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August 11, 2015

Board of Directors  
Henry County Memorial Hospital  
P.O. Box 490  
New Castle, IN 47362-0490

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2014 to December 31, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Henry County Memorial Hospital, as of December 31, 2014 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner



**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2014 AND 2013**

# HENRY COUNTY HOSPITAL

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Henry County Memorial Hospital  
New Castle, Indiana

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Henry County Memorial Hospital (Hospital), a component unit of Henry County, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, 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 \$37.6 million and \$37.1 million as of December 31, 2014 and 2013, respectively, and total revenues of approximately \$4.1 million and \$6.4 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 \$4.0 million and \$4.2 million as of December 31, 2014 and 2013, respectively, and total revenues of approximately \$20.3 million and \$21.3 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. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified 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 above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2014 and 2013, and the results of its operations, changes in its net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **REPORT ON REQUIRED SUPPLEMENTARY INFORMATION**

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

Board of Trustees  
Henry County Memorial Hospital  
New Castle, Indiana

## REPORT ON OTHER INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statement as a whole. The Other 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 consolidating 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 report of other auditors, the Other Information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Blue & Co., LLC*

June 19, 2015  
Indianapolis, Indiana

**REQUIRED SUPPLEMENTARY INFORMATION**

# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

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Management's discussion and analysis of Henry County Memorial Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2014. Please read it in conjunction with the Hospital's financial statements, which begin on page 4. As mentioned in Note 1, the financial statements include the Hospital, as well as Henry County Hospital Foundation, Inc. and HCMH Diversified Management Corporation (DMC), collectively referred to as the Hospital.

### **USING THIS ANNUAL REPORT**

The Hospital's financial statements consist of a Balance Sheet, a Statement of Operations and Changes in Net Position, and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

### **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 of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position – the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether 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?"



# HENRY COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)

### THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheet on pages 4-5. The Hospital's net position increased by approximately \$11.5 million or 13.9% from 2013 to 2014 and increased by approximately \$11.9 million or 16.9% from 2012 to 2013 as you can see from Table 1.

Table 1: Assets, Deferred Outflows, Liabilities and Net position:

	2014	2013	2014-2013 Change	2012
<b>Assets</b>				
Current assets	\$ 72,093,057	\$ 43,402,718	\$ 28,690,339	\$ 25,759,593
Capital assets, net	31,852,451	32,886,921	(1,034,470)	34,554,662
Other investments and assets	46,390,313	46,821,184	(430,871)	42,699,952
Deferred outflows	131,932	150,124	(18,192)	168,316
Total assets and deferred outflows	<u>\$ 150,467,753</u>	<u>\$ 123,260,947</u>	<u>\$ 27,206,806</u>	<u>\$ 103,182,523</u>
<b>Liabilities</b>				
Current liabilities	\$ 38,160,859	\$ 21,366,414	\$ 16,794,445	\$ 12,520,902
Long term debt, net of current portion	17,922,948	19,078,742	(1,155,794)	19,912,384
Other long term liabilities	467,690	350,767	116,923	233,844
Total liabilities	<u>\$ 56,551,497</u>	<u>\$ 40,795,923</u>	<u>\$ 15,755,574</u>	<u>\$ 32,667,130</u>
<b>Net position</b>				
Invested in capital assets, net of related debt	\$ 12,773,712	\$ 12,580,786	\$ 192,926	\$ 13,530,640
Internally designated	18,314,787	17,906,702	408,085	15,633,512
Held by trustee	-0-	-0-	-0-	1,256,969
By donor - expendable - for capital acquisition	1,065,693	1,055,003	10,690	975,196
Unrestricted	61,762,064	50,922,533	10,839,531	39,119,076
Total net position	<u>\$ 93,916,256</u>	<u>\$ 82,465,024</u>	<u>\$ 11,451,232</u>	<u>\$ 70,515,393</u>

The increase in current assets relates primarily to cash generated from net income during 2014 along with the continued expansion into long-term care. The decreases in long term debt related to current year scheduled principal payments. The increase in current liabilities relates to the Hospital's continued expansion into long-term care.

It should also be noted that there was increase in total net position from 2012 to 2014 of approximately \$23.4 million or 33.2%, showing the stability of the Hospital and its operations.

# HENRY COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)

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

In 2014, the Hospital's operating income increased by approximately \$3.9 million as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2014	2013	2014-2013 Change	2012
<b>Operating revenues</b>				
Net patient service revenues	\$ 207,681,261	\$ 140,174,822	\$ 67,506,439	\$ 98,168,981
Other operating revenues	6,755,155	4,605,635	2,149,520	4,505,443
Total operating revenues	214,436,416	144,780,457	69,655,959	102,674,424
<b>Operating expenses</b>				
Salaries and benefits	50,560,374	49,989,013	571,361	51,017,612
Medical supplies and drugs	18,744,056	15,009,084	3,734,972	13,886,902
Depreciation and amortization	5,045,760	5,204,985	(159,225)	5,193,885
Other operating expenses	128,920,264	67,307,839	61,612,425	32,731,589
Total operating expenses	203,270,454	137,510,921	65,759,533	102,829,988
Operating income (loss)	11,165,962	7,269,536	3,896,426	(155,564)
<b>Non-operating revenues and expenses</b>				
Investment income (loss)	796,463	4,858,501	(4,062,038)	4,451,702
Other non-operating revenues and expenses, net	(511,193)	(178,406)	(332,787)	84,860
Total non-operating revenues (expenses)	285,270	4,680,095	(4,394,825)	4,536,562
Change in net position	11,451,232	11,949,631	(498,399)	4,380,998
<b>Net position beginning of year</b>	82,465,024	70,515,393	11,949,631	66,134,395
<b>Net position end of year</b>	<u>\$ 93,916,256</u>	<u>\$ 82,465,024</u>	<u>\$ 11,451,232</u>	<u>\$ 70,515,393</u>

### OPERATING INCOME

The addition of eight long-term care facilities during 2014 and nineteen long-term care facilities during 2013 substantially increased net patient service revenues. These facilities are leased and managed by various management organizations, which substantially increased other operating expenses during the year.

# HENRY COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)

### NONOPERATING INCOME

Nonoperating income was primarily driven by a decrease in investment income, with a gain of approximately \$800,000 in 2014 and a gain of approximately \$4.9 million in 2013. This can be attributed to worse market conditions in 2014 compared to 2013.

Table 3: Hospital Cash Flows

	2014	2013	2014 - 2013 Change	2012
<b>Cash flows from activities</b>				
Operating	\$ 16,808,054	\$ 8,916,243	\$ 7,891,811	\$ 4,841,631
Noncapital financing	322,968	481,802	(158,834)	452,345
Capital and related financing	(6,280,928)	(5,092,825)	(1,188,103)	(5,347,007)
Investing	1,517,347	(392,320)	1,909,667	5,628,068
	<u>\$ 12,367,441</u>	<u>\$ 3,912,900</u>	<u>\$ 8,454,541</u>	<u>\$ 5,575,037</u>

In 2014, the Hospital continued to generate strong cash flows from operations with approximately \$16.9 million generated in 2014 and approximately \$8.9 million generated in 2013. Cash flows used in capital and related financing activities relate primarily to the purchase of property and equipment.

### CAPITAL ASSETS

During 2014, the Hospital's net capital assets have decreased by approximately \$1 million. This compares to a decrease of approximately \$1.7 million for 2013. The change in capital assets is outlined in the following table:

	2014	2013	2014-2013 Change	2012
Land and improvements	\$ 4,682,163	\$ 4,677,163	\$ 5,000	\$ 4,677,163
Buildings and improvements	51,222,892	51,043,935	178,957	50,276,632
Equipment	54,135,714	50,832,109	3,303,605	49,760,232
Construction in progress	67,811	97,555	(29,744)	30,747
Total capital assets	110,108,580	106,650,762	3,457,818	104,744,774
Less accumulated depreciation	78,256,129	73,763,841	4,492,288	70,190,112
Capital assets, net	<u>\$ 31,852,451</u>	<u>\$ 32,886,921</u>	<u>\$ (1,034,470)</u>	<u>\$ 34,554,662</u>

# HENRY COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)

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Net capital assets have decreased as depreciation has outpaced capital additions. The Hospital continually evaluates facilities and equipment to ensure that everything is upgraded as necessary.

### DEBT

The Hospital has the following debt outstanding which approximates \$19.1 million as of December 31, 2014:

- 2009 tax-exempt revenue bonds
- 2012 tax-exempt revenue bonds
- Capital lease obligations

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 stayed fairly consistent in 2014 with 2013 experience. Charity care was fairly stable from 2011 to 2013 due to the success of ClaimAid in helping eligible patients receive Medicaid coverage. The decrease in 2014 can be attributed to expansion of coverage under the Affordable Care Act.

	<u>Bad Debt</u>	<u>Charity</u>	<u>Total</u>	<u>% Chg</u>
2011	\$9,259,576	\$3,432,942	\$12,692,518	
2012	\$10,008,823	\$3,489,418	\$13,498,241	6.35%
2013	\$8,195,281	\$3,407,242	\$11,602,523	-14.04%
2014	\$8,313,843	\$2,977,492	\$11,291,335	-2.68%

### STRATEGIC PLANNING

The Hospital continues to redefine its role in caring for patients and the communities it serves. The transformation from an inpatient focus, where the Hospital was the center, is rapidly changing to an outpatient model, where much of the care and effort to promote health and prevent illness is being transferred.

Hospitals increasingly are being held responsible for the health and wellness of their patients and the broader communities they serve. In 2014, the Hospital expanded several initiatives and developed new ones to begin to meet these new obligations, improve patient care, and promote a healthier community.

# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

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A Medicare Shared Savings Program (MSSP) through Suburban Health Organization will begin January, 2015. Two registered nurse (RN) case coordinators will work with patients who have multiple chronic conditions to develop a care plan and coach the patients and their families to engage them in helping with the management of their chronic diseases.

A Care Management Team pilot program began 3rd Quarter 2014 at New Castle Family & Internal Medicine. The project goals include:

- Becoming more proactive in managing and improving patient health.
- Incorporating ancillary staff into the care process including social services, dietitians, pharmacists and mental health counseling.
- Helping staff work to “top of license” by transforming the roles of clinical support staff and aligning staff responsibilities to match their credentials.
- Allowing providers to manage more patients in the future and improve access.
- Looking at opportunities to incorporate this model into other areas of the practice.

An expanded Anticoagulation Clinic opened in March 2014 at Forest Ridge Medical Pavilion. The Clinic serves patients who are on Coumadin (warfarin) and other anticoagulants used for the treatment and prevention of blood clots. Ongoing monitoring, typically on a monthly basis, is critical to ensure patients are maintaining proper clotting. Previously these checks were done at several locations: New Castle Family & Internal Medicine, New Castle Clinic and Henry County Hospital (HCH) outpatient labs.

The Hospital was one of only 78 hospitals nationwide to meet Meaningful Use Phase 2 attestation. Computerized Provider Order Entry (CPOE) was implemented in Ambulatory Care and Recovery Room, the Intensive Care Unit (ICU) and the Progressive Care Unit (PCU). All inpatient units and the Emergency Department now utilize CPOE. In the 1st quarter of 2014, a Patient Portal was implemented which allows patients to create a comprehensive personal health record, request prescription refills online and receive lab, diagnostic test results, and a discharge summary of their visit. Patients can send secure messages to their provider. This is an important step in engaging patients in their own healthcare, enhancing patient safety, and meeting federal regulations for Stage 2 Meaningful Use.

A Telehealth program began in the 1st Quarter of 2014 for Henry County Home Care patients with Congestive Heart Failure, Pneumonia, Acute Myocardial Infarction (Heart attack), Diabetes and Chronic Obstructive Pulmonary Disease (COPD). It is hoped this program will help improve the health of their patients and decrease the need for hospital readmission.

# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

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As a result of the 2013 Community Health Needs Assessment, several programs were implemented in coordination with other local organizations to help reduce diabetes, smoking in pregnant women, and increase free breast and cervical cancer screening opportunities for women who are uninsured or underinsured.

