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July 15, 2016

Board of Trustees  
Hendricks Regional Health  
P.O. Box 409  
Danville, IN 46122-0409

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2015 to December 31, 2015. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per Report of Independent Auditors opinion, the financial statements included in the report present fairly the financial condition of the Hendricks Regional Health, as of December 31, 2015 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

Paul D. Joyce, CPA  
State Examiner



**Hendricks**  
Regional Health

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2015 AND 2014**

*CPAs / ADVISORS*



# HENDRICKS REGIONAL HEALTH

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Hendricks Regional Health  
Danville, Indiana

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hendricks Regional Health (Hendricks) which comprise the consolidated balance sheets as of December 31, 2015 and 2014 and the related consolidated statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the 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 Hendricks' 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 Hendricks' 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.

Board of Trustees  
Hendricks Regional Health  
Danville, Indiana

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hendricks as of December 31, 2015 and 2014, 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.

### Change in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, in 2015, Hendricks adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68. Our opinion is not modified with respect to this matter.

### Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the schedules of pension plan information be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated 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  
Hendricks Regional Health  
Danville, Indiana

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net position and cash flows of the individual entities, and 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 information has been subjected to the auditing procedures applied in the audits 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, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Blue & Co., LLC*

Indianapolis, Indiana  
May 31, 2016

**REQUIRED SUPPLEMENTARY INFORMATION**

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# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2015 AND 2014

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This section of Hendricks Regional Health's (Hendricks) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of Hendricks' consolidated financial performance during the year ended December 31, 2015. This MD&A does include a discussion and analysis of the activities and results of the Blended Component Units, Hendricks Regional Health Foundation, Inc. and Hendricks Ambulatory Management Company, LLC. Please read it in conjunction with Hendricks' consolidated financial statements that follow this MD&A.

### Financial Highlights

- Hendricks' net position increased approximately \$36,556,000 or 11% in 2015.
- Hendricks reported operating income of approximately \$40,825,000 for 2015, representing an increase of approximately \$8,826,000 in comparison to the 2014 results.
- Hendricks continued its expansion of facilities and equipment in 2015 by adding approximately \$25,704,000 in gross property and equipment. Hendricks disposed of capital assets with a net book value of approximately \$257,000 during 2015. These items combined with depreciation expense of approximately \$15,758,000 resulted in net capital assets increasing approximately \$9,689,000 from the prior year.
- Hendricks' assets whose use is limited increased approximately \$16,868,000 as a result of operating income and investment returns.
- During 2015 and 2014, Hendricks recognized approximately \$253,059,000 and \$198,906,000, respectively, of gross patient service revenue related to long-term care.

### Using This Annual Report

Hendricks' consolidated financial statements consist of four statements – a Balance Sheet; a Statement of Revenues and Expenses, a Statement of Changes in Net Position; and a Statement of Cash Flows. These consolidated financial statements and related notes provide information about the financial activities and the financial position of Hendricks.

The Consolidated Balance Sheet includes all of Hendricks' assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).

All of the current year's revenue earned and expenses incurred are accounted for in the Consolidated Statement of Revenues and Expenses. The Consolidated Statement of Changes in Net Position summarizes the changes in net position for the year.

# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2015 AND 2014

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Finally, the purpose of the Consolidated Statement of Cash Flows is to provide information about Hendricks' cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and the change in cash balance during the year.

### **The Consolidated Balance Sheet and Statement of Revenues and Expenses**

One of the most important questions asked about Hendricks' finances is, "Is Hendricks as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues and expenses report information about Hendricks' 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 Hendricks' net position and changes in it. Think of Hendricks' net position, the difference between assets and liabilities, as one way to measure Hendricks' financial health, or financial position. Over time, increases or decreases in Hendricks' net position are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in Hendricks' patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of Hendricks.

#### Table 1: Consolidated Balance Sheets

The significant change in Hendricks' assets and deferred outflows was in assets whose use is limited which increased approximately \$16,868,000 in 2015 compared to 2014. The total asset and deferred outflows increase of approximately \$56,973,000 in 2015 was 11.6% from 2014.

Capital assets, prior to depreciation, increased approximately \$16,869,000 while accumulated depreciation increased approximately \$7,180,000 for a net increase in capital assets of approximately \$9,689,000 in 2015.

Current liabilities increased by approximately \$24,069,000 mainly related to an increase in accrued expenses and other current liabilities of approximately \$20,583,000 and accounts payable of approximately \$4,181,000 for 2015.

Net position increased by approximately \$36,556,000 in 2015 compared to 2014. The increase relates to operating income and investment return.

## HENDRICKS REGIONAL HEALTH

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2015 AND 2014

The following is a summary of the balance sheets for Hendricks.

	2015	Restated 2014	Change 2015 - 2014	Restated 2013
<b>Assets</b>				
Current assets	\$ 140,080,125	\$ 107,964,350	\$ 32,115,775	\$ 108,749,396
Capital assets, net	215,784,814	206,095,940	9,688,874	203,769,763
Assets whose use is limited	176,298,339	159,430,416	16,867,923	131,506,649
Other assets	8,121,502	15,493,227	(7,371,725)	14,796,274
Total assets	540,284,780	488,983,933	51,300,847	458,822,082
<b>Deferred outflows</b>	7,467,158	1,795,457	5,671,701	1,913,192
Total assets and deferred outflows	<u>\$ 547,751,938</u>	<u>\$ 490,779,390</u>	<u>\$ 56,972,548</u>	<u>\$ 460,735,274</u>
<b>Liabilities</b>				
Current liabilities	\$ 86,587,811	\$ 62,519,168	\$ 24,068,643	\$ 61,463,132
Long-term debt	102,923,349	106,562,019	(3,638,670)	111,478,565
Total liabilities	189,511,160	169,081,187	20,429,973	172,941,697
<b>Deferred inflows</b>	41,042	54,722	(13,680)	68,402
Total liabilities and deferred inflows	189,552,202	169,135,909	20,416,293	173,010,099
<b>Net position</b>				
Net investment in capital assets	115,099,431	96,649,378	18,450,053	89,709,390
Restricted	23,834,571	24,825,100	(990,529)	25,340,676
Unrestricted	219,265,734	200,169,003	19,096,731	172,675,109
Total net position	358,199,736	321,643,481	36,556,255	287,725,175
Total liabilities, deferred inflows and net position	<u>\$ 547,751,938</u>	<u>\$ 490,779,390</u>	<u>\$ 56,972,548</u>	<u>\$ 460,735,274</u>

Total assets and deferred outflows in 2014 compared to 2013 increased approximately \$30,044,000. The majority of the change was in assets whose use is limited whose increase was approximately \$27,924,000 in 2014 from 2013. Net capital assets and other assets increased approximately a combined \$3,023,000 in 2014.

Total liabilities in 2014 decreased approximately \$3,861,000 mainly related to principal payments on long-term debt.

The net position in 2014 increased approximately \$33,918,000 over 2013 based on operating income and investment return.

# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2015 AND 2014

Table 2: Consolidated Statements of Revenues and Expenses

Hendricks' performance in 2015 was favorable with a return on equity of 10.2% compared to prior year's 10.5%.

Total operating revenue increased approximately \$31,277,000 as net patient service revenue increased approximately \$31,067,000 in 2015 over 2014. Long-term care services constituted the majority of the increase in 2015.

Expenses increased by approximately \$22,451,000 between 2014 and 2015. Salaries, wages and benefits increased approximately \$13,065,000 while medical supplies and drugs increased approximately \$3,887,000 in 2015. Long-term care services contributed to the majority of the 2015 increase related to facility and equipment leases of approximately \$2,554,000 and other supplies and expenses of approximately \$4,067,000.

