarily of drug and medical supply inventories, prepaid expenses, other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized within the next fiscal year. Supplies and other current assets consist of the following at December 31, 2020 and 2019:

	2020	2019
Drug and medical supply inventories	\$ 1,726,506	\$ 1,424,366
Prepaid expenses	1,213,333	1,296,938
Receivables related to long-term care	23,145,619	19,238,231
Other	3,493,472	2,820,841
	<u>\$ 29,578,930</u>	<u>\$ 24,780,376</u>

Inventories

Pharmaceutical inventories are valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method while medical and all other supplies are priced using the last-in, first-out (LIFO) method.

Assets Whose Use Is Limited and Investments

Assets whose use is limited and investments are stated at fair value in the consolidated financial statements. These assets include investments internally designated by the Hospital Board for acquisition of property and equipment and debt service and donor restricted funds. These investments consist primarily of money market deposit accounts, money market mutual funds, mutual funds, and common stocks. Investment income is reported as nonoperating income in the consolidated statements of operations and changes in net position.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Capital Assets

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities, which exceed \$1,000 and meet certain useful life thresholds. Contributed capital assets are reported at their estimated fair market value at the time of their donation. Maintenance, repairs, and minor renewals are expensed as incurred.

All capital assets, other than land, are depreciated using the straight-line method of depreciation using these asset lives:

Description	Range of Useful Lives
Land improvements	5 - 30 years
Buildings and fixed equipment	3 - 50 years
Major movable equipment	3 - 20 years

Other Assets

Other assets consist primarily of the value of the split dollar life insurance policy on a key employee and investments in affiliates. See notes 12 and 16 for further information.

Investments in Affiliates

The Hospital has equity interests in joint ventures. These investments are recorded on the equity and cost methods of accounting in the Hospital's consolidated financial statements. These balances are included within other assets on the consolidated balance sheets. See note 16 for further information.

Compensated Absences

Regular employees of the Hospital earn paid days off (PDO) at rates of twenty-three days to thirty-nine days per year, based on the length of continuous employment and regular hours worked. PDO is adjusted proportionately to hours worked for employees working less than full time. No limit exists on the amount of PDO that may be accumulated. Accrued PDO is paid to employees who resign, giving a two-week notice or in the event of death. All employees may elect to be paid for PDO accumulated in excess of ten days. This option is available twice during the calendar year. The Hospital tracks the PDO accrual computed on the hourly rate and PDO balance per employee, and the consolidated financial statements recognize this liability. Accumulated PDO is reported as a current liability in the approximate amount of \$3,485,000 and \$3,035,000 for 2020 and 2019, respectively, and is included within accrued wages and related liabilities in the consolidated balance sheets.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Other Long-Term Liabilities

Other long-term liabilities consist of the deferred liability for the salary continuation plan for a key employee that is due in over one year.

Net Position

Net position of the Hospital is classified in various components. Net position - net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position consists of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets, or restricted net position.

Restricted Resources

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

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. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

Hospital Assessment Fee (HAF) Program

The purpose of the HAF Program is to fund the state share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana inpatient providers. 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.

During 2020 and 2019, the Hospital recognized HAF Program expense of approximately \$3,720,000 and \$3,870,000, respectively, which resulted in increased Medicaid reimbursement.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Operating Revenues and Expenses

The Hospital's consolidated statement of operations and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services—the Hospital's principal activity. Nonoperating revenues include COVID-19 grant funds, contributions received, and other nonoperating activities. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized during either 2020 or 2019.

Federal or State Income Taxes

HCMH is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. HCMH is generally exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3). As a governmental entity, HCMH is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

The Foundation is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only. The Foundation has filed its 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).

DMC is a for-profit organization incorporated in 1985 and the sole shareholder is HCMH. DMC has filed its federal and state income tax returns for periods through December 31, 2019. These income tax returns are generally open to examination by 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).

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

DMC has federal net operating loss carry forwards to reduce future taxable income of approximately \$61,005,000, and a similar amount for state income taxes as of December 31, 2020. Including valuation allowances, DMC has a net deferred tax asset of \$-0- for 2020 and 2019. These federal and state carry forwards begin to expire in 2023. The valuation allowance is established to reduce the deferred tax asset to the amount expected to be realized when it is more likely than not that all or some portion of the deferred tax asset will not be realized.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by HCMH, Foundation, and DMC and recognize a tax liability if these organizations 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 these organizations, and has concluded that as of December 31, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Foundation and DMC are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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 Hospital maintains records to identify and monitor the level of the charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care charges provided during 2020 and 2019 were approximately \$1,263,000 and \$1,749,000, respectively.

Of the Hospital's total expenses reported, an estimated \$777,000 and \$971,000 arose from providing services to charity patients during the years ended December 31, 2020 and December 31, 2019, respectively.

The estimated costs of providing charity services are based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of costs to charges is calculated based on the Hospital's total expenses (including interest expense) divided by gross patient service revenue.

Litigation

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

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Reclassifications

Certain amounts from 2019 have been reclassified in order to conform to the 2020 presentation. There were no changes to net position as a result of these reclassifications, as previously reported.

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued, which is July 28, 2021.

Recently Issued Accounting Standards

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

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which 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 measurement 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. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, by one year. GASB Statement No. 89 will be effective for periods beginning after December 15, 2020.

The Hospital is presently evaluating the impact of these standards.

2. CHANGE IN ACCOUNTING PRINCIPLES

During 2020, the Hospital implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addressed accounting and financial reporting issues related to asset retirement obligations. This Statement also provides guidance for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. There was no impact to these consolidated financial statements as a result of adoption of this Statement.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

During 2020, the Hospital implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement addressed accounting and financial reporting issues related to debt, including direct borrowings and direct placements. This Statement also provides guidance for which liabilities should be included when disclosing information related to debt. There was no impact to these consolidated financial statement disclosures as a result of adoption of this Statement as these disclosures have been provided historically.

During 2020, the Hospital implemented GASB Statement No. 90, *Majority Equity Interests*. This Statement addressed accounting and financial reporting issues related to a majority equity interest in a legally separate organization and certain component units. Generally, this Statement requires governmental entities, who have a majority equity interest that meets the definition of an investment, to measure the investment using the equity method. There was no impact to these consolidated financial statements as a result of adoption of this Statement.

During 2020, the Hospital early implemented GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution other postemployment benefit plan, or another employee benefit plan, if the primary government performs the duties that a governing board typically would perform, the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board. This statement also requires that the financial burden criterion of GASB Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit other postemployment benefit plans that are administered through trusts that meet the criteria of GASB Statement No. 67, *Financial Reporting for Pension Plans*, or GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. Prior to the adoption of this Statement, the assets, net position, and activity related to the Hospital's Employees' Pension Plan (Pension Plan) was included in the Hospital's consolidated financial statements. The Pension Plan did not meet the financial accountability and financial burden criteria for fiduciary activities to be included as component units under this Statement. The changes adopted to conform to the provisions of this Statement were applied retroactively by restating the consolidated financial statements for 2019 as described in Note 3.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

3. RESTATEMENT RELATED TO GASB STATEMENT 97

The accompanying consolidated financial statements as of and for the year ended December 31, 2019, have been restated to reflect the Hospital's adoption of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The adoption resulted in the Pension Plan that was presented in the pension trust funds column of the statements of fiduciary net position and accompanying statements of changes in fiduciary net position being removed from the consolidated financial statements. The 2019 statement of fiduciary net position previously included approximately \$56,741,000 in total assets, which consisted primarily of mutual funds. The 2019 statement of changes in fiduciary net position presented a net increase in net position of approximately \$9,336,000. As such, disclosures related to the Pension Plan have also been removed from the consolidated financial statements. There was no impact on the other consolidated financial statements as a result of the restatement.

4. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital on December 31 are as follows:

	2020	2019
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 30,045,843	\$ 32,905,223
Receivable from Medicare	22,795,683	22,839,300
Receivable from Medicaid	13,007,550	14,553,721
Total patient accounts receivable	65,849,076	70,298,244
Less contractual allowances	(28,008,342)	(27,807,172)
Less allowances for uncollectible accounts	(6,653,916)	(8,609,242)
Patient accounts receivable, net	<u>\$ 31,186,818</u>	<u>\$ 33,881,830</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 5,619,035	\$ 4,677,174
Payable to suppliers and management companies	68,586,062	51,829,089
Accrued employee health benefit claims	705,079	1,000,560
Total accounts payable and accrued expenses	<u>\$ 74,910,176</u>	<u>\$ 57,506,823</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

5. ASSETS WHOSE USE IS LIMITED

Assets that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited on December 31 is as follows:

	2020	2019
Internally designated		
Funded depreciation		
Investments	\$ 12,862,838	\$ 11,324,912
Money market mutual funds	38,098	247,780
Donor restricted assets		
Investments	1,331,766	1,103,312
 Total assets limited to use	\$ 14,232,702	\$ 12,676,004

6. DEPOSITS AND INVESTMENTS

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

Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents, mutual funds, and common stocks.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2020 and 2019, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

December 31, 2020					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 49,098,951	\$ 49,098,951	\$ -0-	\$ -0-	\$ -0-
Common stocks	85,251	85,251	-0-	-0-	-0-
Money market mutual funds	38,098	38,098	-0-	-0-	-0-
	\$ 49,222,300	\$ 49,222,300	\$ -0-	\$ -0-	\$ -0-

December 31, 2019					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 38,316,514	\$ 38,316,514	\$ -0-	\$ -0-	\$ -0-
Common stocks	773,638	773,638	-0-	-0-	-0-
Money market mutual funds	247,780	247,780	-0-	-0-	-0-
	\$ 39,337,932	\$ 39,337,932	\$ -0-	\$ -0-	\$ -0-

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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

Credit risk – The Hospital’s investment policy authorizes it 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 policy also requires that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

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

Deposits and investments consist of the following as of December 31, 2020 and 2019:

	2020	2019
Carrying amount		
Deposits	\$ 70,954,733	\$ 44,188,700
Investments	49,222,300	39,337,932
	<u>\$ 120,177,033</u>	<u>\$ 83,526,632</u>
Included in the balance sheet captions		
Cash and money market deposit accounts	\$ 69,521,293	\$ 39,059,545
Investments	36,423,038	31,791,083
Internally designated	12,900,936	11,572,692
By donor - expendable - for capital acquisition	1,331,766	1,103,312
	<u>\$ 120,177,033</u>	<u>\$ 83,526,632</u>

Investment income for 2020 and 2019 is summarized as follows:

	2020	2019
Unrealized gains	\$ 4,998,927	\$ 3,564,659
Realized gains	60,558	875,671
Interest and dividends	1,021,503	935,419
Total investment income	<u>\$ 6,080,988</u>	<u>\$ 5,375,749</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

7. FAIR VALUE MEASUREMENTS

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2020 and 2019:

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

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 are as follows:

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & assets whose use is limited				
Mutual funds:				
Diversified emerging markets	\$ 591,185	\$ 591,185	\$ -0-	\$ -0-
Foreign large blend	891,745	891,745	-0-	-0-
High yield bond	711,313	711,313	-0-	-0-
Intermediate-term bond	5,766,180	5,766,180	-0-	-0-
Large blend	3,801,621	3,801,621	-0-	-0-
Large growth	17,286,066	17,286,066	-0-	-0-
Mid growth	2,239,342	2,239,342	-0-	-0-
Multisector bond	13,033,123	13,033,123	-0-	-0-
Small blend	1,877,955	1,877,955	-0-	-0-
Small value	2,526,006	2,526,006	-0-	-0-
Other	374,415	374,415	-0-	-0-
Money market mutual funds	38,098	-0-	38,098	-0-
Common stocks:				
Services	4,764	4,764	-0-	-0-
Technology	23,259	23,259	-0-	-0-
Other	57,228	57,228	-0-	-0-
Total	49,222,300	<u>\$ 49,184,202</u>	<u>\$ 38,098</u>	<u>\$ -0-</u>
Money market deposit accounts	1,433,440			
Total investments & assets whose use is limited	<u>\$ 50,655,740</u>			

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 are as follows:

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & assets whose use is limited				
Mutual funds:				
Diversified emerging markets	\$ 350,149	\$ 350,149	\$ -0-	\$ -0-
Foreign large blend	829,091	829,091	-0-	-0-
High yield bond	672,818	672,818	-0-	-0-
Intermediate-term bond	5,546,997	5,546,997	-0-	-0-
Large blend	2,093,257	2,093,257	-0-	-0-
Large growth	9,851,126	9,851,126	-0-	-0-
Mid-cap growth	1,039,650	1,039,650	-0-	-0-
Multisector bond	11,951,337	11,951,337	-0-	-0-
Small blend	1,262,596	1,262,596	-0-	-0-
Small value	4,055,593	4,055,593	-0-	-0-
Other	663,900	663,900	-0-	-0-
Money market mutual funds	247,780	-0-	247,780	-0-
Common stocks:				
Services	148,704	148,704	-0-	-0-
Technology	222,137	222,137	-0-	-0-
Other	402,797	402,797	-0-	-0-
Total	39,337,932	\$ 39,090,152	\$ 247,780	\$ -0-
Money market deposit accounts	5,129,155			
Total investments & assets whose use is limited	\$ 44,467,087			

The Hospital's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no significant transfers between levels during 2020 and 2019.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

8. CAPITAL ASSETS

A summary of capital assets, including assets under capital leases, as of December 31, 2020 and 2019, follows:

	Balance December 31,				Balance
	2019	Additions	Retirements	Transfers	December 31, 2020
Land	\$ 2,453,234	\$ 1,998,340	\$ -0-	\$ -0-	\$ 4,451,574
Land improvements	2,950,686	98,031	(5,000)	-0-	3,043,717
Buildings and improvements	75,627,637	2,885,894	(279,140)	482,788	78,717,179
Fixed equipment	18,029,130	295,184	(156,853)	4,592,178	22,759,639
Major equipment	46,179,148	4,253,438	(1,068,598)	872,298	50,236,286
Construction in progress	3,314,300	2,684,665	-0-	(5,947,264)	51,701
Total capital assets	<u>148,554,135</u>	<u>12,215,552</u>	<u>(1,509,591)</u>	<u>-0-</u>	<u>159,260,096</u>
Less accumulated depreciation:					
Land improvements	(2,121,222)	(70,016)	5,000	-0-	(2,186,238)
Buildings and improvements	(43,309,775)	(3,411,069)	219,482	-0-	(46,501,362)
Fixed equipment	(12,604,104)	(582,097)	156,853	-0-	(13,029,348)
Major equipment	(25,635,825)	(3,267,643)	1,120,300	-0-	(27,783,168)
Total accumulated depreciation	<u>(83,670,926)</u>	<u>(7,330,825)</u>	<u>1,501,635</u>	<u>-0-</u>	<u>(89,500,116)</u>
Capital assets, net	<u>\$ 64,883,209</u>	<u>\$ 4,884,727</u>	<u>\$ (7,956)</u>	<u>\$ -0-</u>	<u>\$ 69,759,980</u>

	Balance December 31,				Balance
	2018	Additions	Retirements	Transfers	December 31, 2019
Land	\$ 2,453,234	\$ -0-	\$ -0-	\$ -0-	\$ 2,453,234
Land improvements	2,850,498	100,188	-0-	-0-	2,950,686
Buildings and improvements	74,732,584	1,018,250	(170,283)	47,086	75,627,637
Fixed equipment	17,368,753	453,227	(194,613)	401,763	18,029,130
Major equipment	50,808,720	3,266,932	(7,998,183)	101,679	46,179,148
Construction in progress	242,374	3,622,454	-0-	(550,528)	3,314,300
Total capital assets	<u>148,456,163</u>	<u>8,461,051</u>	<u>(8,363,079)</u>	<u>-0-</u>	<u>148,554,135</u>
Less accumulated depreciation:					
Land improvements	(2,052,878)	(68,344)	-0-	-0-	(2,121,222)
Buildings and improvements	(39,900,545)	(3,420,916)	11,686	-0-	(43,309,775)
Fixed equipment	(12,224,866)	(573,851)	194,613	-0-	(12,604,104)
Major equipment	(30,514,839)	(3,251,019)	8,130,033	-0-	(25,635,825)
Total accumulated depreciation	<u>(84,693,128)</u>	<u>(7,314,130)</u>	<u>8,336,332</u>	<u>-0-</u>	<u>(83,670,926)</u>
Capital assets, net	<u>\$ 63,763,035</u>	<u>\$ 1,146,921</u>	<u>\$ (26,747)</u>	<u>\$ -0-</u>	<u>\$ 64,883,209</u>

The Hospital did not have any significant outstanding commitments related to construction in progress as of December 31, 2020.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

9. LONG-TERM DEBT

During March 2015, the Hospital borrowed \$18,000,000 from the Indiana Financing Authority (the Authority) and issued Health Facility Revenue Bonds Series 2015 (Series 2015 Bonds) to refund the Series 2009 and Series 2012 bonds. The Series 2015 Bonds bear interest at rates as determined by daily, weekly, flexible, semiannual, or fixed modes, which was 1.27% and 2.30% as of December 31, 2020 and 2019, respectively.

The Hospital and Authority then entered into an agreement with a Regions bank (Regions) whereby Regions purchased from the Authority all the Series 2015 Bonds in a private placement. The agreement provided that Regions would hold the Series 2015 Bonds during the Bank Purchase Mode Period, which runs through March 2030. The Series 2015 Bonds are a direct borrowing with Regions. During the Bank Purchase Mode Period, the Series 2015 Bonds would bear interest at the Bank Purchase Rate (1.17% plus 67% of 1M BBA LIBOR), reset monthly, with principal and interest payments determined using a 15-year amortization schedule. The Series 2015 bonds are collateralized by Hospital revenues. Annual bond payments for the 2015 bonds commenced during March 2016 and continue through March 2030 ranging from approximately \$961,000 to \$1,469,000.

During 2018, the Hospital borrowed approximately \$1,599,000 related to a capital lease obligation. The capital lease obligation, at an imputed interest rate of 1.65%, is collateralized by leased equipment with a net book value of approximately \$772,000 and \$1,092,000 as of December 31, 2020 and 2019, respectively. The cost of the equipment was approximately \$1,599,000 and accumulated depreciation of the equipment was approximately \$827,000 and \$507,000 as of December 31, 2020 and 2019.

A summary of long-term debt borrowings, payments, and balances at and for the years ended December 31 follows:

	Balance December 31, 2019	Additional borrowings	Payments	Balance December 31, 2020	Current portion	Long-term portion
Demand Revenue Bonds, Direct placement - Series 2015	\$ 13,965,000	\$ -0-	\$ 1,086,915	\$ 12,878,085	\$ 1,121,000	\$ 11,757,085
Capital lease	974,716	-0-	319,692	655,024	324,876	330,148
	<u>\$ 14,939,716</u>	<u>\$ -0-</u>	<u>\$ 1,406,607</u>	<u>\$ 13,533,109</u>	<u>\$ 1,445,876</u>	<u>\$ 12,087,233</u>

	Balance December 31, 2018	Additional borrowings	Payments	Balance December 31, 2019	Current portion	Long-term portion
Demand Revenue Bonds, Direct placement - Series 2015	\$ 15,020,000	\$ -0-	\$ 1,055,000	\$ 13,965,000	\$ 1,087,000	\$ 12,878,000
Capital lease	1,278,770	-0-	304,054	974,716	319,607	655,109
	<u>\$ 16,298,770</u>	<u>\$ -0-</u>	<u>\$ 1,359,054</u>	<u>\$ 14,939,716</u>	<u>\$ 1,406,607</u>	<u>\$ 13,533,109</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

The Hospital is also required to meet certain financial and affirmative covenants. One of these covenants requires that the Hospital maintain a minimum of \$9.2 million in cash and investments with Regions. The Hospital believes it is in compliance with all covenants as of December 31, 2020 and 2019. If the Hospital was to be in default under the agreement, the interest rate on the 2015 Series Bonds could be increased to the lesser of 1M BBA LIBOR plus 5% or the highest rate allowable by law.

The 2015 Series Bonds can be optionally redeemed early by the Hospital. If they are redeemed early, the Hospital must pay a premium from between 100.5% and 102% of the outstanding balance on the 2015 Series Bonds, dependent on the amount of time outstanding until maturity.