A multidisciplinary team reviews the Hospital's 30 day readmissions to see what actions should be taken to reduce this number. In 2014, the Hospital was penalized for excess Chronic Obstructive Pulmonary Disease (COPD) readmissions. In 2014, the overall readmission rate was 4.3%. This rate met the Performance Improvement Team's goal of <5% for overall readmission rates. The Hospital works with local Extended Care facilities and other community based organizations to improve a patient's transition from the Hospital in an effort to reduce 30 day readmissions.

The ICU and the PCU will begin multidisciplinary rounding at the patient's bedside in 2015. This new process includes providers, charge nurses, Social Services and Quality Review. The goal of this is to keep everyone, including the patient and their family, on the same page in regards to the patient's plan of care and discharge plan.

Physician leadership, advisement, and engagement are essential for the Hospital's future success. Physician engagement has been expanded to include a High Performance Medical Group (HPMG), in addition to the Leadership Cabinet. The HPMG creates a forum to better engage physicians from Henry County Hospital Medical Group to help the Hospital successfully meet the challenges faced with healthcare reform and the need to better integrate inpatient and outpatient care. Physicians have been engaged and are providing good insight and feedback through discussions on various issues facing HCH and their practices.

The Leadership Cabinet includes physicians from the HPMG Executive Committee and physician representatives from radiology, Emergency Department, hospitalists, cardiology, and anesthesiology. This group meets twice a year with administration and the Hospital's Board of Trustees to help determine the Hospital's strategic direction for the upcoming year.

In addition to growing volumes to increase revenue, operational initiatives to reduce costs include refining processes, low census days for staff, managing expenses to volumes and implementing a new purchasing system.

In 2014 the Hospital implemented the universal bed concept in the ICU. Except for orthopedic patients, all other ICU patients remain in the same bed until they are discharged unless the unit becomes full. At that time lower level of care patients are transitioned to PCU. In order to continue efforts to ensure post-anesthesia care, Post Anesthesia Care Unit (PACU) nurses are prepared to handle changing patient populations, and some PACU nurses will complete a Medical Surgical Certification Program.

# HENRY COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)

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Some of the benefits achieved from this new process include:

- Improved patient and family satisfaction by not having to move the patient floor to floor.
- Decreased loss of supplies and laundry usage by not having to move the patient floor to floor.
- Decreased workload of ICU staff by not having to move the patient floor to floor.
- Decreased workload of Housekeeping staff by not having to turn over the ICU room for patients being transitioned to PCU.
- Improved safety and decreased risk of errors by decreasing nurse to nurse/floor to floor handoffs.
- Improved usage of ICU staff.

As expected, Hospital inpatient volumes continued to decline in 2014 due to the increased emphasis on reducing 30 day readmissions and improving care coordination to keep patients out of the Hospital. Inpatient surgery growth is primarily attributed to the increase in total knee, hip, and shoulder surgeries. Outpatient growth was seen in outpatient registrations, wound care, sleep center, CT scans, mammography, physical therapy, home health and hospice visits.

Volume changes for the Hospital for 2014 and 2013 are as follows:

Service	Volume Change 2013-2014	Volume Change 2012-2013
Admissions (excluding newborns)	-5.4%	-14.3%
Emergency department visits	-2.6%	-8.3%
Outpatient registrations	4.1%	-11.4%
Deliveries	-1.6%	9.9%
Inpatient surgeries	1.0%	-14.3%
Outpatient surgeries	-4.8%	-20.1%
Computed tomography (CT) scans	2.1%	-9.4%
Nuclear scans	-10.5%	-20.6%
Magnetic resonance imaging (MRI) scans	-2.2%	-3.8%
Mammography procedures	1.0%	-2.1%
Home health visits	22.9%	3.5%
Hospice visits	16.1%	20.9%
Sleep center visits	4.7%	-2.3%
Physical therapy visits	5.8%	2.7%
Advanced wound center	10.3%	-2.1%

# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

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### **HENRY COUNTY HOSPITAL MEDICAL GROUP**

Physicians from the Henry County Hospital Medical Group (the Group) are actively engaged in working together and with the Hospital to meet health care reform challenges and the move to Curve 2. A High Performance Medical Group (HPMG) serves as a forum to better engage physicians from the Group.

The HPMG Executive Council meets quarterly and includes a physician chair and representatives from primary care and specialty physicians. They focus on many of the specialty groups' topics, particularly in areas where there are overlaps with primary and specialty care, and where a common approach is needed. The HPMG Primary Care Group and the HPMG Specialty Group each meet bi-monthly and focus on operations, patient satisfaction, Clinician & Group-Consumer Assessment of Healthcare Providers and Systems (CG-CAHPS), quality, access, growth strategies and recruitment.

It is imperative the Hospital and physician practices are equally engaged and aligned on key initiatives. A Physician Performance Scorecard and Incentive bonus plan have been created similar to the one used for Hospital employees. The Physician Scorecard includes measurements in four categories: Finance/Growth, Service/Guest Satisfaction, Quality and Alignment Initiatives such as meeting Meaningful Use Stage 2.

In 2014, cardiology saw a 9.68% growth rate, which is the highest increase since 2011. Orthopedic relative value unit (RVU)'s increased when activity is combined for their New Castle and Greenfield offices. RVU volumes were down for the pediatrics, OB/GYN, family medicine, general surgery and walk-in care practices. OB/GYN and pediatric volumes were down due to the loss of a physician in each practice. The decreases in family medicine, general surgery and walk-in care are being analyzed.

Professional Research Consultants, Inc. (PRC), a national research company, conducts patient satisfaction surveys for all primary care and surgical practices including physicians, nurse practitioners and physician assistants. Processes are developed to analyze the results and work on improvement initiatives. The practices are using the CG-CAHPS survey to begin preparing for the time when physician practice patient surveys will become mandatory and potentially linked to reimbursement.

The Group includes providers in fourteen specialties including allergy/immunology, anesthesiology, family medicine, infectious disease, internal medicine, obstetrics/gynecology, orthopedics, physiatry, pain management, general surgery, hospice, pediatrics and radiology.



# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

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Current physician recruitment efforts are underway for pediatrics, internal medicine and family medicine. A part-time OB/GYN physician was recruited in 2014. In 2015, a new orthopedic hand surgeon will join the group and a sixth orthopedic surgeon has been recruited for 2016.

Physician extenders now represent nearly 50% of employed providers. They are critical to increasing access as more patients are insured through the Health Insurance Marketplace and Indiana's anticipated Medicaid expansion under Healthy Indiana Plan (HIP) 2.0. Extenders are actively used in family medicine, pediatrics, obstetrics/gynecology, anesthesiology, walk-in care, employer clinics and orthopedics/physiatry. Health coaches are used in the two employer clinics sponsored by the Hospital to encourage patient engagement in their own healthcare and help with the move to population management.

### **PROMOTING GROWTH**

A new primary care office staffed by nurse practitioners will open in Cambridge City, Indiana in the spring of 2015. This move will expand the Hospital's primary care offices into Wayne County. Henry County Center for Orthopedic Surgery & Sports Medicine opened an office in Greenfield, Indiana in partnership with Hancock Regional Health. A new orthopedic surgeon specializing in hand and upper extremities will join the practice in summer, 2015 and a sixth orthopedic surgeon will join the practice in 2016.

The Hospital continues to add mid-level providers to increase access. Cardiology now has 24/7 coverage, which allows for more cardiology patients to be cared for at the Hospital rather than being transferred to a tertiary facility. Patient transfers from the Emergency Department are analyzed monthly to ensure patients who can be safely cared for at the Hospital are not transferred to another facility.

A new telestroke program in partnership with St. Vincent will begin in 2015 to provide immediate access to neurologists for our Emergency Department physicians and staff. The St. Vincent stroke specialists will provide decision support which could include:

- Administering medication to help "break up" the clot and minimize tissue damage.
- Aid in the assessment and admission or transfer of the patient suffering from a stroke.

Extensive marketing campaigns for both the 2013 and 2014 Affordable Care Act Marketplace enrollments were conducted. The Hospital received almost \$2 million in revenue due to Marketplace new patients in 2014. Enrollment assistance was provided by the Hospital's ClaimAid Department, which also will assist with enrollment for the HIP 2.0 program to expand Indiana's Medicaid program, which is expected to be approved in early 2015. Interlocal Community Action Program (ICAP) also provided enrollment assistance.

# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

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Marketing continues to focus on enhanced brand development, marketing hospital services and physicians, community outreach and employee communications. New websites for the Hospital and Henry County Hospital Medical Group debuted in March, 2014. The Hospital has significantly expanded its social media presence and use in marketing campaigns. Target market areas include Henry, Wayne, Rush and Fayette Counties depending on the service line being promoted.

### **ENGAGING STAFF**

An engaged staff is critical to meeting expectations of quality, patient satisfaction, efficiency and financial performance.

A Shining Star program monthly recognizes employees nominated by their co-workers, patients or family members for going above and beyond in caring for a patient, comforting a family or assisting a co-worker.

An employee satisfaction team was formed late in 2014 to increase employee satisfaction. This team is comprised of employees who were elected by their peers to serve as their department's representative on the team. Each department or office has representation on the team. This team will look at employee satisfaction and develop a plan on how to increase satisfaction among staff. The team will look at recognition, rewards, and employee retention and come together on a plan to implement new initiatives and programs.

Staff received a bonus from meeting goals of the 2013 Performance Scorecard. A similar bonus is expected for the 2014 Performance Scorecard, although the final decision won't be known until April or May of 2015. The Performance Scorecard and Employee Incentive Bonus will provide staff up to a 3% bonus if all criteria are met in four categories: Finance/Growth, People, Service/Guest Satisfaction and Quality.

Chief Executive Officer (CEO) Briefings are held by the Hospital's CEO for directors, supervisors and hourly employee representatives of all Hospital departments and Medical Group offices. Topics include decisions by the Board of Trustees, financial and volume updates, and HCH initiatives such as healthcare reform, quality, guest satisfaction and growth.

### **CENTERS FOR MEDICARE AND MEDICAID SERVICES (CMS) QUALITY MEASURES**

The Hospital actively monitors and works to improve the CMS Process of Care measures for heart attack, heart failure, pneumonia, surgical procedures, elective deliveries and immunizations. High scores on these measures are particularly important because in Federal Fiscal Year 2015, that began October 1, 2014, they represented 20% of the Value Based Purchasing (VBP) score. For the third year in a row, the Hospital met and exceeded the benchmark for the CMS Value Based Purchasing program.

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# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

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Currently the Hospital is in a period that includes performance in the following Clinical Process of Care measures:

- Acute Myocardial Infarction regarding fibrinolytic agent administration within 30 minutes of hospital arrival
- Immunization process within influenza
- Elective Deliveries within medical indications

The Performance Improvement Committee has an aggressive internal goal/threshold of 99% for Value Based Purchasing measures. During 2014, CMS increased their benchmark/threshold for these measures to 100%. A recommendation will be made to the Performance Improvement Committee in late February 2015 to align with this published goal.

The Hospital participates in the Indiana Hospital Association's Inpatient and Outpatient Reporting Program. These measures empirically supported by CMS and the Joint Commission are used to gain process improvement and to standardize care. Decisions about what measures to monitor are made by CMS and the Hospital's Performance Improvement Committee.

During 2015 the following measures will be monitored within this program at the Hospital:

- Acute Myocardial Infarction
- Emergency Through-Put
- Heart Failure Education
- Pneumococcal Immunization
- Stroke
- Surgical Care Improvement Process
- Pneumonia
- Venous Thromboembolism Prophylaxis
- Prenatal Care

During 2014, the Hospital began to incorporate the Value Based Purchasing (VBP) Outcome Measure results into the performance improvement philosophy and processes. These measures include:

- Mortality
- Medicare Spending Per Beneficiary
- AHRQ Patient Safety Indicators (PSI) 90
- Hospital Acquired Conditions and Hospital Acquired Infections

# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

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New tables and graphs were developed in order to show progress within expected benchmarks and thresholds regarding them. The Anthem scorecard incorporates many of these measures as well. The results of these measures are part of the Hospital's Quality Department reports and are provided quarterly to physicians as well.

### **PATIENT SAFETY**

The Hospital is accredited by the Healthcare Facilities Accreditation Program (HFAP). Indiana has an Adverse Event Reporting program, and the Hospital had one reportable event in 2014.