Nonoperating income (expense) decreased by approximately \$6,037,000 due to investment income of approximately \$1,593,000 in 2015 compared to approximately \$7,854,000 in 2014 combined with interest expense decreasing approximately \$225,000 from 2014.

	2015	Restated 2014	Change 2015 - 2014	2013
<b>Operating revenue</b>				
Net patient service revenue	\$ 488,304,748	\$ 457,237,544	\$ 31,067,204	\$ 407,880,347
Other operating revenue	6,571,883	6,361,995	209,888	8,792,712
Total operating revenue	494,876,631	463,599,539	31,277,092	416,673,059
<b>Operating expenses</b>				
Salaries and benefits	122,150,217	109,085,398	13,064,819	109,238,561
Medical supplies and drugs	39,656,598	35,769,642	3,886,956	30,572,425
Depreciation and amortization	15,907,206	14,623,198	1,284,008	13,516,113
Other operating expenses	276,338,069	272,122,756	4,215,313	224,944,456
Total operating expenses	454,052,090	431,600,994	22,451,096	378,271,555
Operating income	40,824,541	31,998,545	8,825,996	38,401,504
<b>Nonoperating income (expense)</b>				
Investment income	1,592,974	7,854,345	(6,261,371)	5,559,776
Interest expense	(5,125,952)	(5,350,629)	224,677	(5,572,129)
Total nonoperating income (expense), net	(3,532,978)	2,503,716	(6,036,694)	(12,353)
Change in net position before other items	37,291,563	34,502,261	2,789,302	38,389,151
<b>Other items</b>				
Contributions from non-controlling interest	99,892	-0-	99,892	29,696
Dividends to non-controlling interest	(835,200)	(583,955)	(251,245)	(79,890)
<b>Change in net position</b>	<b>\$ 36,556,255</b>	<b>\$ 33,918,306</b>	<b>\$ 2,637,949</b>	<b>\$ 38,338,957</b>

Note - The 2013 statement of revenues and expenses was not restated as it was not practical to determine the effects of GASB 68 as no valuation was performed as of January 1, 2013.

# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2015 AND 2014

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Total operating revenue increased approximately \$46,926,000 as net patient service revenue increased approximately \$49,357,000 in 2014 over 2013. Long-term care services constituted the majority of the increase in 2014.

Expenses increased by approximately \$53,329,000 between 2013 and 2014. Long-term care services contributed to the majority of the 2014 increase related to purchased services, facility and equipment leases and other supplies and expenses which increased in total by approximately \$35,623,000 in 2014.

Nonoperating income (expense) increased by approximately \$2,516,000 due to investment income of approximately \$7,854,000 in 2014 compared to \$5,560,000 in 2013 and interest expense decreasing approximately \$222,000 from 2013.

### Consolidated Statements of Changes in Net Position

Hendricks' net position increased approximately \$36,556,000 in 2015, \$33,918,000 in 2014 and \$38,339,000 in 2013 including contributions and distributions for non-controlling interest. The following is a net position progression:

	2015	Restated 2014	2013
Net position, beginning of year	\$ 321,643,481	\$ 287,725,175	\$ 249,386,218
Change in net position	36,556,255	33,918,306	38,338,957
Net position, end of year	<u>\$ 358,199,736</u>	<u>\$ 321,643,481</u>	<u>\$ 287,725,175</u>

Note - The 2013 statement of changes in net position was not restated as it was not practical to determine the effects of GASB 68 as no valuation was performed as of January 1, 2013.

### Consolidated Statements of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes 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?"

Total cash and cash equivalents increased approximately \$13,577,000 in 2015. This was an increase of approximately \$10,249,000 from 2014. Operating activities generated cash and cash equivalents of approximately \$63,260,000 during 2015, an increase of approximately \$12,884,000 from 2014. Capital and related financing decreased cash and cash equivalents by approximately \$32,365,000 during 2015 compared to a decrease of approximately \$26,530,000 in 2014, mainly as the result of expenditures for property and equipment additions. Investing activities decreased cash and cash equivalents by approximately \$17,318,000 in 2015 compared to approximately \$20,518,000 in 2014, due to investment activity and the purchase of investments with available cash equivalents.

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# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2015 AND 2014

	2015	Restated 2014	Change 2015 - 2014	2013
<b>Cash flow from activities</b>				
Operating	\$ 63,260,208	\$ 50,376,590	\$ 12,883,618	\$ 59,580,817
Capital and related financing	(32,364,504)	(26,529,919)	(5,834,585)	(23,229,128)
Investing	(17,318,310)	(20,518,414)	3,200,104	(12,240,126)
Change in cash and cash equivalents	<u>\$ 13,577,394</u>	<u>\$ 3,328,257</u>	<u>\$ 10,249,137</u>	<u>\$ 24,111,563</u>

Note - The 2013 statement of cash flows was not restated as it was not practical to determine the effects of GASB 68 as no valuation was performed as of January 1, 2013.

Cash flows from operating activities in 2014 were approximately \$9,204,000 lower than 2013. Cash flows used in capital and related financing activities in 2014 were approximately \$3,301,000 more than 2013. Finally, cash flows used in investing activities in 2014 were approximately \$8,278,000 more than 2013. Cash and cash equivalents in total increased approximately \$3,328,000 in 2014 and also increased in total by approximately \$24,112,000 in 2013.

### Sources of Revenue

During 2015, Hendricks derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 50% of gross revenues of the hospital operations in 2015 but only 32% of Hendricks' net patient service revenues. Following is a table of major sources of gross patient revenues for 2015:

Payor	% of Gross Revenues
Medicare	43%
Anthem/Blue Cross	25%
Commercial and other	21%
Medicaid	7%
Self-Pay	4%
Total	<u>100%</u>

Outpatient services represented approximately 75% of acute care gross patient revenue for both 2015 and 2014. According to the Indiana Hospital Association's IHA Databank, the State of Indiana's average outpatient percent of total charges was approximately 56% and 53% for 2015 and 2014, respectively.

# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2015 AND 2014

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### Capital Assets

During 2015, Hendricks invested approximately \$16,869,000 in capital assets net of asset disposals compared to \$7,449,000 in 2014. Capital assets net of asset disposals added during 2013 were \$12,979,000. The change in capital assets is outlined in the following table:

	2015	2014	Change 2015 - 2014	2013
Land and improvements	\$ 22,771,415	\$ 22,593,377	\$ 178,038	\$ 22,318,268
Buildings and fixed equipment	262,186,045	253,106,765	9,079,280	245,289,973
Major moveable equipment	86,565,487	76,974,775	9,590,712	79,924,436
Construction in progress	658,195	2,637,667	(1,979,472)	331,097
Total capital assets	372,181,142	355,312,584	16,868,558	347,863,774
Less accumulated depreciation	156,396,328	149,216,644	7,179,684	144,094,011
Capital assets - net	<u>\$ 215,784,814</u>	<u>\$ 206,095,940</u>	<u>\$ 9,688,874</u>	<u>\$ 203,769,763</u>

Hendricks continues to invest in its facilities to meet the needs of the community, and strives to replace, as well as upgrade, equipment as needed.

### Debt

Total long-term debt decreased from approximately \$111,242,000 to \$108,153,000 in 2015 due mainly to normal principal payments. During 2015, Hendricks did issue long-term debt to construct a new ambulatory care facility. More detailed information about Hendricks' long-term debt is presented in the Notes to the Consolidated Financial Statements.