Scheduled principal repayments on long-term debt are as follows:

<u>Years Ending December 31,</u>	Direct placement		Capital lease	
	Principal	Interest	Principal	Interest
2021	\$ 1,121,000	\$ 193,170	324,876	3,004
2022	1,155,000	176,355	330,148	6,298
2023	1,191,000	159,030	-0-	-0-
2024	1,225,000	141,165	-0-	-0-
2025	1,264,000	122,790	-0-	-0-
2026	1,303,000	103,830	-0-	-0-
2027-2030	5,619,085	213,885	-0-	-0-
	<u>\$ 12,878,085</u>	<u>\$ 1,110,225</u>	<u>\$ 655,024</u>	<u>\$ 9,302</u>

10. NET PATIENT SERVICE REVENUE

Patient service revenue for 2020 and 2019 consists of the following:

	2020	2019
Inpatient services	\$ 78,440,639	\$ 77,437,610
Outpatient services	257,432,403	253,892,435
Long term care	200,768,571	180,615,581
Gross patient service revenue	<u>536,641,613</u>	<u>511,945,626</u>
Contractual allowances	224,794,529	213,640,199
Bad debts	8,706,480	10,114,271
Charity care	1,262,734	1,749,010
Deductions from revenue	<u>234,763,743</u>	<u>225,503,480</u>
Net patient service revenue	<u>\$ 301,877,870</u>	<u>\$ 286,442,146</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

The Board of Directors approves the fee schedule, which is administered with the expectation that clients are to pay for services at a rate commensurate with their ability to pay. No clients will be refused services because of their inability to pay. Essentially, the Hospital's policies define charity services as those services for which a discounted obligation for payment is anticipated. In assessing a client's inability to pay, the Hospital uses an ability-to-pay schedule based on income and dependents. The Hospital also adjusts charges based on contractual agreements with third-party payors. The Hospital maintains records to identify and monitor the level of charges foregone for services furnished under charity care policy and contractual adjustments. The Hospital has agreements with third-party payors including Medicare, Medicaid and the State of Indiana and other commercial insurance carriers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Payments for inpatient acute care services are made based upon the patient's diagnosis, irrespective of cost. The diagnosis upon which payment is based is subject to review by Medicare representatives. Outpatient claims are reimbursed under Ambulatory Payment Classifications, which are based on the procedures performed and are subject to review by the program. Medicare reimbursements are subject to audit by Medicare. Provisions have been made for the estimated effect of review and audits by the program.

Medicaid

Reimbursement for Medicaid services are paid at prospectively determined rates per discharge or per occasion of service.

Other

Payment agreements with certain commercial insurance carriers and other payors provide for payment using prospectively determined daily rates and discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations, as well as significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

11. RETIREMENT PLANS

Plan Descriptions

The Hospital has three defined contribution pension plans: Henry County Memorial Hospital Employees' Pension Plan (Pension Plan), the Henry County Memorial Hospital 403(b) Plan (403(b) Plan), and the Henry County Memorial Hospital Eligible 457 Deferred Compensation Plan (457 Plan), as authorized by Indiana Code 16-22-3-11. The plans are administered by the Hospital and cover all employees who meet eligibility requirements as to age and length of service. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. The plan's provisions and contribution requirements were established by written agreement between the Hospital's Board of Trustees, Meridian Investment Advisors, Inc., Nyhart, Lincoln Financial Group, Shoreline Asset Management, and Fidelity Brokerage Services, LLC (Plan Administrators). The Plan Administrators issue publicly available financial reports that include the financial statements and required supplementary information of the plans. The reports are available by contacting the Hospital's accounting department. The Pension Plan is included in separate financial statements for fiduciary funds following the Hospital's consolidated financial statements.

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital's Board of Trustees and the Plan Administrators. The Hospital is required to contribute to the Pension Plan at the Board approved rate. The Hospital is not permitted to contribute to the 403(b) Plan or the 457 Plan.

The Hospital contributes 4% of an eligible employee's wages and matches 50% of an employee's contribution to the plan up to 2% of their wages to the Pension Plan. Hospital contributions to the Pension Plan for 2020 and 2019 were approximately \$1,946,000 and \$1,709,000, respectively.

12. SPLIT-DOLLAR LIFE INSURANCE POLICY

The Hospital has a Split-Dollar Life Insurance Agreement (the Agreement) for a key employee that is recorded at contract value in other assets at approximately \$2,934,000 and \$2,820,000 as of December 31, 2020 and 2019, respectively. The Hospital is the sole and absolute owner of the related life insurance policy. The Agreement was used to fund a supplemental retirement benefit plan. In the event the employee remains employed by the Hospital at least until reaching sixty-five years of age, or as is otherwise provided in the Agreement, beginning with the retirement date, the Hospital will pay an annual benefit, as is stipulated in the Agreement until the death of the employee. An annual expense is recorded for the death benefit and the salary continuation components of the agreement.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

13. EMPLOYEE HEALTH PLAN

The Hospital participates in a self-funded health plan covering substantially all employees. Covered services include medical benefits. The plan has annual reinsurance coverage starting at a specific level of \$300,000 per individual with an unlimited specific lifetime maximum reimbursement per covered person and no aggregate limit. The financial statements include an estimated provision for claims that have been incurred but not reported. Total health claims expense was approximately \$8,410,000 and \$8,693,000 for the years ended December 31, 2020 and 2019, respectively.

14. NET POSITION RESTRICTED BY DONOR

Net position restricted by donor of approximately \$1,332,000 and \$1,103,000 at December 31, 2020 and 2019, respectively, consist of donor-restricted funds held by the Foundation primarily for Hospital construction projects.

15. MALPRACTICE INSURANCE

The Hospital has a self-insurance plan for professional liability insurance. A third-party claims administrator has been retained to process all benefit claims. Claims are processed and presented for payment upon occurrence. The Hospital makes periodic deposits into a trust fund for the proper administration and protection of the fund.

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.

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

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

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

16. INVESTMENTS IN AFFILIATES

The Hospital purchased a 1% ownership in St. Vincent Heart Center of Indiana, LLC (Heart Center) during 2017 for approximately \$2,557,000 and has a 1% ownership in the Heart Center at December 31, 2019 and 2020, respectively. The Hospital has accounted for this investment under the cost method of accounting and assesses the investment for impairment on an annual basis. As of December 31, 2019 and 2020, the investment was not deemed to be impaired. The investment is included in other assets on the consolidated balance sheets.

The Hospital has investments in other joint ventures included within other assets in the consolidated balance sheets, which are immaterial to the financial statements as a whole.

Separate financial statements related to these joint ventures may be obtained by contacting Hospital management.

17. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, who are primarily local residents and are insured under third-party payor agreements. The mix of receivables and gross patient service revenues from patients and third-party payors for 2020 and 2019 was as follows:

	Receivables		Revenues	
	2020	2019	2020	2019
Self pay	8%	9%	7%	7%
Medicare and Medicaid	54%	53%	71%	70%
Other commercial	38%	38%	22%	23%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

18. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its blended component units, DMC and the Foundation. Separate financial statements related to the individual component units may be obtained by contacting Hospital management. The following is a summary of the financial position of DMC and the Foundation as of December 31, 2020, and a summary of the related statements of operations, changes in net position, and cash flows for the year then ended:

	DMC	Foundation	Total
Assets:			
Cash and money market deposit accounts	\$ 294,580	\$ 496,457	\$ 791,037
Patient accounts receivable, net	1,835,586	-0-	1,835,586
Supplies and other current assets	567,828	1,581,879	2,149,707
Due from Hospital	11,336	-0-	11,336
Total current assets	2,709,330	2,078,336	4,787,666
Investments	-0-	36,423,038	36,423,038
Assets whose use is limited - by donor	-0-	1,331,766	1,331,766
Capital assets, net	290,296	26,838,120	27,128,416
Other assets	38,837	-0-	38,837
Total assets	\$ 3,038,463	\$ 66,671,260	\$ 69,709,723
Liabilities:			
Current portion of long-term debt	\$ -0-	\$ 85,196	\$ 85,196
Accounts payable and accrued expenses	719,557	208,564	928,121
Due to Hospital	76,153,759	2,514,642	78,668,401
Total current liabilities	76,873,316	2,808,402	79,681,718
Long-term debt, net of current portion	-0-	893,532	893,532
Total liabilities	76,873,316	3,701,934	80,575,250
Net position			
Unrestricted net position (deficit)	(74,125,149)	35,778,168	(38,346,981)
Net investment in capital assets	290,296	25,859,392	26,149,688
Restricted by donor for capital acquisition	-0-	1,331,766	1,331,766
Total net position	(73,834,853)	62,969,326	(10,865,527)
Total liabilities and net position	\$ 3,038,463	\$ 66,671,260	\$ 69,709,723

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

	DMC	Foundation	Total
Operating revenues			
Net patient service revenue	\$ 16,571,231	\$ 1,212,280	\$ 17,783,511
Other revenue	-0-	3,905,585	3,905,585
Total operating revenues	<u>16,571,231</u>	<u>5,117,865</u>	<u>21,689,096</u>
Operating expenses			
Salaries and benefits	13,439,002	488,658	13,927,660
Medical professional fees	-0-	-0-	-0-
Purchased services	3,579,012	365,647	3,944,659
Medical supplies and drugs	7,860,582	-0-	7,860,582
Other supplies	-0-	31,206	31,206
Depreciation and amortization	49,704	899,961	949,665
Utilities	115,723	349,171	464,894
Rent	790,646	-0-	790,646
Other	852,060	1,242,260	2,094,320
Total operating expenses	<u>26,686,729</u>	<u>3,376,903</u>	<u>30,063,632</u>
Gain (loss) from operations	(10,115,498)	1,740,962	(8,374,536)
Non-operating revenues (expenses)			
Investment income	159	4,602,685	4,602,844
Interest expense	(46,872)	(16,346)	(63,218)
COVID-19 grant funds	121,630	-0-	121,630
Other nonoperating	-0-	37,370	37,370
Total nonoperating revenues (expenses)	<u>74,917</u>	<u>4,623,709</u>	<u>4,698,626</u>
Change in net position (deficit)	(10,040,581)	6,364,671	(3,675,910)
Net position - beginning of year	(63,794,272)	56,604,655	(7,189,617)
Net position - end of year	<u>\$ (73,834,853)</u>	<u>\$ 62,969,326</u>	<u>\$ (10,865,527)</u>
Cash flows from activities			
Operating	\$ 97,381	\$ 2,138,312	\$ 2,235,693
Non-capital financing activities	121,630	-0-	121,630
Capital and related financing	(89,722)	(2,592,943)	(2,682,665)
Investing	159	(3,916,069)	(3,915,910)
Net change in cash and money market deposit accounts	<u>129,448</u>	<u>(4,370,700)</u>	<u>(4,241,252)</u>
Cash - beginning of year	165,132	6,300,597	6,465,729
Cash - end of year	<u>\$ 294,580</u>	<u>\$ 1,929,897</u>	<u>\$ 2,224,477</u>
Reconciliation of cash and money market deposit accounts to the balance sheet			
Cash and money market deposit accounts			
In current assets	\$ 294,580	\$ 496,457	\$ 791,037
In investments	-0-	1,433,440	1,433,440
Total cash and money market deposit accounts	<u>\$ 294,580</u>	<u>\$ 1,929,897</u>	<u>\$ 2,224,477</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

The following is a summary of the financial position of DMC and the Foundation as of December 31, 2019, and a summary of the related statements of operations, changes in net position, and cash flows for the year then ended:

	2019		
	DMC	Foundation	Total
Assets:			
Cash and money market deposit accounts	\$ 165,132	\$ 1,171,442	\$ 1,336,574
Patient accounts receivable, net	3,452,969	-0-	3,452,969
Supplies and other current assets	663,175	566,327	1,229,502
Due from Hospital	370,482	1,281	371,763
Total current assets	<u>4,651,758</u>	<u>1,739,050</u>	<u>6,390,808</u>
Investments	-0-	31,791,083	31,791,083
Assets whose use is limited - by donor	-0-	1,103,312	1,103,312
Capital assets, net	297,150	25,244,096	25,541,246
Other assets	38,837	-0-	38,837
Total assets	<u>\$ 4,987,745</u>	<u>\$ 59,877,541</u>	<u>\$ 64,865,286</u>
Liabilities:			
Current portion of long-term debt	\$ -0-	\$ 82,612	\$ 82,612
Accounts payable and accrued expenses	804,897	362,866	1,167,763
Due to Hospital	67,977,120	1,848,680	69,825,800
Total current liabilities	<u>68,782,017</u>	<u>2,294,158</u>	<u>71,076,175</u>
Long-term debt, net of current portion	-0-	978,728	978,728
Total liabilities	<u>68,782,017</u>	<u>3,272,886</u>	<u>72,054,903</u>
Net position			
Unrestricted net position (deficit)	(64,091,422)	31,318,587	(32,772,835)
Net investment in capital assets	297,150	24,182,756	24,479,906
Restricted by donor for capital acquisition	-0-	1,103,312	1,103,312
Total net position	<u>(63,794,272)</u>	<u>56,604,655</u>	<u>(7,189,617)</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

	DMC	Foundation	Total
Operating revenues			
Net patient service revenue	\$ 19,347,232	\$ 1,277,050	\$ 20,624,282
Other revenue	-0-	3,942,358	3,942,358
Total operating revenues	19,347,232	5,219,408	24,566,640
Operating expenses			
Salaries and benefits	14,172,719	439,187	14,611,906
Purchased services	3,747,012	353,792	4,100,804
Medical supplies and drugs	7,861,126	-0-	7,861,126
Other supplies	-0-	11,996	11,996
Depreciation and amortization	49,440	854,405	903,845
Utilities	131,917	378,177	510,094
Rent	585,240	-0-	585,240
Other	1,580,862	1,326,283	2,907,145
Total operating expenses	28,128,316	3,363,840	31,492,156
Gain (loss) from operations	(8,781,084)	1,855,568	(6,925,516)
Non-operating revenues (expenses)			
Investment income	113	3,777,316	3,777,429
Interest expense	(46,872)	(29,446)	(76,318)
Other nonoperating	28,437	517,194	545,631
Total nonoperating revenues (expenses)	(18,322)	4,265,064	4,246,742
Change in net position (deficit)	(8,799,406)	6,120,632	(2,678,774)
Net position (deficit) - beginning of year	(54,994,866)	50,484,023	(4,510,843)
Net position (deficit) - end of year	\$ (63,794,272)	\$ 56,604,655	\$ (7,189,617)
Cash flows from activities			
Operating	\$ (28,572)	\$ 7,800,534	\$ 7,771,962
Capital and related financing	(53,614)	(1,580,538)	(1,634,152)
Investing	28,550	(5,501,853)	(5,473,303)
Net change in cash and money market deposit accounts	(53,636)	718,143	664,507
Cash - beginning of year	218,768	5,582,454	5,801,222
Cash - end of year	\$ 165,132	\$ 6,300,597	\$ 6,465,729

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

19. COVID-19

In 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 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 healthcare personnel, shortages of clinical supplies, increased demand for services, delays, or 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 consolidated financial statements were available to be issued.