In fall 2014, the Hospital received an "A" safety score from the Leapfrog Group based on a survey submitted by the Hospital. It assesses hospitals on three key areas: how patients fare, resources used in caring for patients, and leadership and structures that promote patient safety. The Hospital was one of only 20 Indiana hospitals receiving the "A" score. In addition, out of 2,520 hospitals surveyed nationwide, only 790 received an "A" score.

The Hospital created a new position and hired a Patient Safety Coordinator. She is responsible for an organization-wide patient safety program and process improvement initiatives to reduce medical/healthcare errors and other factors that contribute to unintended adverse patient outcomes.

The Patient Safety Committee reviews all patient events to identify trends within particular categories or departments and to discuss needed actions. Department Directors share this information with staff to keep them informed and educated on efforts to improve patient safety. Directors also work closely with their staff on management investigations to ensure all staff understand and follow proper procedures and protocols. Educational information regarding patient safety and error prevention is provided to medical staff, department directors, and all other staff when available. Just-in-time education is provided to staff as part of corrective action for individual incidents.

The Event Management System has been in place for seven years. Overall, the Hospital had a decrease in patient-related events reported of approximately 17%. This includes a 35% decrease in the number of patient falls reported in 2014.

A Medication Committee was created as a subcommittee of the Patient Safety Committee to make a more in depth review of medication incidents across the organization. This committee is chaired by the Patient Safety Coordinator. The committee analyzes medication incidents and proposes and implements process improvements. Medication errors are reported through the Pharmacy and Therapeutics section of the Medical Review Committee. Nursing staff were required to complete a Computer Based Learning (CBL) module on hospital policies regarding high alert medication and double checks.

# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

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Empirically proven bundles are used for prevention of ventilator associated pneumonia (VAP), central line bloodstream infections and Foley catheter urinary tract infections (UTI). No ventilator associated pneumonia, catheter associated urinary tract infections or central line bloodstream infections occurred in 2014.

Through Suburban Health Organization (SHO), the Hospital participated in an Alarm Safety Risk Assessment and identified areas for improvement. The Hospital continues to work with SHO and other SHO hospitals to track and trend events more easily in order to make effective and necessary protocol changes. The Hospital also worked with SHO to provide risk management and patient safety education to the members of the Medical Staff. The Hospital had the largest percentage of employed medical staff members attend of all SHO hospitals.

### **SERVICE EXCELLENCE**

Providing excellent service is critical for patient and family satisfaction as well as a key component of the CMS Value Based Purchasing (VBP) program, where patient satisfaction scores impact CMS payments.

On the Medicare.gov Hospital Compare website, the Hospital outscored the competition (Hancock, Reid, IU Health Ball, St. Vincent Anderson, and Community Anderson) on 8 of the 11 Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) measures.

Hospital inpatients and outpatients are surveyed in addition to patients in the physician offices. In 2014, the Hospital began participating in an Emergency Department Consumer Assessment of Healthcare Providers and Systems (ED-CAHPS) focus group to begin preparing for the upcoming CMS required Emergency Department measures which will be similar to the CMS HCAHPS required survey for inpatients.

The Hospital achieved the goal to have 78% of inpatients rate the hospital a 9-10 on the HCAHPS inpatient satisfaction surveys. In two years the Hospital has seen a 3.7% increase in this measure. The Emergency Department achieved a "Very Good" score of 69% exceeding the 67% target. Outpatient services achieved their 2014 target of a "Very Good" score of 78%.

Ambulatory Care began a formal surveying process in March of 2014. They achieved a 70.7% Top Box score for Overall Quality of Care. Physician office providers achieved a CG-CAHPS Top Box score of 76% for the Overall Doctor Rating. CG-CAHPS is the physician office equivalent of HCAHPS. While it is not yet required, the Hospital anticipates it will be in the future.

# HENRY COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)

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Multidisciplinary patient satisfaction teams were formed for all inpatient units, the Emergency Department and Outpatient Services. Each team identified their unit's strengths and opportunities for improvement. Staff actively helped develop plans, programs, or initiatives to address each unit's specific opportunities. Patient satisfaction scores and comments are reviewed monthly and each team sets patient satisfaction goals specific to their unit at the beginning of the year.

Some of the initiatives that have supported patient satisfaction score increases for 2014 include:

- AIDET (Acknowledge, Introduce, Duration, Explain, Thank), is a communication technique that reminds staff of the fundamental elements patients and family members need to decrease their anxiety and build trust with us as caregivers. AIDET was implemented in all departments and physician offices with direct patient care staff.
- Patients are now given printed menus and can select their meals. This initiative was implemented due to low survey scores on the meal domain and patient comments. The Women and Children's Unit (WCU) has seen a 22% improvement in this measure for 2014. The PCU and ICU began utilizing these menus at the end of 2014.
- Patient Satisfaction scores on room temperature were very low for WCU. The team educated staff on how to properly use the thermostats in each room. Upon admission the admitting nurse educates the patient and family on how to use the thermostat. This empowered the patient to adjust to their own comfort level. In 2014, WCU saw a 7% improvement increase in this measure.
- Upon reviewing the ICU patient satisfaction data, the team noticed there were not enough surveys returned to provide benchmarking for their data. The team set a goal to have 50 completed surveys returned for 2014. They achieved their goal with 59 completed surveys returned in 2014, an increase of 136% from 2013.

All newly hired employees attend a Service Excellence training session. In this training, the Service Excellence Coordinator introduces the Hospital's Mission and Vision and Service Excellence Standards. Training is given on how to provide excellent customer service, how to connect with patients, and how to provide compassionate, empathetic care and service.

Plans were put in place to provide a health system wide Service Excellence Training refresher course for all staff to be held in 2015. This mandatory training will cover the importance of providing service excellence to customers. The training will give staff the tools they need to provide compassionate, empathetic care, with emphasis on the Hospital's Vision to "Make a Difference" for each and every customer.

# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

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### **NATIONAL AND STATE RECOGNITION**

The Hospital was selected by the Indiana Perinatal Network (IPN) as one of four hospitals to embark in the first state-level learning collaborative to help Indiana hospitals achieve Baby-Friendly Hospital designation.

We also were recognized for excellence in patient safety and patient care by The Indiana Hospital Association Coalition for Care. Certificates were awarded for:

- Reducing to zero pressure ulcers, surgical site infections, ventilator-associated events, catheter associated urinary tract infections and central blood stream infections.
- A 40% reduction in obstetrical adverse events, early elective deliveries, and adverse drug events.
- A 20% reduction in readmissions.

Healthgrades, the nation's leading online resource that helps consumers search, compare and connect with physicians and hospitals provided a Five-Star rating for:

- Five-Star Recipient for Total Knee Replacement for 7 Years in a Row (2009-2015)
- Five-Star Recipient for Hip Fracture Treatment for 7 Years in a Row (2009-2015)
- Five-Star Recipient for Treatment Respiratory Failure for two years in a row (2014-2015)
- Five-Star Recipient for Treatment of GI Bleed (2015)

### **COMMUNITY BENEFITS**

The Hospital provided approximately \$3 million in community benefits for 2014. In 2014, Henry County Hospital Foundation provided a donation of \$12,500 to the Wilbur Wright Trail. The Hospital offers health education programs including childbirth classes, diabetes classes, smoking cessation and stress management. The Hospital also participates in a number of community initiatives including community and employer health fairs. Over 500 women attended the seventh Affairs of the Heart program designed to educate women about their risk for heart disease and preventative measures they can take.

# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

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Henry County Sports Medicine provides low-cost game coverage, injury checks and performance enhancement programs for area high schools. The Hospital and its staff support area agencies such as Henry County United Fund, Henry County YMCA, Salvation Army, Westminster Community Center, Christian Love Help Center, Interlocal Community Action Program (ICAP), Women's Health Clinic, Henry County Wellness Council, Henry County Alliance and Henry County Healthy Communities. Other sponsorships include Relay for Life, Summit Lake Triathlon, New Castle Mini-Marathon, Red Ribbon Rush for Breast Cancer and the Turkey Trot 5K and 10K. The Hospital also sponsors adult sports teams and youth sports and other activities.

### **SCHOLARSHIPS, GRANTS AND TEACHING HOSPITAL**

The Henry County Hospital Foundation's annual Gala raised money to give grants to:

- ICAP Women's Clinic, which provides health services for uninsured or underinsured women.
- Needy Meds, which offers medication assistance for residents who can't afford them.
- Scholarships to help in educating students becoming healthcare providers.
- YMCA Diabetes Prevention Program, which is a new program to help reduce the diabetes epidemic in Henry County.

The Hospital serves as a clinical site for Ivy Tech State College's two-year RN program in New Castle and provides financial assistance to the program through the Henry County Hospital Foundation. In 2014, respiratory therapy and surgical tech students from Ivy Tech had clinical rotations at the Hospital. Four pharmacy students from the Butler University and Purdue University pharmacy programs also interned at the Hospital. The Hospital also is an integral part of the Health Career Programs for high school students sponsored by New Castle Area Career Programs.

### **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 County Hospital, 1000 North 16<sup>th</sup> Street, New Castle, Indiana 47362.



# HENRY COUNTY HOSPITAL

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2014 AND 2013

### ASSETS AND DEFERRED OUTFLOWS

	2014	2013
<b>Current assets</b>		
Cash and cash equivalents	\$ 27,215,371	\$ 14,864,346
Patient accounts receivable, net of estimated allowance for uncollectible accounts of approximately \$7,500,000 in 2014 and 2013	26,418,148	20,603,916
Supplies and other current assets	17,231,998	6,240,142
Due from related parties	130,651	522,766
Current portion of assets whose use is limited	1,096,889	1,171,548
Total current assets	72,093,057	43,402,718
<b>Investments</b>	24,278,051	22,399,837
<b>Assets whose use is limited</b>		
Internally designated	18,314,787	17,906,702
By donor - expendable - for capital acquisition	1,065,693	1,055,003
	19,380,480	18,961,705
Less current portion	1,096,889	1,171,548
Total assets whose use is limited	18,283,591	17,790,157
<b>Capital assets, net</b>	31,852,451	32,886,921
<b>Other assets</b>	3,828,671	6,631,190
Total assets	150,335,821	123,110,823
<b>Deferred outflows</b>	131,932	150,124
Total assets and deferred outflows	\$ 150,467,753	\$ 123,260,947

See accompanying notes to consolidated financial statements.

# HENRY COUNTY HOSPITAL

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2014 AND 2013

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### LIABILITIES AND NET POSITION

	2014	2013
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 1,155,791	\$ 1,227,393
Accounts payable and accrued expenses	31,583,031	15,153,337
Accrued wages and related liabilities	4,305,536	3,942,322
Estimated third-party settlements	1,116,501	1,043,362
Total current liabilities	38,160,859	21,366,414
<b>Other long-term liabilities</b>	467,690	350,767
<b>Long-term debt, net of current portion</b>	17,922,948	19,078,742
Total liabilities	56,551,497	40,795,923
<b>Net position</b>		
Unrestricted	61,762,064	50,922,533
Invested in capital assets, net of related debt	12,773,712	12,580,786
Internally designated - funded depreciation	18,314,787	17,906,702
Restricted		
By donor - expendable - for capital acquisition	1,065,693	1,055,003
Total net position	93,916,256	82,465,024
Total liabilities and net position	<u>\$ 150,467,753</u>	<u>\$ 123,260,947</u>

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See accompanying notes to consolidated financial statements.

# HENRY COUNTY HOSPITAL

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<b>Operating revenue</b>		
Net patient service revenue	\$ 207,681,261	\$ 140,174,822
Other revenue	6,755,155	4,605,635
Total revenue	214,436,416	144,780,457
<b>Operating expenses</b>		
Salaries and benefits	50,560,374	49,989,013
Medical professional fees	1,628,574	3,728,571
Purchased services	78,937,315	37,069,213
Medical supplies and drugs	18,744,056	15,009,084
Other supplies	8,844,368	4,058,190
Depreciation and amortization	5,045,760	5,204,985
Utilities	4,183,779	2,699,076
Rent	12,445,991	6,266,073
Hospital assessment fee	2,395,570	3,947,920
Other	20,484,667	9,538,796
Total expenses	203,270,454	137,510,921
Operating income (loss)	11,165,962	7,269,536
<b>Nonoperating income (expense)</b>		
Investment income	796,463	4,858,501
Interest expense	(953,393)	(748,846)
Other nonoperating	442,200	570,440
Total nonoperating income (expense)	285,270	4,680,095
Change in net position	11,451,232	11,949,631
<b>Net position</b>		
Beginning of year	82,465,024	70,515,393
End of year	<u>\$ 93,916,256</u>	<u>\$ 82,465,024</u>

See accompanying notes to consolidated financial statements.