### Economic Outlook

Management believes that the health care industry's and Hendricks' operating margins will continue to be under pressure due to a variety of factors including, but not limited to, health care reform, changes in payor and services mix, and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. In addition, the adoption of high-deductible health plans by employers continues to occur and patients are increasingly being held responsible for more of the cost of health care. Consequently, the health care market place has been increasingly more competitive. The ongoing challenge facing Hendricks is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant factor affecting Hendricks is finding the balance in maintaining and controlling labor costs in the face of pressures on volume and pricing for its services in this increasingly competitive, retail-like environment.

# HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2015 AND 2014

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## **Contacting Hendricks' Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of Hendricks' finances and to show Hendricks' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative Offices (ATTN: Vice President of Finance/CFO), at PO Box 409, Danville, IN, 46122-0409.

# HENDRICKS REGIONAL HEALTH

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2015 AND 2014

### ASSETS AND DEFERRED OUTFLOWS

	2015	Restated 2014
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,304,607	\$ 8,474,250
Investments	52,990,776	36,133,462
Patient accounts receivable, less allowance for uncollectible accounts of \$24,024,000 in 2015 and \$28,584,000 in 2014	42,884,899	38,709,288
Inventories	2,475,575	2,544,405
Other current assets	30,195,076	17,422,945
Current portion of assets whose use is limited	5,229,192	4,680,000
Total current assets	140,080,125	107,964,350
<b>Assets whose use is limited</b>		
Board designated funded depreciation investments	172,042,613	154,530,628
Held by trustee for debt service	8,979,257	9,099,334
Other board designated investments	505,661	480,454
Total assets whose use is limited	181,527,531	164,110,416
Less current portion	5,229,192	4,680,000
Noncurrent assets whose use is limited	176,298,339	159,430,416
<b>Capital assets</b>		
Land	16,574,202	16,407,702
Depreciable capital assets	354,948,745	336,267,215
Construction in progress	658,195	2,637,667
	372,181,142	355,312,584
Less accumulated depreciation	156,396,328	149,216,644
Capital assets, net	215,784,814	206,095,940
<b>Other assets</b>		
Pension asset	7,845,708	14,619,278
Other	275,794	873,949
Total other assets	8,121,502	15,493,227
Total assets	540,284,780	488,983,933
<b>Deferred outflows</b>	7,467,158	1,795,457
Total assets and deferred outflows	\$ 547,751,938	\$ 490,779,390

See accompanying notes to consolidated financial statements.

# HENDRICKS REGIONAL HEALTH

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2015 AND 2014

### LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	2015	Restated 2014
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 5,229,192	\$ 4,680,000
Accounts payable	17,618,658	13,437,184
Accrued salaries and related liabilities	9,008,212	8,512,542
Accrued expenses and other current liabilities	52,028,900	31,446,365
Accrued interest	1,752,912	1,836,829
Estimated third-party settlements	949,937	2,606,248
Total current liabilities	<u>86,587,811</u>	<u>62,519,168</u>
<b>Long-term debt, net of current portion</b>	<u>102,923,349</u>	<u>106,562,019</u>
Total liabilities	189,511,160	169,081,187
<b>Deferred inflows</b>	41,042	54,722
Total liabilities and deferred inflows	<u>189,552,202</u>	<u>169,135,909</u>
<b>Net position</b>		
Net investment in capital assets	115,099,431	96,649,378
Restricted		
Debt service	8,979,257	9,099,334
Restricted for pension - expendable	13,594,102	14,564,556
Non-expendable	1,261,212	1,161,210
Total restricted	<u>23,834,571</u>	<u>24,825,100</u>
Unrestricted	<u>219,265,734</u>	<u>200,169,003</u>
Total net position	<u>358,199,736</u>	<u>321,643,481</u>
Total liabilities, deferred inflows and net position	<u><u>\$ 547,751,938</u></u>	<u><u>\$ 490,779,390</u></u>

See accompanying notes to consolidated financial statements.

## HENDRICKS REGIONAL HEALTH

### CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	Restated 2014
<b>Operating revenue</b>		
Net patient service revenue	\$ 488,304,748	\$ 457,237,544
Other operating revenue	6,571,883	6,361,995
Total operating revenue	494,876,631	463,599,539
<b>Operating expenses</b>		
Salaries and wages	93,606,250	87,191,669
Employee benefits	28,543,967	21,893,729
Professional medical fees	1,713,680	2,342,882
Other professional fees	24,968,237	18,657,518
Medical and surgical supplies	28,230,717	26,575,459
Drugs and intravenous solutions	11,425,881	9,194,183
Food	6,414,693	6,557,509
Purchased services	149,068,752	148,915,943
Equipment rental	3,192,471	3,442,762
HAF Program	3,106,589	12,058,688
Telephone and utilities	8,943,035	9,450,183
Depreciation and amortization	15,907,206	14,623,198
Insurance	6,437,465	4,825,095
Facility and equipment leases	29,960,580	27,406,480
Other supplies and expenses	42,532,567	38,465,696
Total operating expenses	454,052,090	431,600,994
Operating income	40,824,541	31,998,545
<b>Nonoperating income (expense)</b>		
Investment income	1,592,974	7,854,345
Interest expense	(5,125,952)	(5,350,629)
Total nonoperating income (expense), net	(3,532,978)	2,503,716
Change in net position before other items	37,291,563	34,502,261
<b>Other items</b>		
Contributions from non-controlling interest	99,892	-0-
Dividends to non-controlling interest	(835,200)	(583,955)
<b>Change in net position</b>	\$ 36,556,255	\$ 33,918,306

See accompanying notes to consolidated financial statements.

## HENDRICKS REGIONAL HEALTH

### CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2015 AND 2014

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	Controlling Interest	Non-controlling Interest	Total
<b>Net position balances</b>			
December 31, 2013, restated	\$ 286,567,617	\$ 1,157,558	\$ 287,725,175
Change in net position	<u>33,914,654</u>	<u>3,652</u>	<u>33,918,306</u>
December 31, 2014, restated	320,482,271	1,161,210	321,643,481
Change in net position	<u>36,456,253</u>	<u>100,002</u>	<u>36,556,255</u>
December 31, 2015	<u>\$ 356,938,524</u>	<u>\$ 1,261,212</u>	<u>\$ 358,199,736</u>

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See accompanying notes to consolidated financial statements.

## HENDRICKS REGIONAL HEALTH

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	Restated 2014
<b>Operating activities</b>		
Cash received from patient services	\$ 482,472,826	\$ 467,250,304
Cash paid for salaries, wages and benefits	(120,566,358)	(113,087,074)
Cash paid to vendors and suppliers	(305,218,143)	(310,148,635)
Other receipts, net	6,571,883	6,361,995
Net cash flows from operating activities	63,260,208	50,376,590
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(23,822,011)	(16,042,527)
Contributions from non-controlling interest	99,892	-0-
Dividends to non-controlling interest	(835,200)	(583,955)
Loss of disposal of property and equipment	257,115	22,088
Interest on long-term debt	(5,209,869)	(5,430,525)
Proceeds from issuance of long-term debt	2,083,369	-0-
Principal payments for long-term debt	(4,937,800)	(4,495,000)
Net cash flows from capital and related financing activities	(32,364,504)	(26,529,919)
<b>Investing activities</b>		
Investment income	1,592,974	7,854,345
Purchase of investments	(40,462,399)	(52,727,871)
Proceeds from sale of investments	21,551,115	24,355,112
Net cash flows from investing activities	(17,318,310)	(20,518,414)
Net change in cash and cash equivalents	13,577,394	3,328,257
<b>Cash and cash equivalents</b>		
Beginning of year	55,107,690	51,779,433
End of year	\$ 68,685,084	\$ 55,107,690
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents		
In current assets - cash and cash equivalents	\$ 6,304,607	\$ 8,474,250
In investments	52,112,994	35,297,887
In board designated funds	10,267,483	11,335,553
Total cash and cash equivalents	\$ 68,685,084	\$ 55,107,690

See accompanying notes to consolidated financial statements.