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 \$27,159,000 of these funds from the CARES Act. PRF amounts are recognized to the extent the Hospital meets the terms and conditions. The Hospital recognized PRF of approximately \$25,768,000 as COVID-19 grant funds in nonoperating revenue (expenses) in the consolidated statements of revenues, expenses, and changes in net position for the year ended December 31, 2020. The Hospital deferred PRF of approximately \$1,243,000, which is included in accounts payable and accrued expenses in the consolidated balance sheets. 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 consolidated 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.

SUPPLEMENTARY INFORMATION

HENRY COMMUNITY HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2020

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current assets					
Cash and money market deposit accounts	\$ 68,730,256	\$ 496,457	\$ 294,580	\$ -0-	\$ 69,521,293
Patient accounts receivable, net	29,351,232	-0-	1,835,586	-0-	31,186,818
Supplies and other current assets	28,728,009	1,581,879	567,828	(1,298,786)	29,578,930
Due from related parties	76,947,443	-0-	11,336	(76,958,779)	-0-
Current portion of assets whose use is limited	1,360,680	-0-	-0-	-0-	1,360,680
Total current assets	205,117,620	2,078,336	2,709,330	(78,257,565)	131,647,721
Investments	-0-	36,423,038	-0-	-0-	36,423,038
Assets whose use is limited					
Internally designated	12,900,936	-0-	-0-	-0-	12,900,936
By donor - expendable - for capital acquisition	-0-	1,331,766	-0-	-0-	1,331,766
	12,900,936	1,331,766	-0-	-0-	14,232,702
Less current portion	1,360,680	-0-	-0-	-0-	1,360,680
Total assets whose use is limited	11,540,256	1,331,766	-0-	-0-	12,872,022
Capital assets, net	42,631,564	26,838,120	290,296	-0-	69,759,980
Other assets	7,772,370	-0-	38,837	(1,431,413)	6,379,794
Total assets	\$ 267,061,810	\$ 66,671,260	\$ 3,038,463	\$ (79,688,978)	\$ 257,082,555

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HENRY COMMUNITY HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2020

LIABILITIES AND NET POSITION	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 1,360,680	\$ 85,196	\$ -0-	\$ -0-	\$ 1,445,876
Accounts payable and accrued expenses	68,678,518	208,564	719,557	(1,020,577)	68,586,062
Accrued wages and related liabilities	6,324,114	-0-	-0-	-0-	6,324,114
Estimated third-party settlements	10,919,219	-0-	-0-	-0-	10,919,219
Due to related parties	-0-	2,514,642	76,153,759	(78,668,401)	-0-
Total current liabilities	<u>87,282,531</u>	<u>2,808,402</u>	<u>76,873,316</u>	<u>(79,688,978)</u>	<u>87,275,271</u>
Other long-term liabilities	1,169,228	-0-	-0-	-0-	1,169,228
Long-term debt, net of current portion	11,193,701	893,532	-0-	-0-	12,087,233
Total liabilities	<u>99,645,460</u>	<u>3,701,934</u>	<u>76,873,316</u>	<u>(79,688,978)</u>	<u>100,531,732</u>
Net position					
Unrestricted	137,339,167	35,778,168	(74,125,149)	-0-	98,992,186
Net investment in capital assets	30,077,183	25,859,392	290,296	-0-	56,226,871
Restricted					
By donor - expendable - for capital acquisition	-0-	1,331,766	-0-	-0-	1,331,766
Total net position	<u>167,416,350</u>	<u>62,969,326</u>	<u>(73,834,853)</u>	<u>-0-</u>	<u>156,550,823</u>
Total liabilities and net position	<u>\$ 267,061,810</u>	<u>\$ 66,671,260</u>	<u>\$ 3,038,463</u>	<u>\$ (79,688,978)</u>	<u>\$ 257,082,555</u>

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2020

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 284,419,676	\$ 1,212,280	\$ 16,571,231	\$ (325,317)	\$ 301,877,870
Other revenue	6,443,533	3,905,585	-0-	(4,302,128)	6,046,990
Total revenue	290,863,209	5,117,865	16,571,231	(4,627,445)	307,924,860
Operating expenses					
Salaries and benefits	66,165,507	488,658	13,439,002	(83,785)	80,009,382
Medical professional fees	1,777,561	-0-	-0-	-0-	1,777,561
Purchased services	132,715,035	365,647	3,579,012	(160,917)	136,498,777
Medical supplies and drugs	17,878,089	-0-	7,860,582	(212,240)	25,526,431
Other supplies	14,902,441	31,206	-0-	-0-	14,933,647
Depreciation and amortization	6,381,160	899,961	49,704	-0-	7,330,825
Utilities	4,649,134	349,171	115,723	-0-	5,114,028
Rent	20,531,629	-0-	790,646	(2,898,008)	18,424,267
Hospital assessment fee	3,723,182	-0-	-0-	-0-	3,723,182
Other	32,788,537	1,242,260	852,060	(1,272,495)	33,610,362
Total expenses	301,512,275	3,376,903	26,686,729	(4,627,445)	326,948,462
Operating income (loss)	(10,649,066)	1,740,962	(10,115,498)	-0-	(19,023,602)
Nonoperating revenues (expenses)					
Investment income	1,525,016	4,602,685	159	(46,872)	6,080,988
Interest expense	(367,515)	(16,346)	(46,872)	46,872	(383,861)
COVID-19 grant funds	25,795,111	-0-	121,630	-0-	25,916,741
Other nonoperating	111,803	37,370	-0-	-0-	149,173
Total nonoperating revenues (expenses)	27,064,415	4,623,709	74,917	-0-	31,763,041
Change in net position	16,415,349	6,364,671	(10,040,581)	-0-	12,739,439
Net position beginning of year	151,001,001	56,604,655	(63,794,272)	-0-	143,811,384
Net position end of year	\$ 167,416,350	\$ 62,969,326	\$ (73,834,853)	\$ -0-	\$ 156,550,823