# HENRY COUNTY HOSPITAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<b>Cash flows from operating activities</b>		
Cash received from patients and third party payors	\$ 199,544,598	\$ 125,966,186
Cash paid to employees for wages and benefits	(50,197,160)	(49,990,411)
Cash paid to vendors for goods and services	(139,205,010)	(71,943,224)
Other operating receipts, net	6,665,626	4,883,692
Net cash flows from operating activities	16,808,054	8,916,243
<b>Cash flows from noncapital financing activities</b>		
Other nonoperating	322,968	481,802
Net cash flows from noncapital financing activities	322,968	481,802
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	(4,028,453)	(3,131,589)
Loss (gain) on disposal of property and equipment	(3,000)	39,657
Proceeds from sale of property and equipment	25,058	84,584
Interest on long-term debt	(1,047,137)	(842,590)
Principal payments on long-term debt	(1,227,396)	(1,242,887)
Net cash flows from capital and related financing activities	(6,280,928)	(5,092,825)
<b>Cash flows from investing activities</b>		
Investment income	1,009,439	5,040,883
Change in other assets, net	2,775,185	(195,230)
Purchases of investments in assets whose use is limited - internally designated, held by trustee, and investments	(10,470,354)	(12,248,955)
Proceeds from sale of investments in assets whose use is limited - internally designated, held by trustee and investments	8,213,767	7,090,789
Change in assets whose use is limited - restricted by donor, net	(10,690)	(79,807)
Net cash flows from investing activities	1,517,347	(392,320)
Net change in cash and cash equivalents	12,367,441	3,912,900
<b>Cash and cash equivalents</b>		
Beginning of year	15,156,738	11,243,838
End of year	\$ 27,524,179	\$ 15,156,738

See accompanying notes to consolidated financial statements.

# HENRY COUNTY HOSPITAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 AND 2013

<b>Reconciliation of operating income (loss) to net cash flows from operating activities</b>	<u>2014</u>	<u>2013</u>
Operating income (loss)	\$ 11,165,962	\$ 7,269,537
Adjustment to reconcile operating income (loss) to net cash flows from operating activities		
Depreciation and amortization	5,045,760	5,204,985
Bad debts	8,313,843	8,195,281
Changes in assets and liabilities		
Patient accounts receivable	(14,128,075)	(17,540,985)
Supplies and other current assets	(10,964,525)	(2,777,268)
Accounts payable and accrued expenses	16,433,571	9,642,238
Accrued salaries and related liabilities	363,214	(1,398)
Other long-term liabilities	116,923	116,923
Due from (to) related parties	388,242	(278,057)
Estimated third-party settlements	73,139	(915,013)
Net cash flows from operating activities	<u>\$ 16,808,054</u>	<u>\$ 8,916,243</u>

### Reconciliation of cash and cash equivalents to the balance sheets

Cash and cash equivalents		
In current assets	\$ 27,215,371	\$ 14,864,346
In assets whose use is limited - internally designated	<u>308,808</u>	<u>\$ 292,392</u>
Total cash and cash equivalents	<u>\$ 27,524,179</u>	<u>\$ 15,156,738</u>

### Supplemental cash flows information

Property acquired through capital lease obligations	\$ -0-	\$ 525,000
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See accompanying notes to consolidated financial statements.

# **HENRY COUNTY HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013**

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### **1. SIGNIFICANT ACCOUNTING POLICIES**

#### Organization and Reporting Entity

Henry County Memorial Hospital d/b/a Henry County Hospital (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 the 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 was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital 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 twenty-nine 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.

During 2012 through 2014, the Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital will pay the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire at various times through December 31, 2016. 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. 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 COUNTY HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013**

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### **Blended Component Units**

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 laboratory services to the patients of New Castle Family & Internal Medicine, nursing homes, employees of the Hospital, physicians and veterinarians in the surrounding area. The performance of tests on the specimens collected by DMC is purchased from the Hospital. DMC also 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., which operates a physician group practice. DMC's results within these financials include those of the Clinic for the years ended December 31, 2014 and 2013.

All intercompany accounts and transactions have been eliminated.

### **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.

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# **HENRY COUNTY HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013**

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### **Supplies and Other Current Assets**

Supplies and other current assets consist primarily of drugs, medical supplies, prepaid expenses, and other receivables.

### **Enterprise Fund Accounting**

The Hospital uses the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

### **Cash and Cash Equivalents**

Cash and cash equivalents 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 cash equivalents.

### **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.

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# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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During 2014, the Hospital's allowance for uncollectible accounts stayed consistent at approximately \$7,500,000 as of December 31, 2014 and 2013. As of December 31, 2014, the allowance for uncollectible accounts of \$7,500,000 was comprised of approximately \$6,400,000 reserved for self-pay balances and \$1,100,000 reserved for third-party payor balances. As of December 31, 2013, the allowance for uncollectible accounts of \$7,500,000 was comprised of \$7,000,000 reserved for self-pay balances and \$500,000 reserved for third-party payor balances.

The Hospital did not recognize a change in net position in 2014 and 2013 due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

Net revenues from Medicare and Medicaid programs accounted for approximately 29 percent and 38 percent for the year ended 2014 and 27 percent and 30 percent for the year ended 2013. 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.

### Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

### Assets Whose Use Is Limited

Assets whose use is limited 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 certificates of deposit, cash and cash equivalents, mutual funds, equities, and corporate bonds. Investment income is reported as nonoperating income in the consolidated statements of operations and changes in net position.

### 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.

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# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

<u>Description</u>	<u>Range of Useful Lives</u>
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 investments in affiliates and the value of the split dollar life insurance policy on a key employee. See footnotes 10 and 14 for further information.

### Due from Related Parties

Amounts due from related parties consist of amounts owed from the Hospital's joint venture with St. Vincent Health. See footnote 14 for further information.

### Deferred Outflows

Deferred outflows relate to prior unamortized deferred losses on bond refundings.

### 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. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

### 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.

# **HENRY COUNTY HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013**

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### Hospital Assessment Fee (HAF) Program

The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana 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 2014 and 2013, the Hospital recognized HAF Program expense of approximately \$2,400,000 and \$3,950,000 respectively, which resulted in increased Medicaid reimbursement. The HAF Program was approved for extension in March 2014 by CMS for the period July 1, 2013 through June 30, 2017.

### Operating Revenues and Expenses

The Hospital's 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 health care services—the Hospital's principal activity. Nonoperating revenues include contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

### 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. Internally designated net position consists of amounts internally designated by the board of directors. Unrestricted net position is the remaining net position that does not meet the definition of net invested in capital assets, internally designated, or restricted net position.

# **HENRY COUNTY HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013**

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### **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 on a bi-weekly basis 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 amount of \$1,755,131 and \$1,620,616 for 2014 and 2013, respectively, and is included within accrued wages and related liabilities in the consolidated balance sheets.

### **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.

### **Electronic Health Records (EHR) Incentive Payments**

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30<sup>th</sup>). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports.

The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2014 and 2013, the Hospital recognized approximately \$1,838,000 and \$87,000, respectively, in EHR incentive payments as grant income using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other revenue in the consolidated statements of operations and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

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

### 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 2014 or 2013.

# **HENRY COUNTY HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013**

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### Goodwill

Goodwill totaling approximately \$8,970,000 was recognized when DMC purchased a physician clinic during 2005. A portion of the goodwill was subsequently sold to the Hospital for a \$2,340,000, seven year, 7% note receivable to compensate DMC for the transfer of the clinic radiology department profit. The radiology department equipment was sold to the Hospital and the Hospital operates the radiology department. DMC analyzed the expected future earnings of the clinic and determined the remaining goodwill had been entirely impaired and a goodwill impairment expense of approximately \$6,630,000 was recognized during 2005. During 2014, the Hospital analyzed the expected future earnings of the clinic radiology department and determined the remaining goodwill had been entirely impaired. Therefore, the Hospital recognized a goodwill impairment expense of \$2,340,000 during 2014. Goodwill is included in other assets and the associated impairment expense for 2014 is included in other operating expenses.

### Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital 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, the Hospital 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, 2013. 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 the Hospital. DMC has filed its federal and state income tax returns for periods through December 31, 2013. 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 COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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DMC has federal net operating loss carry forwards of approximately \$28,907,000, and a similar amount for state income taxes as of December 31, 2014, available to reduce future taxable income. Including valuation allowances, DMC has a net deferred tax asset of \$-0- for 2014 and 2013. 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 the Hospital, 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, 2014 and 2013, 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 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 2014 and 2013 were approximately \$2,977,000 and \$3,407,000, respectively.

Of the Hospital's total expenses reported, an estimated \$1,844,000 and \$1,920,000, arose from providing services to charity patients during the years ended December 31, 2014 and December 31, 2013, respectively.

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

# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 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.

### Reclassifications

Certain amounts from 2013 have been reclassified in order to conform to the 2014 presentation.

### Investment in Affiliate

The Hospital has an equity interest in a joint venture. This investment is recorded on the equity method of accounting in the Hospital's consolidated financial statements. The total equity interest in this joint venture was approximately \$1,112,000 and \$1,333,000 as of December 31, 2014 and 2013. This balance is included within other assets on the consolidated balance sheets. See footnote 14 for further information.

### 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 issued which is June 19, 2015.



# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 2. ACCOUNTS RECEIVABLE AND PAYABLE

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

	2014	2013
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 19,697,821	\$ 24,658,968
Receivable from Medicare	11,073,687	6,053,924
Receivable from Medicaid	17,475,717	10,243,653
Total patient accounts receivable	48,247,225	40,956,545
Less contractual allowances	(14,325,391)	(12,818,327)
Less allowance for uncollectible amounts	(7,503,686)	(7,534,302)
Patient accounts receivable, net	<u>\$ 26,418,148</u>	<u>\$ 20,603,916</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 3,614,142	\$ 3,437,139
Payable to suppliers	31,583,031	15,153,337
Accrued employee health benefit claims	691,394	505,183
Total accounts payable and accrued expenses	<u>\$ 35,888,567</u>	<u>\$ 19,095,659</u>

### 3. 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 at December 31 is as follows:

	2014	2013
Board designated		
Funded depreciation		
Investments	\$ 18,005,979	\$ 17,614,310
Cash and cash equivalents	308,808	292,392
Donor restricted assets		
Investments	1,065,693	1,055,003
Total assets limited to use	<u>\$ 19,380,480</u>	<u>\$ 18,961,705</u>

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# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 4. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depositary 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 equities.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2014 and 2013, 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, 2014					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 37,074,514	\$ 37,074,514	\$ -0-	\$ -0-	\$ -0-
Exchange-traded funds	2,260,054	2,260,054	-0-	-0-	-0-
Equities	3,593,911	3,593,911	-0-	-0-	-0-
Money market mutual funds	730,052	730,052	-0-	-0-	-0-
	<u>\$ 43,658,531</u>	<u>\$ 43,658,531</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

December 31, 2013					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 35,695,158	\$ 35,695,158	\$ -0-	\$ -0-	\$ -0-
Equities	5,340,345	5,340,345	-0-	-0-	-0-
Money market mutual funds	326,039	326,039	-0-	-0-	-0-
	<u>\$ 41,361,542</u>	<u>\$ 41,361,542</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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

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

# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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, 2014 and 2013:

	2014	2013
Carrying amount		
Deposits	\$ 27,215,371	\$ 14,864,346
Investments	43,658,531	41,361,542
	<u>\$ 70,873,902</u>	<u>\$ 56,225,888</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 27,215,371	\$ 14,864,346
Investments	24,278,051	22,399,837
Internally designated	18,314,787	17,906,702
By donor - expendable - for capital acquisition	1,065,693	1,055,003
	<u>\$ 70,873,902</u>	<u>\$ 56,225,888</u>

Investment income for 2014 and 2013 is summarized as follows:

	2014	2013
Unrealized gains (losses)	\$ (1,916,679)	\$ 3,381,027
Realized gains	1,395,473	515,041
Interest and dividends	1,317,669	962,433
Total investment income	<u>\$ 796,463</u>	<u>\$ 4,858,501</u>