## HENDRICKS REGIONAL HEALTH

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	Restated 2014
<b>Reconciliation of operating income to net cash flows from operating activities</b>		
Operating income	\$ 40,824,541	\$ 31,998,545
Adjustment to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	15,907,206	14,623,198
Provision for bad debts	16,929,696	22,397,804
Changes in operating assets and liabilities		
Patient accounts receivable	(21,105,307)	(13,440,812)
Inventories	68,830	(467,809)
Other current assets	(12,772,131)	(4,085,490)
Pension asset	6,773,570	531,130
Other assets	598,155	(202,578)
Deferred outflows	(5,671,701)	117,735
Accounts payable	2,299,135	(2,160,090)
Accrued salaries and related liabilities	495,670	(4,519,126)
Accrued expenses and other current liabilities	20,582,535	4,541,995
Estimated third-party settlements	(1,656,311)	1,055,768
Deferred inflows	(13,680)	(13,680)
Net cash flows from operating activities	\$ 63,260,208	\$ 50,376,590
<b>Supplemental disclosure of cash flows information</b>		
Cash paid for interest	\$ 5,293,786	\$ 5,510,421
<b>Noncash capital and related financing activities</b>		
Property purchases in accounts payable	\$ 1,882,339	\$ 889,145

See accompanying notes to consolidated financial statements.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

Hendricks County Hospital, doing business as Hendricks Regional Health (Hendricks), is a county owned facility operating under the Indiana County Hospital Law, Indiana Code 16-22. Hendricks provides inpatient, outpatient, emergency and ambulatory care as well as long-term care. The Board of County Commissioners of Hendricks County appoints the Governing Board of Hendricks and a financial benefit/burden relationship exists between Hendricks County (County) and Hendricks. For these reasons, Hendricks is considered a component unit of the County.

The consolidated financial statements of Hendricks are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of Hendricks and its component units. They do not purport to, and do not, present fairly the financial position of the County as of December 31, 2015 and 2014, the changes in its net position or its cash flows for the years then ended.

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

#### Long-Term Care Operations

Hendricks owns the operations of over twenty-five 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 Hendricks, who 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 Hendricks, who retains the authority and legal responsibility for the operation of the facilities.

Hendricks has lease agreements for the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, Hendricks entered into agreements with the Managers to manage the leased facilities. As part of the agreements, Hendricks pays the Managers a management fee to continue managing the facilities on behalf of Hendricks 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 2019. 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.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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### Basis of Consolidation

The accompanying consolidated financial statements of Hendricks include the accounts of the Blended Component Unit - Hendricks Regional Health Foundation, Inc. (Foundation), a separate not-for-profit entity organized to support the operations of Hendricks. It also includes the accounts of the Blended Component Unit - Hendricks Ambulatory Management Company, LLC (HAMCO), a separate limited liability company entity.

HAMCO was formed to manage Hendricks' outpatient surgery center. As the sole Class B member of HAMCO, Hendricks maintains controlling interest in voting rights. Hendricks also maintains substantial participation in the operations of HAMCO in addition to an economic interest in HAMCO's financial position.

All significant transactions between the entities have been eliminated for financial reporting purposes.

### Enterprise Fund Accounting

Hendricks utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United State 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### New Accounting Standards

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

Government Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, issued February 2015, will be effective for periods beginning after June 15, 2015. This Statement will enhance the comparability of financial statements among governmental entities by requiring the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a governmental entities financial position.

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# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, issued June 2015, will be effective for financial statements for periods beginning after June 15, 2015. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

### 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. Hendricks maintains its cash in accounts, which at times may exceed federally insured limits. Hendricks has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents. Included in cash and cash equivalents are amounts held by Hendricks under agreement with the State of Indiana relating to non-state government operated nursing facilities. These funds are required to be held through the end of Hendricks’ fiscal year, at which time they are available for the general corporate purposes of Hendricks. Subsequent to December 31, 2015, approximately \$50,177,000 of funds became available and was invested with assets whose use is limited – board designated funds.

### Investments

Investments consist of cash, cash equivalents, certificates of deposit which are reported at contract value which approximates fair value. Mutual funds are reported at fair value.

### Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. Hendricks is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At year-end, a cost report for hospital-based services is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party programs. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2013 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2014 and 2015 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2015 and 2014, Hendricks recognized an increase in net position of approximately \$500,000 and \$200,000, respectively, in the consolidated statements of revenues and expenses due to the differences between original estimates and

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## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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

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

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

Hendricks receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, Hendricks must meet "meaningful use" criteria that become more stringent over time. Hendricks 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). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in Hendricks' cost reports for hospital-based services.

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.

Hendricks recognizes EHR incentive payments as grant income when there is reasonable assurance that Hendricks will comply with the conditions of the meaningful use objectives and any other specific agreement requirements. In addition, the financial statement effects of the income must be both recognizable and measurable. During 2015 and 2014, Hendricks recognized approximately \$813,000 and \$1,240,000, respectively, in EHR incentive payments as income. Under the ratable recognition method, Hendricks 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.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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EHR incentive income is included in other operating revenue in the consolidated statements of revenues and expenses. 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 Hendricks as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

### Inventories

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

	<u>2015</u>	<u>2014</u>
Medical supplies and other	\$ 1,982,249	\$ 2,051,079
Pharmaceutical	493,326	493,326
	<u>\$ 2,475,575</u>	<u>\$ 2,544,405</u>

### Other Current Assets

Other current assets consist of prepaid expenses, other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized within the next fiscal year.

### Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments designated by Hendricks' Board for internal purposes and investments held by trustees for debt service and capital improvements. These investments consist primarily of cash and cash equivalents, certificates of deposit, mutual funds and fixed income obligations. Investment income, to the extent not capitalized, is reported as nonoperating income in the consolidated statements of revenues and expenses.

### Capital Assets and Depreciation

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 Hendricks' capitalization threshold and which substantially increase the useful lives of existing facilities. Maintenance, repairs and minor renewals are expensed as incurred.

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# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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Hendricks provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method.

The range of useful lives in computing depreciation is as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	15 years
Buildings and fixed equipment	4-50 years
Major movable equipment	5-15 years

### Advertising and Community Relations

Hendricks records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was approximately \$1,523,000 and \$1,976,000 for 2015 and 2014, respectively.

### Net Position

Net position of Hendricks is classified in four components. (1) Net investment in capital assets consist of capital assets net of accumulated depreciation plus deferred outflows related to losses on bond refundings which are reduced by the balance of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Restricted expendable net position includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to Hendricks, including amounts deposited with trustees as required by revenue note indentures and defined benefit pension plans including related deferred outflows for defined benefit pension plans (3) Restricted nonexpendable net position includes the principal portion of permanent endowments and non-controlling interests owned by external investors. (4) Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted. Hendricks first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

### Consolidated Statements of Revenues and Expenses

Hendricks' consolidated statements of revenues and expenses distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services which is the principal activity of Hendricks. Contributions and investment income are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, excluding interest costs.

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# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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### Charity Care and Assistance to the Uninsured

Hendricks provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care and financial assistance policy, including those patients who are uninsured. Because Hendricks does not collect amounts deemed to be charity care, revenue is adjusted for these amounts. Hendricks 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 and financial assistance policy. The charity care charges provided during 2015 and 2014 were approximately \$8,034,000 and \$7,775,000, respectively. Hendricks did not change its charity care and financial assistance policy during 2015 and 2014.