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 296,666,119	\$ 1,212,280	\$ 18,188,614	\$ (325,317)	\$ 315,741,696
Cash paid to employees for wages and benefits	(65,519,127)	(488,658)	(13,439,002)	83,785	(79,363,002)
Cash paid to vendors for goods and services	(221,619,699)	(2,490,895)	(4,652,231)	4,780,225	(223,982,600)
Other operating receipts, net	6,443,533	3,905,585	-0-	(4,538,693)	5,810,425
Net cash flows from operating activities	15,970,826	2,138,312	97,381	-0-	18,206,519
Cash flows from non-capital financing activities					
COVID-19 grant funds	25,795,111	-0-	121,630	-0-	25,916,741
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(9,269,283)	(2,493,985)	(42,850)	-0-	(11,806,118)
Loss on disposal of property and equipment	7,956	-0-	-0-	-0-	7,956
Interest on long-term debt	(367,515)	(16,346)	(46,872)	46,872	(383,861)
Principal payments on long-term debt, net	(1,323,995)	(82,612)	-0-	-0-	(1,406,607)
Net cash flows from capital and related financing activities	(10,952,837)	(2,592,943)	(89,722)	46,872	(13,588,630)
Cash flows from investing activities					
Investment income and other non-operating	1,636,819	4,640,055	159	(46,872)	6,230,161
Change in other assets, net	(114,390)	-0-	-0-	-0-	(114,390)
Purchases of investments in assets whose use is limited - internally designated and investments	(2,239,775)	(12,430,800)	-0-	-0-	(14,670,575)
Proceeds from sale of investments in assets whose use is limited - internally designated and investments	911,531	4,103,130	-0-	-0-	5,014,661
Change in assets whose use is limited - restricted by donor, net	-0-	(228,454)	-0-	-0-	(228,454)
Net cash flows from investing activities	194,185	(3,916,069)	159	(46,872)	(3,768,597)
Net change in cash and money market deposit accounts	31,007,285	(4,370,700)	129,448	-0-	26,766,033
Cash and money market deposit accounts					
Beginning of year	37,722,971	6,300,597	165,132	-0-	44,188,700
End of year	<u>\$ 68,730,256</u>	<u>\$ 1,929,897</u>	<u>\$ 294,580</u>	<u>\$ -0-</u>	<u>\$ 70,954,733</u>

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ (10,649,066)	\$ 1,740,962	\$ (10,115,498)	\$ -0-	\$ (19,023,602)
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	6,381,160	899,961	49,704	-0-	7,330,825
Bad debts	8,405,701	-0-	300,779	-0-	8,706,480
Changes in assets and liabilities:					
Patient accounts receivable	(7,328,072)	-0-	1,316,604	-0-	(6,011,468)
Supplies and other current assets	(4,793,442)	(1,015,552)	95,347	915,093	(4,798,554)
Accounts payable and accrued expenses	17,265,709	(154,302)	(85,340)	(678,528)	16,347,539
Accrued salaries and related liabilities	646,380	-0-	-0-	-0-	646,380
Other long-term liabilities	116,923	-0-	-0-	-0-	116,923
Due from (to) related parties	(8,966,463)	667,243	8,535,785	(236,565)	-0-
Estimated third-party settlements	14,891,996	-0-	-0-	-0-	14,891,996
Net cash flows from operating activities	<u>\$ 15,970,826</u>	<u>\$ 2,138,312</u>	<u>\$ 97,381</u>	<u>\$ -0-</u>	<u>\$ 18,206,519</u>
Reconciliation of cash and money market deposit accounts to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 68,730,256	\$ 496,457	\$ 294,580	\$ -0-	\$ 69,521,293
In investments	-0-	1,433,440	-0-	-0-	1,433,440
Total cash and cash equivalents	<u>\$ 68,730,256</u>	<u>\$ 1,929,897</u>	<u>\$ 294,580</u>	<u>\$ -0-</u>	<u>\$ 70,954,733</u>
Supplemental cash flows information					
Property included in accounts payable	\$ 409,434	\$ -0-	\$ -0-	\$ -0-	\$ 409,434

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HENRY COMMUNITY HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2019

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current assets					
Cash and money market deposit accounts	\$ 37,722,971	\$ 1,171,442	\$ 165,132	\$ -0-	\$ 39,059,545
Patient accounts receivable, net	30,428,861	-0-	3,452,969	-0-	33,881,830
Supplies and other current assets	23,934,567	566,327	663,175	(383,693)	24,780,376
Due from related parties	67,980,980	1,281	370,482	(68,352,743)	-0-
Estimated third-party settlements	3,972,777	-0-	-0-	-0-	3,972,777
Current portion of assets whose use is limited	1,323,995	-0-	-0-	-0-	1,323,995
Total current assets	165,364,151	1,739,050	4,651,758	(68,736,436)	103,018,523
Investments	-0-	31,791,083	-0-	-0-	31,791,083
Assets whose use is limited					
Internally designated	11,572,692	-0-	-0-	-0-	11,572,692
By donor - expendable - for capital acquisition	-0-	1,103,312	-0-	-0-	1,103,312
	11,572,692	1,103,312	-0-	-0-	12,676,004
Less current portion	1,323,995	-0-	-0-	-0-	1,323,995
Total assets whose use is limited	10,248,697	1,103,312	-0-	-0-	11,352,009
Capital assets, net	39,341,963	25,244,096	297,150	-0-	64,883,209
Other assets	7,657,980	-0-	38,837	(1,431,413)	6,265,404
Total assets	\$ 222,612,791	\$ 59,877,541	\$ 4,987,745	\$ (70,167,849)	\$ 217,310,228

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HENRY COMMUNITY HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2019

LIABILITIES AND NET POSITION	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 1,323,995	\$ 82,612	\$ -0-	\$ -0-	\$ 1,406,607
Accounts payable and accrued expenses	51,003,375	362,866	804,897	(342,049)	51,829,089
Accrued wages and related liabilities	5,677,734	-0-	-0-	-0-	5,677,734
Due to related parties	-0-	1,848,680	67,977,120	(69,825,800)	-0-
Total current liabilities	<u>58,005,104</u>	<u>2,294,158</u>	<u>68,782,017</u>	<u>(70,167,849)</u>	<u>58,913,430</u>
Other long-term liabilities	1,052,305	-0-	-0-	-0-	1,052,305
Long-term debt, net of current portion	12,554,381	978,728	-0-	-0-	13,533,109
Total liabilities	<u>71,611,790</u>	<u>3,272,886</u>	<u>68,782,017</u>	<u>(70,167,849)</u>	<u>73,498,844</u>
Net position					
Unrestricted	125,537,414	31,318,587	(64,091,422)	-0-	92,764,579
Net investment in capital assets	25,463,587	24,182,756	297,150	-0-	49,943,493
Restricted					
By donor - expendable - for capital acquisition	-0-	1,103,312	-0-	-0-	1,103,312
Total net position	<u>151,001,001</u>	<u>56,604,655</u>	<u>(63,794,272)</u>	<u>-0-</u>	<u>143,811,384</u>
Total liabilities and net position	<u>\$ 222,612,791</u>	<u>\$ 59,877,541</u>	<u>\$ 4,987,745</u>	<u>\$ (70,167,849)</u>	<u>\$ 217,310,228</u>