## 5. FAIR VALUE MEASUREMENTS

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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- 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, 2014 and 2013:

- *Equity securities*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds and exchange-traded funds*: Valued at the daily closing price as reported by the fund. Mutual funds and exchange-traded 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 and exchange-traded 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 COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 are as follows:

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments & assets whose use is limited				
Mutual funds:				
Fixed income funds	\$ 12,951,466	\$ 12,951,466	\$ -0-	\$ -0-
Growth funds	8,325,704	8,325,704	-0-	-0-
Large blend funds	11,999,664	11,999,664	-0-	-0-
Small value funds	2,137,672	2,137,672	-0-	-0-
Other	1,660,008	1,660,008	-0-	-0-
Money market mutual funds	730,052	-0-	730,052	-0-
Exchange-traded funds	2,260,054	2,260,054	-0-	-0-
Equities:				
Basic industries	137,186	137,186	-0-	-0-
Basic materials	71,116	71,116	-0-	-0-
Capital goods	213,998	213,998	-0-	-0-
Consumer	354,860	354,860	-0-	-0-
Consumer defensive	81,091	81,091	-0-	-0-
Energy	192,213	192,213	-0-	-0-
Finance	522,669	522,669	-0-	-0-
Health care	496,614	496,614	-0-	-0-
Industrials	131,480	131,480	-0-	-0-
Miscellaneous	126,719	126,719	-0-	-0-
Real estate	140,466	140,466	-0-	-0-
Services	377,664	377,664	-0-	-0-
Technology	588,960	588,960	-0-	-0-
Transportation	53,419	53,419	-0-	-0-
Utilities	105,456	105,456	-0-	-0-
<b>Total</b>	<b>\$ 43,658,531</b>	<b>\$ 42,928,479</b>	<b>\$ 730,052</b>	<b>\$ -0-</b>

# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 are as follows:

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & assets whose use is limited				
Mutual funds:				
Fixed income funds	\$ 4,257,049	\$ 4,257,049	\$ -0-	\$ -0-
Growth funds	14,723,592	14,723,592	-0-	-0-
Large blend funds	4,142,204	4,142,204	-0-	-0-
Index funds	5,516,311	5,516,311	-0-	-0-
International funds	7,056,002	7,056,002	-0-	-0-
Money market mutual funds	326,039	-0-	326,039	-0-
Equities:				
Capital goods	204,485	204,485	-0-	-0-
Consumer	446,561	446,561	-0-	-0-
Energy	563,216	563,216	-0-	-0-
Financial	1,149,750	1,149,750	-0-	-0-
Healthcare	620,475	620,475	-0-	-0-
International	636,060	636,060	-0-	-0-
Materials	191,331	191,331	-0-	-0-
Utilities	13,244	13,244	-0-	-0-
Technology	893,404	893,404	-0-	-0-
Services	621,819	621,819	-0-	-0-
Total	<u>\$ 41,361,542</u>	<u>\$ 41,035,503</u>	<u>\$ 326,039</u>	<u>\$ -0-</u>

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 2014 and 2013.

The market value of investments exceeded the cost by approximately \$2,400,000 and \$4,300,000 as of December 31, 2014 and 2013, respectively. The unrealized gains are included in earnings for the period attributable to the change in unrealized gains relating to assets held as of December 31, 2014 and 2013. During 2014, the Hospital recognized unrealized losses of approximately \$1,900,000. During 2013, the Hospital recognized unrealized gains of approximately \$3,400,000. These gains and losses are included in the consolidated statements of operations and changes in net position as a component of investment income.

# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### Fair Value of Investments in Entities That Use Net Asset Value (NAV)

The following table summarizes investments measured at fair value based on NAV's per share as of August 31, 2014 and 2013, respectively.

December 31, 2014	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Money market mutual funds	\$ 730,052	Not applicable	Daily	Daily
Exchange-traded funds	\$ 2,260,054	Not applicable	Daily	Daily
Mutual funds	\$ 37,074,514	Not applicable	Daily	Daily

December 31, 2013	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Money market mutual funds	\$ 326,039	Not applicable	Daily	Daily
Mutual funds	\$ 35,695,158	Not applicable	Daily	Daily

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Long-term debt. The fair value of the Hospital's variable rate debt is based on current traded value. The carrying value of loans payable and capital lease obligations approximates fair value based on the variable nature of its primary debt and current fixed rates available to similar entities with similar credit ratings.

# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 6. CAPITAL ASSETS

A summary of capital assets, including assets under capital leases, as of December 31, 2014 and 2013, follows:

	Balance December 31, 2013	Additions	Retirements	Transfers	Balance December 31, 2014
Land	\$ 2,448,234	\$ 5,000	\$ -0-	\$ -0-	\$ 2,453,234
Land improvements	2,228,929	-0-	-0-	-0-	2,228,929
Buildings and improvements	51,043,935	178,957	-0-	-0-	51,222,892
Fixed equipment	15,142,541	1,756,976	-0-	-0-	16,899,517
Major equipment	35,689,568	2,044,851	(570,635)	72,413	37,236,197
Construction in progress	97,555	42,669	-0-	(72,413)	67,811
Total capital assets	106,650,762	4,028,453	(570,635)	-0-	110,108,580
Less accumulated depreciation:					
Land improvements	(2,120,487)	(44,416)	-0-	-0-	(2,164,903)
Buildings and improvements	(32,606,381)	(1,951,856)	-0-	-0-	(34,558,237)
Fixed equipment	(13,191,941)	(443,753)	-0-	-0-	(13,635,694)
Major equipment	(25,845,032)	(2,600,840)	548,577	-0-	(27,897,295)
Total accumulated depreciation	(73,763,841)	(5,040,865)	548,577	-0-	(78,256,129)
Capital assets, net	<u>\$ 32,886,921</u>	<u>\$ (1,012,412)</u>	<u>\$ (22,058)</u>	<u>\$ -0-</u>	<u>\$ 31,852,451</u>

  

	Balance December 31, 2012	Additions	Retirements	Transfers	Balance December 31, 2013
Land	\$ 2,448,234	\$ -0-	\$ -0-	\$ -0-	\$ 2,448,234
Land improvements	2,228,929	-0-	-0-	-0-	2,228,929
Buildings and improvements	50,276,632	658,313	-0-	108,990	51,043,935
Fixed equipment	15,255,024	894,424	(1,006,907)	-0-	15,142,541
Major equipment	34,505,208	1,834,337	(649,977)	-0-	35,689,568
Construction in progress	30,747	269,515	(93,717)	(108,990)	97,555
Total capital assets	104,744,774	3,656,589	(1,750,601)	-0-	106,650,762
Less accumulated depreciation:					
Land improvements	(2,062,973)	(57,514)	-0-	-0-	(2,120,487)
Buildings and improvements	(30,634,129)	(1,972,252)	-0-	-0-	(32,606,381)
Fixed equipment	(14,086,127)	(732,174)	1,626,360	-0-	(13,191,941)
Major equipment	(23,406,883)	(2,438,149)	-0-	-0-	(25,845,032)
Total accumulated depreciation	(70,190,112)	(5,200,089)	1,626,360	-0-	(73,763,841)
Capital assets, net	<u>\$ 34,554,662</u>	<u>\$ (1,543,500)</u>	<u>\$ (124,241)</u>	<u>\$ -0-</u>	<u>\$ 32,886,921</u>

As of December 31, 2014 there were no significant construction projects outstanding.



# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 7. LONG-TERM DEBT

In January 2012, the Hospital borrowed approximately \$5,600,000 from the Indiana Financing Authority (the Authority), and the Health Facility Revenue Bonds Series 2012 (Series 2012 Bonds) to fund future capital projects. The Series 2012 Bonds bear interest at rates as determined by daily, weekly, flexible, semiannual, or fixed modes. The Series 2012 Bonds are secured by an interest in the gross revenues of the Hospital.

The Hospital and Authority then entered into an agreement with a Regions bank (Regions) whereby Regions purchased from the Authority all of the Series 2012 Bonds in a private placement. The agreement provided that Regions would hold the Series 2012 Bonds during the Initial Mode Period which runs through March 2017. During the Initial Mode Period, the Series 2012 Bonds would bear interest at the Initial Rate Mode (59.5% of Libor plus 232 or 247 basis points depending on the cash to debt ratio but in no event less than 2.45%) for 60 months with principal and interest payments determined using a 20-year amortization schedule. At the end of the Initial Mode Period, the Series 2012 bonds may be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another term period with Regions. The Series 2012 Bonds could be converted to another interest rate mode to accommodate market conditions at that time. If the Series 2012 Bonds could not be remarketed at the end of the Initial Mode Period, the Hospital would be subject to payment of the remaining principal of approximately \$4,400,000 at the end of the Initial Mode Period. The Series 2012 bonds had an interest rate of 2.45% at December 31, 2014 and December 31, 2013, respectively, and are collateralized by Hospital revenues.

Annual bond payments for the 2012 bonds commenced on January 1, 2013 and continue through January 1, 2032 ranging from \$356,394 to \$357,442 with a variable interest rate.

In December 2009, the Hospital issued, through the Indiana Financing Authority, the Health Facility Revenue Bonds Series 2009 (Series 2009). The Hospital then entered into an agreement with a local financial institution where the financial institution purchased the Series 2009 in a private placement. The private placement agreement expires on January 1, 2017. At the end of the agreement, the Series 2009 bonds may be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another term period with the current financial institution. The Series 2009 bonds had an interest rate of 2.45% at December 31, 2014 and December 31, 2013, respectively, and are collateralized by Hospital revenues.

# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Annual bond payments for the 2009 bonds commenced on January 1, 2011 and continue through January 1, 2030 ranging from \$551,600 to \$993,408 with a variable interest rate.

The bond agreement states that the interest rate for the 2009 bonds will be calculated using LIBOR, plus an applicable margin component calculated on the cash to debt ratio of the borrower. In no event shall the resulting variable rate be less than 2.45%. The bond is secured by Hospital revenues.

The Hospital has capital lease obligations, at varying rates of imputed interest of 2.73% to 8.51%, collateralized by leased equipment with costs of approximately \$2,100,000 and \$2,100,000 as of December 31, 2014 and 2013, respectively.

Accumulated depreciation on capital leases was approximately \$1,100,000 and \$800,000 at December 31, 2014 and 2013, respectively.

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

	Balance December 31, 2013	Additional borrowings	Payments	Balance December 31, 2014	Current portion	Long-term portion
Demand Revenue Bonds, Series 2009	\$ 14,032,472	\$ -0-	\$ 586,344	\$ 13,446,128	\$ 610,502	\$ 12,835,626
Demand Revenue Bonds, Series 2012	5,369,679	-0-	224,881	5,144,798	230,435	4,914,363
Capital leases	903,984	-0-	416,171	487,813	314,854	172,959
	<u>\$ 20,306,135</u>	<u>\$ -0-</u>	<u>\$ 1,227,396</u>	<u>\$ 19,078,739</u>	<u>\$ 1,155,791</u>	<u>\$ 17,922,948</u>

	Balance December 31, 2012	Additional borrowings	Payments	Balance December 31, 2013	Current portion	Long-term portion
Demand Revenue Bonds, Series 2009	\$ 14,595,937	\$ -0-	\$ 563,465	\$ 14,032,472	\$ 586,342	\$ 13,446,130
Demand Revenue Bonds, Series 2012	5,589,189	-0-	219,510	5,369,679	224,881	5,144,798
Capital leases	838,896	525,000	459,912	903,984	416,170	487,814
	<u>\$ 21,024,022</u>	<u>\$ 525,000</u>	<u>\$ 1,242,887</u>	<u>\$ 20,306,135</u>	<u>\$ 1,227,393</u>	<u>\$ 19,078,742</u>

# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

The Hospital is also required to meet certain financial and affirmative covenants. One of these covenants requires that the Hospital maintain a minimum of \$6.5 million in cash and investments with the Lender. The Hospital believes it is in compliance with all covenants as of December 31, 2014 and 2013.