Of Hendricks' total expenses reported, including interest expense, in 2015 and 2014, an estimated \$3,354,000 and \$3,340,000 arose from providing services to charity patients during 2015 and 2014, 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 Hendricks' total expenses including interest expense to gross patient service revenue.

Hendricks has a policy with discounted rates similar to contractual payors for uninsured patients. Uninsured self pay discounts provided to patients were approximately \$4,504,000 and \$4,200,000 for 2015 and 2014, respectively.

### 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.

### Federal or State Income Taxes

Hendricks is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes and, accordingly, is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, Hendricks 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 organization under Section 501(c)(3) of the United States IRC. 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, 2014. 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).

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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HAMCO is a Limited Liability Company (LLC) and profit and loss are passed through to the members of the LLC. HAMCO has filed its federal and state income tax returns for periods through December 31, 2014. 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).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Hendricks, the Foundation, and HAMCO 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, 2015 and 2014, 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 HAMCO are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

### Compensated Absences

Hendricks' employees earn time off at varying rates depending on years of service under separate policies for vacation and personal leaves. The estimated amount of unused time off is reported as a liability in the consolidated financial statements.

### Pensions

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

### Reclassifications

Certain amounts from the 2014 consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications have no effect on previously reported net position or change in net position.

### Litigation

Hendricks is exposed to litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Hendricks' future financial position, results from operations or cash flows.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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### Risk Management

Hendricks 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; 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.

### Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, Hendricks has the option to purchase insurance for claims having occurred during its term but reported subsequently. The Indiana Medical Malpractice Act (the Act) provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) for professional liability, \$250,000 of which would be paid through Hendricks' malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund.

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

This provides protection from liability in an amount not to exceed \$250,000 per incident and aggregate liability protection not to exceed \$7,500,000 per year. In addition, Hendricks maintains a commercial umbrella/excess liability policy with a limit of \$1,000,000 each occurrence, \$1,000,000 fire legal liability, \$1,000,000 personal and advertising injury, and a \$3,000,000 total policy aggregate.

### Subsequent Events

Hendricks evaluates events or transactions occurring subsequent to consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is May 31, 2016.

## **2. RESTATEMENT FOR CHANGE IN ACCOUNTING PRINCIPLE**

During 2015, Hendricks implemented GASB Statement No. 68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to certain pensions. The Statement improves the decision usefulness of information in employer and governmental non-employer contributing entity financial reports and enhances its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension asset/liability and a more comprehensive measure of pension expense.

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## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

During 2015, Hendricks implemented GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

The 2014 consolidated financial statements have been retroactively restated to address the implementation of these new standards and the effects on the consolidated financial statements are detailed below:

	December 31, 2014		
	Previously Reported	Adjustment	Restated
Consolidated balance sheet			
Pension asset	\$ -0-	\$ 14,619,278	\$ 14,619,278
Total assets and deferred outflows	\$ 476,160,112	\$ 14,619,278	\$ 490,779,390
Accrued expenses and other current liabilities	\$ 32,440,678	\$ (994,313)	\$ 31,446,365
Total current liabilities	\$ 63,513,481	\$ (994,313)	\$ 62,519,168
Total liabilities	\$ 170,075,500	\$ (994,313)	\$ 169,081,187
Deferred inflows	\$ -0-	\$ 54,722	\$ 54,722
Total liabilities and deferred inflows	\$ 170,075,500	\$ (939,591)	\$ 169,135,909
Restricted for pension - expendable	\$ -0-	\$ 14,564,556	\$ 14,564,556
Total restricted	\$ 10,260,544	\$ 14,564,556	\$ 24,825,100
Unrestricted	\$ 199,174,690	\$ 994,313	\$ 200,169,003
Total net position	\$ 306,084,612	\$ 15,558,869	\$ 321,643,481
Total liabilities, deferred inflows and net position	\$ 476,160,112	\$ 14,619,278	\$ 490,779,390
Consolidated statement of revenues, expenses and changes in net position			
Employee benefits	\$ 22,370,592	\$ (476,863)	\$ 21,893,729
Total expenses	\$ 432,077,857	\$ (476,863)	\$ 431,600,994
Operating income	\$ 31,521,682	\$ 476,863	\$ 31,998,545
Change in net position before other items	\$ 34,025,398	\$ 476,863	\$ 34,502,261
Change in net position	\$ 33,441,443	\$ 476,863	\$ 33,918,306
Total net position, December 31, 2013	\$ 272,643,169	\$ 15,082,006	\$ 287,725,175
Consolidated statement of cash flows			
Operating activities			
Operating income	\$ 31,521,682	\$ 476,863	\$ 31,998,545
Pension asset	\$ -0-	\$ 531,130	\$ 531,130
Accrued salaries and related liabilities	\$ (3,524,813)	\$ (994,313)	\$ (4,519,126)
Deferred inflows	\$ -0-	\$ (13,680)	\$ (13,680)

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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### 3. INVESTMENTS

Investments consist of cash and cash equivalents. Mutual funds are reported at fair value. Investments balances as of December 31, 2015 and 2014 were approximately \$52,991,000 and \$36,133,000, respectively. Certificates of deposit are reported at contract value.

### 4. ASSETS WHOSE USE IS LIMITED

Hendricks funds depreciation expense to meet the capital equipment needs of the facility. Depreciation is funded totally, with expenditures for capital equipment and debt principal payments reducing the funded depreciation balance. Hendricks designates other investments to fund specific projects. All interest earned by the funded depreciation and other board designated investments accounts are left to accumulate as an addition to the funds. Hendricks maintains funds which are held by trustee for debt service, capital improvements, and other purposes.

The following represents assets whose use is limited as of December 31, 2015 and 2014:

	2015	2014
Assets whose use is limited		
Cash and cash equivalents	\$ 10,267,483	\$ 11,335,553
Certificates of deposit	300,000	300,753
Investments	170,960,048	152,474,110
	<u>\$ 181,527,531</u>	<u>\$ 164,110,416</u>

### 5. DEPOSITS AND INVESTMENTS

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

Investments are carried at fair market value except for certificates of deposits which are carried at contract value. 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 fixed income obligations.

## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

As of December 31, 2015 and 2014, Hendricks had the following investments and maturities, all of which were held in Hendricks' name by custodial banks that are agents of Hendricks:

December 31, 2015					
Investment Maturities (in years)					
Carrying Amount	Less than 1	1-5	6-10	More than 10	
Certificates of deposit	\$ 300,000	\$ 300,000	\$ -0-	\$ -0-	\$ -0-
Mutual funds	166,710,330	166,710,330	-0-	-0-	-0-
Fixed income obligations	5,127,500	-0-	-0-	-0-	5,127,500
	\$ 172,137,830	\$ 167,010,330	\$ -0-	\$ -0-	\$ 5,127,500

  

December 31, 2014					
Investment Maturities (in years)					
Carrying Amount	Less than 1	1-5	6-10	More than 10	
Certificates of deposit	\$ 300,753	\$ 300,753	\$ -0-	\$ -0-	\$ -0-
Mutual funds	148,309,685	148,309,685	-0-	-0-	-0-
Fixed income obligations	5,000,000	-0-	-0-	-0-	5,000,000
	\$ 153,610,438	\$ 148,610,438	\$ -0-	\$ -0-	\$ 5,000,000

Credit risk - Statutes authorize Hendricks 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.