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2019

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 266,352,186	\$ 1,277,050	\$ 19,347,232	\$ (534,322)	\$ 286,442,146
Other revenue	6,750,469	3,942,358	-0-	(4,325,762)	6,367,065
Total revenue	273,102,655	5,219,408	19,347,232	(4,860,084)	292,809,211
Operating expenses					
Salaries and benefits	59,951,752	439,187	14,172,719	(274,095)	74,289,563
Medical professional fees	1,088,931	-0-	-0-	-0-	1,088,931
Purchased services	107,230,146	353,792	3,747,012	(135,869)	111,195,081
Medical supplies and drugs	15,884,706	-0-	7,861,126	(255,983)	23,489,849
Other supplies	11,659,014	11,996	-0-	-0-	11,671,010
Depreciation and amortization	6,410,285	854,405	49,440	-0-	7,314,130
Utilities	4,588,231	378,177	131,917	-0-	5,098,325
Rent	18,522,597	-0-	585,240	(2,841,207)	16,266,630
Hospital assessment fee	3,871,800	-0-	-0-	-0-	3,871,800
Other	27,627,600	1,326,283	1,580,862	(1,352,930)	29,181,815
Total expenses	256,835,062	3,363,840	28,128,316	(4,860,084)	283,467,134
Operating income (loss)	16,267,593	1,855,568	(8,781,084)	-0-	9,342,077
Nonoperating revenues (expenses)					
Investment income	1,645,192	3,777,316	113	(46,872)	5,375,749
Interest expense	(835,527)	(29,446)	(46,872)	46,872	(864,973)
Other nonoperating	131,424	517,194	28,437	-0-	677,055
Total nonoperating revenues (expenses)	941,089	4,265,064	(18,322)	-0-	5,187,831
Change in net position	17,208,682	6,120,632	(8,799,406)	-0-	14,529,908
Net position beginning of year	133,792,319	50,484,023	(54,994,866)	-0-	129,281,476
Net position end of year	\$ 151,001,001	\$ 56,604,655	\$ (63,794,272)	\$ -0-	\$ 143,811,384

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2019

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 258,277,355	\$ 1,277,050	\$ 19,770,606	\$ (534,322)	\$ 278,790,689
Cash paid to employees for wages and benefits	(59,384,858)	(439,187)	(14,172,719)	274,095	(73,722,669)
Cash paid to vendors for goods and services	(194,611,615)	3,020,313	(5,626,459)	4,588,317	(192,629,444)
Other operating receipts, net	6,750,469	3,942,358	-0-	(4,328,090)	6,364,737
Net cash flows from operating activities	11,031,351	7,800,534	(28,572)	-0-	18,803,313
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(6,650,828)	(1,470,912)	(6,742)	-0-	(8,128,482)
Loss on disposal of property and equipment	26,747	-0-	-0-	-0-	26,747
Interest on long-term debt	(835,527)	(29,446)	(46,872)	46,872	(864,973)
Principal payments on long-term debt, net	(1,278,874)	(80,180)	-0-	-0-	(1,359,054)
Net cash flows from capital and related financing activities	(8,738,482)	(1,580,538)	(53,614)	46,872	(10,325,762)
Cash flows from investing activities					
Investment income and other non-operating	1,776,616	4,294,510	28,550	(46,872)	6,052,804
Change in other assets, net	(173,889)	-0-	-0-	-0-	(173,889)
Purchases of investments in assets whose use is limited - internally designated and investments	(2,211,126)	(11,626,676)	-0-	-0-	(13,837,802)
Proceeds from sale of investments in assets whose use is limited - internally designated and investments	803,776	1,936,765	-0-	-0-	2,740,541
Change in assets whose use is limited - restricted by donor, net	-0-	(106,452)	-0-	-0-	(106,452)
Net cash flows from investing activities	195,377	(5,501,853)	28,550	(46,872)	(5,324,798)
Net change in cash and money market deposit accounts	2,488,246	718,143	(53,636)	-0-	3,152,753
Cash and money market deposit accounts					
Beginning of year	35,234,725	5,582,454	218,768	-0-	41,035,947
End of year	\$ 37,722,971	\$ 6,300,597	\$ 165,132	\$ -0-	\$ 44,188,700

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2019

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 16,267,593	\$ 1,855,568	\$ (8,781,084)	\$ -0-	\$ 9,342,077
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	6,410,285	854,405	49,440	-0-	7,314,130
Bad debts	8,047,851	-0-	2,066,420	-0-	10,114,271
Changes in assets and liabilities:					
Patient accounts receivable	(8,670,494)	-0-	(1,643,046)	-0-	(10,313,540)
Supplies and other current assets	(3,415,644)	(13,470)	(29,417)	(3,319)	(3,461,850)
Accounts payable and accrued expenses	8,222,295	223,529	253,325	5,647	8,704,796
Accrued salaries and related liabilities	566,894	-0-	-0-	-0-	566,894
Other long-term liabilities	116,923	-0-	-0-	-0-	116,923
Due from (to) related parties	(12,933,964)	4,880,502	8,055,790	(2,328)	-0-
Estimated third-party settlements	(3,580,388)	-0-	-0-	-0-	(3,580,388)
Net cash flows from operating activities	<u>\$ 11,031,351</u>	<u>\$ 7,800,534</u>	<u>\$ (28,572)</u>	<u>\$ -0-</u>	<u>\$ 18,803,313</u>
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 37,722,971	\$ 1,171,442	\$ 165,132	\$ -0-	\$ 39,059,545
In assets whose use is limited - internally designated	-0-	5,129,155	-0-	-0-	5,129,155
Total cash and cash equivalents	<u>\$ 37,722,971</u>	<u>\$ 6,300,597</u>	<u>\$ 165,132</u>	<u>\$ -0-</u>	<u>\$ 44,188,700</u>
Supplemental cash flows information					
Property included in accounts payable	\$ 332,569	\$ -0-	\$ -0-	\$ -0-	\$ 332,569

See report of independent auditors on pages 1 through 4.



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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
Henry Community Health
New Castle, Indiana

Report on the Consolidated 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 consolidated financial statements of Henry Community Health (the Hospital), which comprise the consolidated balance sheet as of December 31, 2020, and the related statement of changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 28, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) as the basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 consolidated 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.

Board of Trustees
Henry Community Health
New Castle, Indiana

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2020-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated 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 consolidated 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*.

The Hospital's Response to Finding

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

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
July 28, 2021

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

2020-001 – Material Weakness related to estimates of for contractual allowances and bad debts.

Criteria – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – Management’s estimate of the contractual allowances and bad debts on patient accounts receivable did not use all payor collection experience data in the model.

Context – A strong internal control environment requires an understanding and application of accounting principles generally accepted in the United States of America and oversight to ensure the estimate of contractual allowances and bad debts is reasonably calculated based on historical collection experiences as well as the aging of accounts receivable.

Effect – Potential material misstatements in the financial statements due to error or fraud could occur and not be prevented or detected and corrected in a timely manner.

Cause – The cause of this deficiency related to the incorrect report information being used for inputs into the contractual allowance and bad debt model for accounts receivable. Claims that were fully written off without payment were excluded from the data.

Recommendation – We recommend management implement controls to ensure the estimate of contractual allowances and bad debts incorporates all collection experience information. In addition, we recommend management compare allowance percentages by payor to historical amounts monthly for reasonableness.

Views of Responsible Officials and Planned Corrective Action – Management concurs with audit finding 2020-001. The Hospital has updated the report used in the model to make sure all historical collection experience is utilized.