Scheduled principal repayments on long-term debt following December 31, 2014 are as follows:

Years Ending December 31,	Long-term debt		Capital leases	
	Principal	Interest	Principal	Interest
2015	\$ 840,937	\$ 475,242	\$ 314,854	\$ 8,234
2016	961,000	540,000	170,202	1,176
2017	994,000	511,170	2,757	9
2018	1,025,000	481,350	-0-	-0-
2019	1,055,000	450,600	-0-	-0-
2020-2024	5,779,000	1,758,390	-0-	-0-
2025-2029	6,717,000	836,940	-0-	-0-
2030-2032	1,218,989	44,070	-0-	-0-
	<u>\$ 18,590,926</u>	<u>\$ 5,097,762</u>	<u>\$ 487,813</u>	<u>\$ 9,419</u>

The scheduled principal and interest payments above include amounts relating to the 2015 bond issuance, which occurred in March of 2015. These bond proceeds were used to refund the 2009 and 2012 series bonds. See Note 17 for further disclosure.

### 8. NET PATIENT SERVICE REVENUE

Patient service revenue for 2014 and 2013 consists of the following:

	2014	2013
Inpatient services	\$ 59,036,877	\$ 60,042,873
Outpatient services	141,591,359	133,204,815
Long term care	129,075,700	52,130,624
Gross patient service revenue	<u>329,703,936</u>	<u>245,378,312</u>
Contractual allowances	110,731,340	93,600,967
Bad debts	8,313,843	8,195,281
Charity care	2,977,492	3,407,242
Deductions from revenue	<u>122,022,675</u>	<u>105,203,490</u>
Net patient service revenue	<u>\$ 207,681,261</u>	<u>\$ 140,174,822</u>

# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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.

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# **HENRY COUNTY HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013**

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### **9. PENSION PLANS**

#### Plan Description

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

#### Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital is required to contribute at the Board approved rate.

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. Hospital contributions to the plan for 2014 and 2013 were approximately \$1,398,000 and \$1,013,000, respectively.

### **10. SPLIT-DOLLAR LIFE INSURANCE POLICY**

The Hospital has a Split-Dollar Life Insurance Agreement for a key employee that is recorded at contract value in Other Assets at approximately \$2,287,000 and \$2,209,000 as of December 31, 2014 and 2013, 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 COUNTY HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013**

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### **11. 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 \$5,283,000 and \$4,172,000 for the years ended December 31, 2014 and 2013, respectively.

### **12. NET POSITION RESTRICTED BY DONOR**

Net position restricted by donor of approximately \$1,065,000 and \$1,055,000 at December 31, 2014 and 2013, respectively, consist of donor-restricted funds held by the Foundation primarily for Hospital construction projects.

### **13. MALPRACTICE INSURANCE**

#### Malpractice Insurance

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act requires the Hospital to maintain medical malpractice liability insurance on a per occurrence basis and in the annual aggregate for amounts below the thresholds of the Act. The Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

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.

### **14. INVESTMENT IN AFFILIATE**

During 2011, the Hospital entered into an operating agreement with St. Vincent Health, Inc. to form Henry County Hospital St. Vincent Health Catheterization Lab Services, LLC (Cath Lab). The Hospital contributed \$1,800,000 to obtain a 50% equity interest in the new company whose purpose is to operate a cardiac catheterization laboratory within the Hospital. The agreement will continue until the Company is dissolved. The investment is accounted for by the equity method.

# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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As a result of this joint venture, the Hospital recognized a loss during 2014 and 2013 of approximately \$222,000 and \$296,000, respectively, related to changes in equity of the Cath Lab. The loss is included within other operating revenue in the consolidated statements of operations and changes in net position.

### 15. 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 2014 and 2013 was as follows:

	Receivables		Revenues	
	2014	2013	2014	2013
Self pay	25%	28%	4%	6%
Medicare and Medicaid	59%	40%	62%	61%
Other commercial	16%	32%	34%	33%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 16. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its Blended Component Units, DMC and the Foundation. The following is a summary of the financial position of DMC and the Foundation as of December 31, 2014, 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 cash equivalents	\$ 279,634	\$ 340,226	\$ 619,860
Patient accounts receivable, net	2,660,353	-0-	2,660,353
Supplies and other current assets	922,885	197,011	1,119,896
Due from related parties	18,623	-0-	18,623
Total current assets	3,881,495	537,237	4,418,732
Investments	-0-	24,278,051	24,278,051
Assets whose use is limited - by donor	-0-	1,065,693	1,065,693
Capital assets, net	68,961	11,605,753	11,674,714
Other assets	38,837	143,377	182,214
Total assets	<u>\$ 3,989,293</u>	<u>\$ 37,630,111</u>	<u>\$ 41,619,404</u>
Liabilities:			
Current portion of long-term debt	\$ -0-	\$ 58,902	\$ 58,902
Accounts payable and accrued expenses	454,633	212,762	667,395
Due to related parties	32,431,058	102,531	32,533,589
Total current liabilities	32,885,691	374,195	33,259,886
Long-term debt, net of current portion	-0-	1,348,855	1,348,855
Total liabilities	32,885,691	1,723,050	34,608,741
Net position			
Unrestricted net position	(28,965,359)	24,643,372	(4,321,987)
Invested in capital assets, net of related debt	68,961	10,197,996	10,266,957
Restricted by donor for capital acquisition	-0-	1,065,693	1,065,693
Total net position	<u>(28,896,398)</u>	<u>35,907,061</u>	<u>7,010,663</u>
Total liabilities and net position	<u>\$ 3,989,293</u>	<u>\$ 37,630,111</u>	<u>\$ 41,619,404</u>



# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

	DMC	Foundation	Total
Operating revenues			
Net patient service revenue	\$ 20,166,296	\$ 1,058,090	\$ 21,224,386
Other revenue	-0-	2,600,948	2,600,948
Total operating revenues	20,166,296	3,659,038	23,825,334
Operating expenses			
Salaries and benefits	10,968,343	303,932	11,272,275
Medical professional fees	0	-0-	0
Purchased services	4,136,219	349,937	4,486,156
Medical supplies and drugs	8,394,181	-0-	8,394,181
Other supplies	-0-	9,940	9,940
Depreciation and amortization	15,174	597,954	613,128
Utilities	118,356	265,496	383,852
Rent	460,705	-0-	460,705
Other	608,744	1,356,394	1,965,138
Total operating expenses	24,701,722	2,883,653	27,585,375
Gain (loss) from operations	(4,535,426)	775,385	(3,760,041)
Non-operating income (expense)			
Investment income	84	353,492	353,576
Interest expense	(46,872)	(32,943)	(79,815)
Other nonoperating	119,232	52,888	172,120
Total nonoperating income (expense)	72,444	373,437	445,881
Change in net position	(4,462,982)	1,148,822	(3,314,160)
Net position - beginning of year	(24,433,416)	34,758,239	10,324,823
Net position - end of year	<u>\$ (28,896,398)</u>	<u>\$ 35,907,061</u>	<u>\$ 7,010,663</u>
Cash flows from activities			
Operating	\$ (279,286)	\$ 790,174	\$ 510,888
Noncapital financing	-0-	52,888	52,888
Capital and related financing	(27,902)	(177,967)	(205,869)
Investing	91,982	(1,465,412)	(1,373,430)
Net change in cash and cash equivalents	(215,206)	(800,317)	(1,015,523)
Cash - beginning of year	494,840	1,140,543	1,635,383
Cash - end of year	<u>\$ 279,634</u>	<u>\$ 340,226</u>	<u>\$ 619,860</u>

# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

The following is a summary of the financial position of DMC and the Foundation as of December 31, 2013, 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 cash equivalents	\$ 494,840	\$ 1,140,543	\$ 1,635,383
Patient accounts receivable, net	2,648,175	-0-	2,648,175
Supplies and other current assets	825,768	163,316	989,084
Due from related parties	92,952	-0-	92,952
Total current assets	<u>4,061,735</u>	<u>1,303,859</u>	<u>5,365,594</u>
Investments	-0-	22,399,837	22,399,837
Assets whose use is limited - by donor	-0-	1,055,003	1,055,003
Capital assets, net	103,106	12,109,633	12,212,739
Other assets	<u>38,837</u>	<u>218,273</u>	<u>257,110</u>
Total assets	<u><u>\$ 4,203,678</u></u>	<u><u>\$ 37,086,605</u></u>	<u><u>\$ 41,290,283</u></u>
Liabilities:			
Current portion of long-term debt	\$ -0-	\$ 55,845	\$ 55,845
Accounts payable and accrued expenses	1,240,045	164,200	1,404,245
Due to related parties	27,397,049	700,563	28,097,612
Total current liabilities	<u>28,637,094</u>	<u>920,608</u>	<u>29,557,702</u>
Long-term debt, net of current portion	<u>-0-</u>	<u>1,407,758</u>	<u>1,407,758</u>
Total liabilities	28,637,094	2,328,366	30,965,460
Net position			
Unrestricted net position	(24,536,522)	23,057,206	(1,479,316)
Invested in capital assets, net of related debt	103,106	10,646,030	10,749,136
Restricted by donor for capital acquisition	-0-	1,055,003	1,055,003
Total net position	<u>(24,433,416)</u>	<u>34,758,239</u>	<u>10,324,823</u>
Total liabilities and net position	<u><u>\$ 4,203,678</u></u>	<u><u>\$ 37,086,605</u></u>	<u><u>\$ 41,290,283</u></u>

# HENRY COUNTY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

	DMC	Foundation	Total
Operating revenues			
Net patient service revenue	\$ 21,291,689	\$ 1,045,510	\$ 22,337,199
Other revenue	-0-	2,603,900	2,603,900
Total operating revenues	21,291,689	3,649,410	24,941,099
Operating expenses			
Salaries and benefits	11,609,663	334,336	11,943,999
Medical professional fees	2,108,002	-0-	2,108,002
Purchased services	3,985,192	247,241	4,232,433
Medical supplies and drugs	7,731,222	-0-	7,731,222
Other supplies	-0-	11,763	11,763
Depreciation and amortization	38,745	581,742	620,487
Utilities	117,313	239,069	356,382
Rent	383,620	-0-	383,620
Other	576,263	1,109,179	1,685,442
Total operating expenses	26,550,020	2,523,330	29,073,350
Gain (loss) from operations	(5,258,331)	1,126,080	(4,132,251)
Non-operating income (expense)			
Investment income	309	2,560,853	2,561,162
Interest expense	(46,873)	(34,380)	(81,253)
Other nonoperating	88,638	220,727	309,365
Total nonoperating income (expense)	42,074	2,747,200	2,789,274
Change in net position	(5,216,257)	3,873,280	(1,342,977)
Net position - beginning of year	(19,217,159)	30,884,959	11,667,800
Net position - end of year	<u>\$ (24,433,416)</u>	<u>\$ 34,758,239</u>	<u>\$ 10,324,823</u>
Cash flows from activities			
Operating	\$ (238,722)	\$ 1,717,157	\$ 1,478,435
Noncapital financing	-0-	220,727	220,727
Capital and related financing	(46,873)	(819,732)	(866,605)
Investing	61,613	(420,903)	(359,290)
Net change in cash and cash equivalents	(223,982)	697,249	473,267
Cash - beginning of year	718,822	443,294	1,162,116
Cash - end of year	<u>\$ 494,840</u>	<u>\$ 1,140,543</u>	<u>\$ 1,635,383</u>

# **HENRY COUNTY HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013**

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### **17. SUBSEQUENT EVENTS**

During 2015, the Hospital issued approximately \$18,000,000 of variable rate revenue bonds. The bonds mature in March of 2030. The bond proceeds were used to refund the 2009 and 2012 bonds. The 2015 bond proceedings closed in March of 2015.

## **SUPPLEMENTARY INFORMATION**

# HENRY COUNTY HOSPITAL

## CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2014

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Current assets</b>					
Cash and cash equivalents	\$ 26,595,511	\$ 340,226	\$ 279,634	\$ -0-	\$ 27,215,371
Patient accounts receivable, net	23,757,795	-0-	2,660,353	-0-	26,418,148
Supplies and other current assets	16,274,985	197,011	922,885	(162,883)	17,231,998
Due from related parties	31,292,629	-0-	18,623	(31,180,601)	130,651
Current portion of assets whose use is limited	1,096,889	-0-	-0-	-0-	1,096,889
Total current assets	99,017,809	537,237	3,881,495	(31,343,484)	72,093,057
<b>Investments</b>	-0-	24,278,051	-0-	-0-	24,278,051
<b>Assets whose use is limited</b>					
Internally designated	18,314,787	-0-	-0-	-0-	18,314,787
By donor - expendable - for capital acquisition	-0-	1,065,693	-0-	-0-	1,065,693
	18,314,787	1,065,693	-0-	-0-	19,380,480
Less current portion	1,096,889	-0-	-0-	-0-	1,096,889
Total assets whose use is limited	17,217,898	1,065,693	-0-	-0-	18,283,591
<b>Capital assets, net</b>	20,177,737	11,605,753	68,961	-0-	31,852,451
<b>Other assets</b>	5,019,569	143,377	38,837	(1,373,112)	3,828,671
Total assets	141,433,013	37,630,111	3,989,293	(32,716,596)	150,335,821
<b>Deferred outflows</b>	131,932	-0-	-0-	-0-	131,932
Total assets and deferred outflows	\$ 141,564,945	\$ 37,630,111	\$ 3,989,293	\$ (32,716,596)	\$ 150,467,753

See Report of Independent Auditors on Page 1 through 3.