Concentration of credit risk - Hendricks maintains its investments, which at times may exceed federally insured limits. Hendricks has not experienced any losses in such accounts. Hendricks believes that it is not exposed to any significant credit risk on investments.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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Deposits and investments consist of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Carrying amount		
Deposits	\$ 68,685,084	\$ 55,107,690
Investments	172,137,830	153,610,438
	<u>\$ 240,822,914</u>	<u>\$ 208,718,128</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 6,304,607	\$ 8,474,250
Investments	52,990,776	36,133,462
Board designated funded depreciation investments	172,042,613	154,530,628
Held by trustee for debt service	8,979,257	9,099,334
Other board designated investments	505,661	480,454
	<u>\$ 240,822,914</u>	<u>\$ 208,718,128</u>

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

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

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## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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, 2015 and 2014:

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by Hendricks are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by Hendricks are deemed to be actively traded.
- *Fixed income obligations*: Valued at the closing price reported on the active market on which the individual securities are traded, when available. The fair value of fixed income obligations for which quoted market price is not available are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 and 2014 are as follows:

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - total return bond	\$ 877,782	\$ 877,782	\$ -0-	\$ -0-
Cash and cash equivalents	52,112,994			
	\$ 52,990,776			
Assets whose use is limited				
Mutual funds				
Total return bond	\$ 109,007,659	\$ 109,007,659	\$ -0-	\$ -0-
Small-cap value	5,910,209	5,910,209	-0-	-0-
Growth	19,374,703	19,374,703	-0-	-0-
Large blend	31,539,977	31,539,977	-0-	-0-
Total mutual funds	165,832,548	165,832,548	-0-	-0-
Fixed income obligations	5,127,500	-0-	5,127,500	-0-
	170,960,048	\$ 165,832,548	\$ 5,127,500	\$ -0-
Cash and cash equivalents	10,267,483			
Certificates of deposit	300,000			
Total assets whose use is limited	\$ 181,527,531			

## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments				
Mutual funds - total return bond	\$ 835,575	\$ 835,575	\$ -0-	\$ -0-
Cash and cash equivalents	35,297,887			
	<u>\$ 36,133,462</u>			
Assets whose use is limited				
Mutual funds				
Total return bond	\$ 96,940,002	\$ 96,940,002	\$ -0-	\$ -0-
Small-cap value	5,255,921	5,255,921	-0-	-0-
Growth	17,229,833	17,229,833	-0-	-0-
Large blend	28,048,354	28,048,354	-0-	-0-
Total mutual funds	147,474,110	147,474,110	-0-	-0-
Fixed income obligations	5,000,000	-0-	5,000,000	-0-
	152,474,110	<u>\$ 147,474,110</u>	<u>\$ 5,000,000</u>	<u>\$ -0-</u>
Cash and cash equivalents	11,335,553			
Certificates of deposit	300,753			
Total assets whose use is limited	<u>\$ 164,110,416</u>			

Hendricks' policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2015 and 2014.

Realized gains and losses included in earnings are reported in the consolidated statements of revenues and expenses as a component of investment income. The market value of investments exceeded cost by approximately \$8,674,000 and \$10,206,000 as of December 31, 2015 and 2014, respectively. The gains and losses included in earnings for the years are attributable to the change in unrealized gains and losses relating to assets held as of December 31, 2015 and 2014 and are reported in the consolidated statements of revenues and expenses as a component of investment income.

Hendricks holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

Cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value based on their short-term maturity.

Long-term debt: Fair value of Hendricks' fixed rate revenue bonds is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2015, the carrying value of the fixed rate long-term debt was \$102,935,000 with a fair value of approximately \$115,618,000.

### 7. CAPITAL ASSETS

Progressions for capital assets for 2015 and 2014 follow:

	December 31, 2014	Additions	Disposals	Transfers	December 31, 2015
Land	\$ 16,407,702	\$ 166,500	\$ -0-	\$ -0-	\$ 16,574,202
Land improvements	6,185,675	11,538	-0-	-0-	6,197,213
Buildings and fixed equipment	253,106,765	9,382,331	(2,477,220)	2,174,169	262,186,045
Major movable equipment	76,974,775	15,946,598	(6,355,886)	-0-	86,565,487
Construction in progress	2,637,667	197,383	(2,686)	(2,174,169)	658,195
Total capital assets	355,312,584	25,704,350	(8,835,792)	-0-	372,181,142
Less accumulated depreciation					
Land improvements	3,862,065	318,471	-0-	-0-	4,180,536
Buildings and fixed equipment	90,719,348	9,259,815	(2,424,791)	-0-	97,554,372
Major movable equipment	54,635,231	6,180,075	(6,153,886)	-0-	54,661,420
Total accumulated depreciation	149,216,644	15,758,361	(8,578,677)	-0-	156,396,328
Capital assets, net	\$ 206,095,940	\$ 9,945,989	\$ (257,115)	\$ -0-	\$ 215,784,814
	December 31, 2013	Additions	Disposals	Transfers	December 31, 2014
Land	\$ 16,307,701	\$ 100,001	\$ -0-	\$ -0-	\$ 16,407,702
Land improvements	6,010,567	175,108	-0-	-0-	6,185,675
Buildings and fixed equipment	245,289,973	4,248,120	(393,837)	3,962,509	253,106,765
Major movable equipment	79,924,436	9,161,446	(9,088,377)	(3,022,730)	76,974,775
Construction in progress	331,097	3,246,997	(648)	(939,779)	2,637,667
Total capital assets	347,863,774	16,931,672	(9,482,862)	-0-	355,312,584
Less accumulated depreciation					
Land improvements	3,588,934	273,131	-0-	-0-	3,862,065
Buildings and fixed equipment	82,820,294	8,291,021	(391,967)	-0-	90,719,348
Major movable equipment	57,684,783	6,019,255	(9,068,807)	-0-	54,635,231
Total accumulated depreciation	144,094,011	14,583,407	(9,460,774)	-0-	149,216,644
Capital assets, net	\$ 203,769,763	\$ 2,348,265	\$ (22,088)	\$ -0-	\$ 206,095,940

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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Significant outstanding commitments on capital assets as of December 31, 2015 were approximately \$48,000,000.

### **8. LONG-TERM DEBT**

Hendricks issued Indiana Bond Bank Special Program Refunding Bonds, Series 2007A dated May 24, 2007 in the amount of \$44,915,000. The Series 2007A bonds mature serially on an annual basis starting in April 2013 through April 2030 at interest rates ranging from 5.00% to 5.25%. Interest is due semi-annually on April 1 and October 1. Net revenues and certain assets are held by the trustee to secure the tax-exempt revenue bonds. The net book value of the collateral approximated the carrying value of the Series 2007A bonds as of December 31, 2015 and 2014.

Hendricks issued Indiana Bond Bank Special Program Bonds, Series 2009A dated March 12, 2009 in the amount of \$75,000,000. The Series 2009A bonds mature serially on a semi-annual basis (February 1 and August 1) through February 2029 at interest rates ranging from 4.0% to 5.5%. Net revenues and certain assets held by the trustee secure the tax-exempt revenue bonds. The net book value of the collateral approximated the carrying value of the Series 2009A bonds as of December 31, 2015 and 2014.

The Series 2007A and 2009A Bonds require Hendricks to maintain certain financial debt coverage ratios. As of December 31, 2015 and 2014, Hendricks believed it was in compliance with the debt coverage ratios.

In 2009, Hendricks issued Indiana Taxable Economic Development Revenue Bonds, Series 2009 in the amount of \$5,000,000. These Bonds bear interest at 5% through February 2030 with the first principal payment due in February 2019 and are unsecured. Hendricks is also the sole bond holder of the Indiana Taxable Economic Development Revenue Bonds, Series 2009.

During 2015, Hendricks borrowed from the Indiana Finance Authority (the Authority), the Health Facility Revenue Bonds, Series 2015A Bonds (tax-exempt) for \$40,125,000 and Series 2015B Bonds (taxable) for \$7,875,000 to construct a new ambulatory care facility. Hendricks, the Authority and Fifth Third Bank (Fifth Third) then entered into a Bond Purchase Agreement (the Agreement) where Fifth Third purchased from the Authority all of the Series 2015A and 2015B Bonds in a private placement.

The Agreement runs through the maturity date of the Series 2015A and 2015B Bonds which is October 2022. The 2015A Bonds bear interest at a fixed rate of 1.87% and Series 2015B Bonds bear interest at a fixed rate of 2.83%. The 2015A and 2015B Bonds have a draw down period through December 31, 2017 with scheduled principal payments beginning in January 2018 through October 2022. The Series 2015A and 2015B Bonds are secured by Hendricks' net revenues. Approximately \$1,263,000 had been drawn down on the Series 2015A and 2015B Bonds as of December 31, 2015.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Subsequent to December 31, 2015, Hendricks entered into a line of credit agreement with Fifth Third with a maximum amount of \$24,000,000 to fund working capital. The line of credit bears interest at the floating 30 day LIBOR rate plus 125 basis points and secured by Hendricks net revenues. The line of credit expires in January 2017.

Subsequent to December 31, 2015, Hendricks issued Indiana Taxable Economic Development Revenue Bonds, Series 2016 in the amount of \$2,600,000. These Bonds bear interest at 2% through April 2036 and are unsecured. Hendricks is also the sole bond holder of the Indiana Taxable Economic Development Revenue Bonds, Series 2016.

Progressions for long-term debt for 2015 and 2014 include the following:

	December 31, 2014	Additional Borrowings	Payments	December 31, 2015	Current Portion
Indiana Bond Bank					
Special Program Refunding Bonds Series 2007A	\$ 41,690,000	\$ -0-	\$ (1,730,000)	\$ 39,960,000	\$ 1,820,000
Special Hospital Program Bonds Series 2009A	60,965,000	-0-	(2,990,000)	57,975,000	3,140,000
Indiana Taxable Economic Development Revenue Bonds, Series 2009	5,000,000	-0-	-0-	5,000,000	-0-
Indiana Finance Authority Health Facility Revenue Bonds, Series 2015A & B (construction draws)	-0-	1,263,000	-0-	1,263,000	-0-
Other	-0-	820,369	(217,800)	602,569	269,192
	<u>107,655,000</u>	<u>\$ 2,083,369</u>	<u>\$ (4,937,800)</u>	<u>104,800,569</u>	<u>\$ 5,229,192</u>
Unamortized bond premium	<u>3,587,019</u>			<u>3,351,972</u>	
	<u>\$ 111,242,019</u>			<u>\$ 108,152,541</u>	
	December 31, 2013	Additional Borrowings	Payments	December 31, 2014	Current Portion
Indiana Bond Bank					
Special Program Refunding Bonds Series 2007A	\$ 43,340,000	\$ -0-	\$ (1,650,000)	\$ 41,690,000	\$ 1,730,000
Special Hospital Program Bonds Series 2009A	63,810,000	-0-	(2,845,000)	60,965,000	2,950,000
Indiana Taxable Economic Development Revenue Bonds, Series 2009	5,000,000	-0-	-0-	5,000,000	-0-
	<u>112,150,000</u>	<u>\$ -0-</u>	<u>\$ (4,495,000)</u>	<u>107,655,000</u>	<u>\$ 4,680,000</u>
Unamortized bond premium	<u>3,823,565</u>			<u>3,587,019</u>	
	<u>\$ 115,973,565</u>			<u>\$ 111,242,019</u>	

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Principal	Interest	Total
2016	\$ 5,229,192	\$ 5,214,625	\$ 10,443,817
2017	5,807,659	4,963,825	10,771,484
2018	6,343,718	4,725,556	11,069,274
2019	5,905,000	4,464,238	10,369,238
2020	6,320,000	4,155,550	10,475,550
2021-2025	36,740,000	15,624,363	52,364,363
2026-2030	38,455,000	4,786,356	43,241,356
	<u>\$ 104,800,569</u>	<u>\$ 43,934,513</u>	<u>\$ 148,735,082</u>

### 9. NET PATIENT SERVICE REVENUE

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

#### Medicare

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

#### Medicaid and Hendricks Assessment Fee Program

Hendricks is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

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## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

In 2012, Hospital Assessment Fee (HAF) Program was approved by Centers for Medicare & Medicaid Services (CMS). The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals. 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 2015 and 2014, Hendricks recognized HAF Program expense of approximately \$3,107,000 and \$12,059,000, respectively, which resulted in Medicaid rate increases. The HAF Program expense is included in operating expenses in the consolidated statements of revenues and expenses. The Medicaid rate increases under the HAF Program are included in patient service revenue in the consolidated statements of revenues and expenses. The HAF Program is approved for extension through June 30, 2017.

As a governmental entity, Hendricks is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. Hendricks recognized reimbursement from these programs within net patient service revenue of approximately \$4,882,000 and \$2,928,000 during 2015 and 2014, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

#### Other Payors

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

Patient service revenue for 2015 and 2014 consists of the following:

	2015	2014
Inpatient routine services	\$ 26,091,711	\$ 23,303,836
Inpatient ancillary services	110,209,506	94,126,287
Outpatient ancillary services	419,295,377	356,611,624
Long-term care services	253,058,643	198,906,472
Gross patient service revenue	808,655,237	672,948,219
Contractual allowances	290,882,142	181,338,453
Uninsured self pay discounts	4,504,336	4,199,551
Charity care	8,034,315	7,774,867
Provision for bad debts	16,929,696	22,397,804
Deductions from revenue	320,350,489	215,710,675
Net patient service revenue	\$ 488,304,748	\$ 457,237,544

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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### 10. DEFINED BENEFIT PENSION PLAN

#### Plan Description

Hendricks has a defined benefit pension plan (the Plan) as authorized by IC 16-22-3-11. The Plan provides retirement, disability and death benefits to Plan members and beneficiaries. The Plan was established by written agreement by the Board of Trustees. Nyhart is the actuary and third party administrator of the Plan. National Bank of Indianapolis is the custodian of the Plan's assets. In 2013, Hendricks froze benefits to a majority of Plan participants whose benefits were fully vested at that time and began offering retirement benefits to employees through a tax deferred annuity plan (See Note 11). Participants who meet certain age and service requirements continue to accrue benefits under the Plan. For more information on the Plan, participants should contact the Administrative Offices (ATTN: Vice President of Finance/CFO), at PO Box 409, Danville, IN, 46122-0409.

#### Benefits Provided

The Plan principally provides retirement benefits. For those participants who continue to accrue benefits, the following summarizes benefits available:

Participants are fully vested after 7 years of service. Employee normal retirement date is the first day of the month coincident with or following age 65. The early retirement date for vested employee members can occur once an employee has attained age 55 with 5 years of service. A participant's monthly normal retirement benefit is the total of 0.45% final average compensation plus 0.45% of final average compensation in excess of \$833. This total is multiplied by years of benefit service. No benefits accrue for years ending before age 25. A participant's early retirement benefit is reduced by approximately 5% for each year prior to the participant's normal retirement date. The late retirement benefit is the greater of 1) average monthly earnings and benefit service determined as of the normal retirement date or 2) average monthly earnings and benefit service determined as of the late retirement date.