# HENRY COUNTY HOSPITAL

## CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2014

LIABILITIES AND NET POSITION	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Current liabilities</b>					
Current portion of long-term debt	\$ 1,096,889	\$ 58,902	\$ -0-	\$ -0-	\$ 1,155,791
Accounts payable and accrued expenses	31,098,643	212,762	454,633	(183,007)	31,583,031
Accrued wages and related liabilities	4,305,536	-0-	-0-	-0-	4,305,536
Estimated third-party settlements	1,116,501	-0-	-0-	-0-	1,116,501
Due to related parties	-0-	102,531	32,431,058	(32,533,589)	-0-
Total current liabilities	37,617,569	374,195	32,885,691	(32,716,596)	38,160,859
<b>Other long-term liabilities</b>	467,690	-0-	-0-	-0-	467,690
<b>Long-term debt, net of current portion</b>	16,574,093	1,348,855	-0-	-0-	17,922,948
Total liabilities	54,659,352	1,723,050	32,885,691	(32,716,596)	56,551,497
<b>Net position</b>					
Unrestricted	66,084,051	24,643,372	(28,965,359)	-0-	61,762,064
Invested in capital assets, net of related debt	2,506,755	10,197,996	68,961	-0-	12,773,712
Internally designated - funded depreciation	18,314,787	-0-	-0-	-0-	18,314,787
Restricted					
By donor - expendable - for capital acquisition	-0-	1,065,693	-0-	-0-	1,065,693
Total net position	86,905,593	35,907,061	(28,896,398)	-0-	93,916,256
Total liabilities and net position	\$ 141,564,945	\$ 37,630,111	\$ 3,989,293	\$ (32,716,596)	\$ 150,467,753

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# HENRY COUNTY HOSPITAL

## CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2014

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Operating revenue</b>					
Net patient service revenue	\$188,418,364	\$ 1,058,090	\$ 20,166,296	\$ (1,961,489)	\$ 207,681,261
Other revenue	6,172,188	2,600,948	-0-	(2,017,981)	6,755,155
Total revenue	194,590,552	3,659,038	20,166,296	(3,979,470)	214,436,416
<b>Operating expenses</b>					
Salaries and benefits	39,879,656	303,932	10,968,343	(591,557)	50,560,374
Medical professional fees	1,628,574	-0-	-0-	-0-	1,628,574
Purchased services	74,541,159	349,937	4,136,219	(90,000)	78,937,315
Medical supplies and drugs	10,799,676	-0-	8,394,181	(449,801)	18,744,056
Other supplies	8,834,428	9,940	-0-	-0-	8,844,368
Depreciation and amortization	4,432,632	597,954	15,174	-0-	5,045,760
Utilities	3,799,927	265,496	118,356	-0-	4,183,779
Rent	13,775,308	-0-	460,705	(1,790,022)	12,445,991
Hospital assessment fee	2,395,570	-0-	-0-	-0-	2,395,570
Other	19,577,619	1,356,394	608,744	(1,058,090)	20,484,667
Total expenses	179,664,549	2,883,653	24,701,722	(3,979,470)	203,270,454
Operating income (loss)	14,926,003	775,385	(4,535,426)	-0-	11,165,962
<b>Nonoperating income (expense)</b>					
Investment income	489,759	353,492	84	(46,872)	796,463
Interest expense	(920,450)	(32,943)	(46,872)	46,872	(953,393)
Other nonoperating	270,080	52,888	119,232	-0-	442,200
Total nonoperating income (expense)	(160,611)	373,437	72,444	-0-	285,270
Change in net position	14,765,392	1,148,822	(4,462,982)	-0-	11,451,232
<b>Net position beginning of year</b>	72,140,201	34,758,239	(24,433,416)	-0-	82,465,024
<b>Net position end of year</b>	<u>\$ 86,905,593</u>	<u>\$ 35,907,061</u>	<u>\$ (28,896,398)</u>	<u>\$ -0-</u>	<u>\$ 93,916,256</u>

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# HENRY COUNTY HOSPITAL

## CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2014

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Cash flows from operating activities</b>					
Cash received from patients and third party payors	\$ 180,293,879	\$ 1,058,090	\$ 20,154,118	\$ (1,961,489)	\$ 199,544,598
Cash paid to employees for wages and benefits	(39,516,442)	(303,932)	(10,968,343)	591,557	(50,197,160)
Cash paid to vendors for goods and services	(130,710,760)	(2,564,932)	(9,465,061)	3,535,743	(139,205,010)
Other operating receipts, net	6,172,188	2,600,948	-0-	(2,107,510)	6,665,626
Net cash flows from operating activities	16,238,865	790,174	(279,286)	58,301	16,808,054
<b>Cash flows from noncapital financing activities</b>					
Other nonoperating	270,080	52,888	-0-	-0-	322,968
Net cash flows from noncapital financing activities	270,080	52,888	-0-	-0-	322,968
<b>Cash flows from capital and related financing activities</b>					
Acquisition and construction of capital assets	(3,936,187)	(89,178)	(3,088)	-0-	(4,028,453)
Gain on disposal of property and equipment	(3,000)	-0-	-0-	-0-	(3,000)
Proceeds from sale of equipment	3,000	-0-	22,058	-0-	25,058
Interest on long-term debt	(920,450)	(32,943)	(46,872)	(46,872)	(1,047,137)
Principal payments on long-term debt, net	(1,171,550)	(55,846)	-0-	-0-	(1,227,396)
Net cash flows from capital and related financing activities	(6,028,187)	(177,967)	(27,902)	(46,872)	(6,280,928)
<b>Cash flows from investing activities</b>					
Investment income and other non-operating	489,759	353,492	119,316	46,872	1,009,439
Change in other assets, net	2,785,924	74,896	(27,334)	(58,301)	2,775,185
Purchases of investments in assets whose use is limited - internally designated, held by Trustee, and investments	(13,012,507)	2,542,153	-0-	-0-	(10,470,354)
Proceeds from sale of investments in assets whose use is limited - internally designated, held by Trustee, and investments	12,639,030	(4,425,263)	-0-	-0-	8,213,767
Change in assets whose use is limited - restricted by donor, net	-0-	(10,690)	-0-	-0-	(10,690)
Net cash flows from investing activities	2,902,206	(1,465,412)	91,982	(11,429)	1,517,347
Net change in cash and cash equivalents	13,382,964	(800,317)	(215,206)	-0-	12,367,441
<b>Cash and cash equivalents</b>					
Beginning of year	13,521,355	1,140,543	494,840	-0-	15,156,738
End of year	<u>\$ 26,904,319</u>	<u>\$ 340,226</u>	<u>\$ 279,634</u>	<u>\$ -0-</u>	<u>\$ 27,524,179</u>

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# HENRY COUNTY HOSPITAL

## CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2014

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Reconciliation of operating income (loss) to net cash flows from operating activities</b>					
Operating income (loss)	\$ 14,926,003	\$ 775,385	\$ (4,535,426)	\$ -0-	\$ 11,165,962
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	4,432,632	597,954	15,174	-0-	5,045,760
Bad debts	7,552,825	-0-	761,018	-0-	8,313,843
Changes in assets and liabilities:					
Patient accounts receivable	(13,354,879)	-0-	(773,196)	-0-	(14,128,075)
Supplies and other current assets	(10,949,623)	(33,695)	(69,786)	88,579	(10,964,525)
Accounts payable and accrued expenses	17,107,293	48,562	(781,535)	59,251	16,433,571
Accrued salaries and related liabilities	363,214	-0-	-0-	-0-	363,214
Other long-term liabilities	116,923	-0-	-0-	-0-	116,923
Due from (to) related parties	(4,028,662)	(598,032)	5,104,465	(89,529)	388,242
Estimated third-party settlements	73,139	-0-	-0-	-0-	73,139
Net cash flows from operating activities	<u>\$ 16,238,865</u>	<u>\$ 790,174</u>	<u>\$ (279,286)</u>	<u>58,301</u>	<u>\$ 16,808,054</u>
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>					
Cash and cash equivalents					
In current assets	\$ 26,595,511	\$ 340,226	\$ 279,634	\$ -0-	\$ 27,215,371
In assets whose use is limited - internally designated	308,808	-0-	-0-	-0-	308,808
Total cash and cash equivalents	<u>\$ 26,904,319</u>	<u>\$ 340,226</u>	<u>\$ 279,634</u>	<u>\$ -0-</u>	<u>\$ 27,524,179</u>

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# HENRY COUNTY HOSPITAL

## SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2014 AND 2013

	Hospital 2014	NCFIM 2014	NCP 2014	Total 2014	Total 2013	Change
<b>Operating revenue</b>						
Net patient service revenue	\$ 184,237,074	2,559,092	1,622,198	\$188,418,364	\$ 121,678,488	\$ 66,739,876
Other revenue	5,481,670	535,952	154,566	6,172,188	3,983,567	2,188,621
Total revenue	<u>189,718,744</u>	<u>3,095,044</u>	<u>1,776,764</u>	<u>194,590,552</u>	<u>125,662,055</u>	<u>68,928,497</u>
<b>Operating expenses</b>						
Salaries and benefits	33,021,158	4,841,547	2,016,951	39,879,656	38,681,045	1,198,611
Medical professional fees	1,577,640	50,934	-0-	1,628,574	1,620,569	8,005
Purchased services	74,377,894	26,648	136,617	74,541,159	32,979,294	41,561,865
Medical supplies and drugs	10,332,748	208,692	258,236	10,799,676	9,446,852	1,352,824
Other supplies	8,822,293	10,351	1,784	8,834,428	4,046,427	4,788,001
Depreciation and amortization	4,355,786	76,680	166	4,432,632	4,584,498	(151,866)
Utilities	3,770,918	15,065	13,944	3,799,927	2,342,694	1,457,233
Rent	13,088,832	612,544	73,932	13,775,308	7,706,378	6,068,930
Hospital assessment fee	2,395,570	-0-	-0-	2,395,570	3,947,920	(1,552,350)
Other	19,465,402	61,897	50,320	19,577,619	8,904,591	10,673,028
Total expenses	<u>171,208,241</u>	<u>5,904,358</u>	<u>2,551,950</u>	<u>179,664,549</u>	<u>114,260,268</u>	<u>65,404,281</u>
Operating income	18,510,503	(2,809,314)	(775,186)	14,926,003	11,401,787	3,524,216
<b>Nonoperating income (expense)</b>						
Investment income	489,724	-0-	35	489,759	2,344,211	(1,854,452)
Interest expense	(920,450)	-0-	-0-	(920,450)	(714,465)	(205,985)
Other nonoperating	158,540	60,540	51,000	270,080	261,075	9,005
Total nonoperating income (expense)	<u>(272,186)</u>	<u>60,540</u>	<u>51,035</u>	<u>(160,611)</u>	<u>1,890,821</u>	<u>(2,051,432)</u>
 Change in net position	 <u>\$ 18,238,317</u>	 <u>\$ (2,748,774)</u>	 <u>\$ (724,151)</u>	 <u>\$ 14,765,392</u>	 <u>\$ 13,292,608</u>	 <u>\$ 1,472,784</u>

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# HENRY COUNTY HOSPITAL

## SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2013 AND 2012

	Hospital 2013	NCFIM 2013	NCP 2013	Total 2013	Total 2012	Change
<b>Operating revenue</b>						
Net patient service revenue	\$117,360,726	\$ 2,526,065	\$ 1,791,697	\$ 121,678,488	\$ 78,091,074	\$ 43,587,414
Other revenue	3,627,935	214,858	140,774	3,983,567	4,965,581	(982,014)
Total revenue	120,988,661	2,740,923	1,932,471	125,662,055	83,056,655	42,605,400
<b>Operating expenses</b>						
Salaries and benefits	32,092,047	4,506,183	2,082,815	38,681,045	37,980,227	700,818
Medical professional fees	1,576,987	43,582	-0-	1,620,569	1,445,041	175,528
Purchased services	32,902,524	25,060	51,710	32,979,294	11,635,393	21,343,901
Medical supplies and drugs	9,091,113	118,714	237,025	9,446,852	8,454,679	992,173
Other supplies	4,031,598	14,668	161	4,046,427	1,522,776	2,523,651
Depreciation and amortization	4,507,061	77,271	166	4,584,498	4,599,986	(15,488)
Utilities	2,312,943	14,322	15,429	2,342,694	1,439,139	903,555
Rent	7,032,111	600,335	73,932	7,706,378	3,708,505	3,997,873
Hospital assessment fee	3,947,920	-0-	-0-	3,947,920	4,372,303	(424,383)
Other	8,799,738	57,500	47,353	8,904,591	3,133,259	5,771,332
Total expenses	106,294,042	5,457,635	2,508,591	114,260,268	78,291,308	35,968,960
Operating income (loss)	14,694,619	(2,716,712)	(576,120)	11,401,787	4,765,347	6,636,440
<b>Nonoperating income (expense)</b>						
Investment income (loss)	2,344,189	-0-	22	2,344,211	1,991,981	352,230
Interest expense	(714,465)	-0-	-0-	(714,465)	(530,537)	(183,928)
Other nonoperating	90,842	119,233	51,000	261,075	359,380	(98,305)
Total nonoperating income (expense)	1,720,566	119,233	51,022	1,890,821	1,820,824	69,997
Change in net position	\$ 16,415,185	\$ (2,597,479)	\$ (525,098)	\$ 13,292,608	\$ 6,586,171	\$ 6,706,437

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# HENRY COUNTY HOSPITAL

## CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2013

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Current assets</b>					
Cash and cash equivalents	\$ 13,228,963	\$ 1,140,543	\$ 494,840	\$ -0-	\$ 14,864,346
Patient accounts receivable, net	17,955,741	-0-	2,648,175	-0-	20,603,916
Supplies and other current assets	5,325,362	163,316	825,768	(74,304)	6,240,142
Due from related parties	27,263,967	-0-	92,952	(26,834,153)	522,766
Current portion of assets whose use is limited	1,171,548	-0-	-0-	-0-	1,171,548
Total current assets	64,945,581	1,303,859	4,061,735	(26,908,457)	43,402,718
<b>Investments</b>	-0-	22,399,837	-0-	-0-	22,399,837
<b>Assets whose use is limited</b>					
Internally designated	17,906,702	-0-	-0-	-0-	17,906,702
By donor - expendable - for capital acquisition	-0-	1,055,003	-0-	-0-	1,055,003
	17,906,702	1,055,003	-0-	-0-	18,961,705
Less current portion	1,171,548	-0-	-0-	-0-	1,171,548
Total assets whose use is limited	16,735,154	1,055,003	-0-	-0-	17,790,157
<b>Capital assets, net</b>	20,674,182	12,109,633	103,106	-0-	32,886,921
<b>Other assets</b>	7,805,493	218,273	38,837	(1,431,413)	6,631,190
Total assets	110,160,410	37,086,605	4,203,678	(28,339,870)	123,110,823
<b>Deferred outflows</b>	150,124	-0-	-0-	-0-	150,124
Total assets and deferred outflows	<u>\$ 110,310,534</u>	<u>\$ 37,086,605</u>	<u>\$ 4,203,678</u>	<u>\$ (28,339,870)</u>	<u>\$ 123,260,947</u>

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# HENRY COUNTY HOSPITAL

## CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2013

LIABILITIES AND NET POSITION	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Current liabilities</b>					
Current portion of long-term debt	\$ 1,171,548	\$ 55,845	\$ -0-	\$ -0-	\$ 1,227,393
Accounts payable and accrued expenses	13,991,350	164,200	1,240,045	(242,258)	15,153,337
Accrued wages and related liabilities	3,942,322	-0-	-0-	-0-	3,942,322
Estimated third-party settlements	1,043,362	-0-	-0-	-0-	1,043,362
Due to related parties	-0-	700,563	27,397,049	(28,097,612)	-0-
Total current liabilities	20,148,582	920,608	28,637,094	(28,339,870)	21,366,414
<b>Other long-term liabilities</b>	350,767	-0-	-0-		350,767
<b>Long-term debt, net of current portion</b>	17,670,984	1,407,758	-0-	-0-	19,078,742
Total liabilities	38,170,333	2,328,366	28,637,094	(28,339,870)	40,795,923
<b>Net position</b>					
Unrestricted	52,401,849	23,057,206	(24,536,522)	-0-	50,922,533
Invested in capital assets, net of related debt	1,831,650	10,646,030	103,106	-0-	12,580,786
Internally designated - funded depreciation	17,906,702	-0-	-0-	-0-	17,906,702
Restricted					
By donor - expendable - for capital acquisition	-0-	1,055,003	-0-	-0-	1,055,003
Total net position	72,140,201	34,758,239	(24,433,416)	-0-	82,465,024
Total liabilities and net position	\$ 110,310,534	\$ 37,086,605	\$ 4,203,678	\$ (28,339,870)	\$ 123,260,947

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# HENRY COUNTY HOSPITAL

## CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2013

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Operating revenue</b>					
Net patient service revenue	\$ 121,678,488	\$ 1,045,510	\$ 21,291,689	\$ (3,840,865)	\$ 140,174,822
Other revenue	3,983,567	2,603,900	-0-	(1,981,832)	4,605,635
Total revenue	125,662,055	3,649,410	21,291,689	(5,822,697)	144,780,457
<b>Operating expenses</b>					
Salaries and benefits	38,681,045	334,336	11,609,663	(636,031)	49,989,013
Medical professional fees	1,620,569	-0-	2,108,002	-0-	3,728,571
Purchased services	32,979,294	247,241	3,985,192	(142,514)	37,069,213
Medical supplies and drugs	9,446,852	-0-	7,731,222	(2,168,990)	15,009,084
Other supplies	4,046,427	11,763	-0-	-0-	4,058,190
Depreciation and amortization	4,584,498	581,742	38,745	-0-	5,204,985
Utilities	2,342,694	239,069	117,313	-0-	2,699,076
Rent	7,706,378	-0-	383,620	(1,823,925)	6,266,073
Hospital assessment fee	3,947,920	-0-	-0-	-0-	3,947,920
Other	8,904,591	1,109,179	576,263	(1,051,237)	9,538,796
Total expenses	114,260,268	2,523,330	26,550,020	(5,822,697)	137,510,921
Operating income (loss)	11,401,787	1,126,080	(5,258,331)	-0-	7,269,536
<b>Nonoperating income (expense)</b>					
Investment income	2,344,211	2,560,853	309	(46,872)	4,858,501
Interest expense	(714,465)	(34,380)	(46,873)	46,872	(748,846)
Other nonoperating	261,075	220,727	88,638	-0-	570,440
Total nonoperating income (expense)	1,890,821	2,747,200	42,074	-0-	4,680,095
Change in net position	13,292,608	3,873,280	(5,216,257)	-0-	11,949,631
<b>Net position beginning of year</b>	58,847,593	30,884,959	(19,217,159)	-0-	70,515,393
<b>Net position end of year</b>	<u>\$ 72,140,201</u>	<u>\$ 34,758,239</u>	<u>\$ (24,433,416)</u>	<u>\$ -0-</u>	<u>\$ 82,465,024</u>

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# HENRY COUNTY HOSPITAL

## CONSOLIDATING STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2013

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Cash flows from operating activities</b>					
Cash received from patients and third party payors	\$ 107,708,109	\$ 1,045,510	\$ 21,053,432	\$ (3,840,865)	\$ 125,966,186
Cash paid to employees for wages and benefits	(38,682,443)	(334,336)	(11,609,663)	636,031	(49,990,411)
Cash paid to vendors for goods and services	(65,571,425)	(1,597,917)	(9,682,491)	4,908,609	(71,943,224)
Other operating receipts, net	3,983,567	2,603,900	-0-	(1,703,775)	4,883,692
Net cash flows from operating activities	7,437,808	1,717,157	(238,722)	-0-	8,916,243
<b>Cash flows from noncapital financing activities</b>					
Other nonoperating	261,075	220,727	-0-	-0-	481,802
Net cash flows from noncapital financing activities	261,075	220,727	-0-	-0-	481,802
<b>Cash flows from capital and related financing activities</b>					
Acquisition and construction of capital assets	(2,397,218)	(734,371)	-0-	-0-	(3,131,589)
Loss on disposal of property and equipment	39,657	-0-	-0-	-0-	39,657
Proceeds from sale of equipment	82,709	1,875	-0-	-0-	84,584
Interest on long-term debt	(714,465)	(34,380)	(46,873)	(46,872)	(842,590)
Principal payments on long-term debt, net	(1,190,031)	(52,856)	-0-	-0-	(1,242,887)
Net cash flows from capital and related financing activities	(4,179,348)	(819,732)	(46,873)	(46,872)	(5,092,825)
<b>Cash flows from investing activities</b>					
Investment income and other non-operating	2,344,211	2,560,853	88,947	46,872	5,040,883
Change in other assets, net	(242,792)	74,896	(27,334)	-0-	(195,230)
Purchases of investments in assets whose use is limited - internally designated, held by Trustee, and investments	(5,065,878)	(7,183,077)	-0-	-0-	(12,248,955)
Proceeds from sale of investments in assets whose use is limited - internally designated, held by Trustee, and investments	2,884,557	4,206,232	-0-	-0-	7,090,789
Change in assets whose use is limited - restricted by donor, net	-0-	(79,807)	-0-	-0-	(79,807)
Net cash flows from investing activities	(79,902)	(420,903)	61,613	46,872	(392,320)
Net change in cash and cash equivalents	3,439,633	697,249	(223,982)	-0-	3,912,900
<b>Cash and cash equivalents</b>					
Beginning of year	10,081,722	443,294	718,822	-0-	11,243,838
End of year	\$ 13,521,355	\$ 1,140,543	\$ 494,840	\$ -0-	\$ 15,156,738

See Report of Independent Auditors on Pages 1 through 3.



# HENRY COUNTY HOSPITAL

## CONSOLIDATING STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2013

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Reconciliation of operating income (loss) to net cash flows from operating activities</b>					
Operating income (loss)	\$ 11,401,788	\$ 1,126,080	\$ (5,258,331)	\$ -0-	\$ 7,269,537
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	4,584,498	581,742	38,745	-0-	5,204,985
Bad debts	6,939,616	-0-	1,255,665	-0-	8,195,281
Changes in assets and liabilities:					
Patient accounts receivable	(16,047,063)	-0-	(1,493,922)	-0-	(17,540,985)
Supplies and other current assets	(2,739,730)	(312)	(53,533)	16,307	(2,777,268)
Accounts payable and accrued expenses	10,346,244	(12,052)	(675,647)	(16,307)	9,642,238
Accrued salaries and related liabilities	(1,398)	-0-	-0-	-0-	(1,398)
Other long-term liabilities	116,923	-0-	-0-	-0-	116,923
Due from (to) related parties	(6,248,057)	21,699	5,948,301	-0-	(278,057)
Estimated third-party settlements	(915,013)	-0-	-0-	-0-	(915,013)
Net cash flows from operating activities	<u>\$ 7,437,808</u>	<u>\$ 1,717,157</u>	<u>\$ (238,722)</u>	<u>\$ -0-</u>	<u>\$ 8,916,243</u>
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>					
Cash and cash equivalents					
In current assets	\$ 13,228,963	\$ 1,140,543	\$ 494,840	\$ -0-	\$ 14,864,346
In assets whose use is limited - internally designated	292,392	-0-	-0-	-0-	292,392
Total cash and cash equivalents	<u>\$ 13,521,355</u>	<u>\$ 1,140,543</u>	<u>\$ 494,840</u>	<u>\$ -0-</u>	<u>\$ 15,156,738</u>

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