For participants who have terminated their employment, vested benefits are generally distributable at their time of termination in a lump sum.

#### Funding Policy

The contribution requirements of Plan members are established by the written agreement between Hendricks Board of Trustees and the Plan Administrator. Plan members' contributions are not required by the Plan agreement. Hendricks is required to contribute at an actuarially determined rate. Hendricks does not expect to contribute to the Plan in 2016.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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### Employees Covered by Benefit Terms

As of December 31, 2015 and 2014, the following employees were covered by the benefit terms of the Plan:

	2015	2014
Active plan members, including terminated but vested participants	1,091	1,172
Inactive plan members and beneficiaries receiving benefits	265	248
Inactive plan members entitled to but not yet receiving benefits	769	729
	<u>2,125</u>	<u>2,149</u>

### Contributions

The annual required contributions for 2015 and 2014 and estimated liabilities as of January 1, 2015 and 2014 were determined as part of the actuarial valuations using the Entry Age Normal cost method.

### Net Pension Liability

The total pension liability was measured as of December 31, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 and 2014.

### *Actuarial assumptions*

The total pension liability in the December 31, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.5%- 6.0%
Investment rate of return	7.50%

Mortality rates were based on the RP-2015 Sex Distinct Mortality Table with generational improvements beginning in 2006 based on the Social Security Administration's assumptions.

The actuarial value of assets was based on market value of assets with a five year phase in of gains and losses, subject to a 20% corridor. The same actuarial assumptions were used to determine the actuarial value required contributions for 2015 and 2014.

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# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Money market funds	5%	1.00%
Fixed income funds	30%	2.50%
Equity funds	65%	6.50%
	100%	

### *Discount Rate*

The discount rate used to measure the total pension liability was 7.5% for 2015 and 2014. The projection of cash flows used to determine the discount rate assumed that Hendricks' contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### *Sensitivity of the Net Pension Liability*

The following presents the net pension liability of Hendricks, calculated using the discount rate of 7.5%, as well as what Hendricks' net pension liability would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability	\$ (1,039,976)	\$ (7,845,708)	\$ (13,890,073)

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

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## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

#### *Changes in the Net Pension Liability*

The changes in the net pension liability during 2015 and 2014 were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, 12/31/2014	\$ 51,456,381	\$ 66,075,659	\$ (14,619,278)
Service cost	466,554	-0-	466,554
Interest	3,737,349	-0-	3,737,349
Differences between expected and actual experience	659,468	-0-	659,468
Changes of assumptions	1,893,100	-0-	1,893,100
Benefit payments	(4,183,243)	(4,183,243)	-0-
Net investment income	-0-	203,831	(203,831)
Administrative expenses	-0-	(229,428)	229,428
Other	-0-	8,498	(8,498)
Net change	<u>2,573,228</u>	<u>(4,200,342)</u>	<u>6,773,570</u>
Balance, 12/31/2015	<u><u>\$ 54,029,609</u></u>	<u><u>\$ 61,875,317</u></u>	<u><u>\$ (7,845,708)</u></u>
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, 12/31/2013	\$ 48,689,255	\$ 62,745,756	\$ (14,056,501)
Service cost	452,071	-0-	452,071
Interest	3,636,062	-0-	3,636,062
Benefit payments	(1,321,007)	(1,321,007)	-0-
Net investment income	-0-	4,722,125	(4,722,125)
Administrative expenses	-0-	(71,215)	71,215
Net change	<u>2,767,126</u>	<u>3,329,903</u>	<u>(562,777)</u>
Balance, 12/31/2014	<u><u>\$ 51,456,381</u></u>	<u><u>\$ 66,075,659</u></u>	<u><u>\$ (14,619,278)</u></u>

## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

For 2015, Hendricks recognized pension expense of approximately \$970,000. For 2014, Hendricks recognized a pension credit of approximately \$508,000. As of December 31, 2015 and 2014, Hendricks reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, 1/1/15	\$ -0-	\$ (54,722)
Differences between expected and actual experience	659,468	-0-
Amortization of expected versus actual	(109,911)	-0-
Changes in assumptions	1,893,100	-0-
Amortization of changes in assumptions	(315,517)	-0-
Differences between projected and actual earnings on plan investments	4,577,870	-0-
Amortization of projected versus actual earnings on plan investments	(915,574)	13,680
Balance, 12/31/15	\$ 5,789,436	\$ (41,042)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, 1/1/14	\$ -0-	\$ (68,402)
Amortization of projected versus actual earnings on plan investments	-0-	13,680
Balance, 12/31/14	\$ -0-	\$ (54,722)

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31,	
2016	\$ 1,327,322
2017	1,327,322
2018	1,327,320
2019	1,341,002
2020	425,428
	<u>\$ 5,748,394</u>

### 11. TAX DEFERRED ANNUITY PLAN AND OTHER BENEFIT PLANS

#### Plan Description

Hendricks has a tax deferred annuity plan as authorized by IC 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by a written agreement by the Board of Trustees, generally to replace the defined benefit pension plan (See Note 10). Great West Life & Annuity Insurance Company is the third party administrator for the plan. Wells Fargo Bank, NA is the custodian of the plan's assets.

Hendricks also offers non-qualified 457(b) benefit plans to certain eligible employees. For more information on the plans, participants should contact the Administrative Offices (ATTN: Vice President of Finance/CFO), at PO Box 409, Danville, IN, 46122-0409.

#### Funding Policy

The contribution requirements of plan members are established by the written agreement between the Board of Trustees and the Plan Administrator. Plan members may elect to contribute to the plan. Hendricks will contribute to each plan members' elective deferrals a matching amount up to a maximum percentage of each participant's annual compensation, to be determined at the discretion of the Board of Trustees. In 2015 and 2014, the discretionary match was 50% of the plan member's deferral up to 10% of the eligible compensation. The discretionary employer contribution was 2% of eligible compensation for 2015 and 2014.

Hendricks' contributions to the plans for 2015 and 2014 were approximately \$3,053,000 and \$1,299,000, respectively.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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### 12. RENTAL EXPENSE

Hendricks has leases expiring at various times through 2018. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total rent expense, including cancelable and non-cancelable leases, for 2015 and 2014 was approximately \$3,192,000 and \$3,443,000, respectively.

Minimum future payments on non-cancelable leases for the years following December 31, 2015 are:

Year Ending December 31,	
2016	\$ 199,700
2017	40,826
2018	6,800
	<u>\$ 247,326</u>

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$29,961,000 and \$27,406,000 for 2015 and 2014, respectively. Annual rent expense through 2019 will approximate \$30,000,000 under these leases.

### 13. CONCENTRATION OF CREDIT RISK

Hendricks corporate office and its hospital facilities are located in Danville, Indiana. Other outpatient, ambulatory care and physician services are located in Avon, Plainfield, Lizton, Bainbridge, Greencastle and Brownsburg, Indiana. Hendricks grants credit without collateral to its patients, most of who are residents of the County and are insured under third-party payor agreements. The mix of receivables and revenue from patients and third-party payors as of December 31, 2015 and 2014 was as follows:

	Receivables		Revenues	
	2015	2014	2015	2014
Medicare	24%	26%	43%	42%
Medicaid	12%	7%	7%	6%
Anthem/Blue Cross	13%	9%	25%	27%
Commercial and other	21%	18%	21%	19%
Self-Pay	30%	40%	4%	6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Under the long-term care leases, Hendricks recorded expenses related to purchased services from the Managers of the facilities of approximately \$133,143,000 and \$134,572,000 during 2015 and 2014, respectively. Amounts due to the Managers (including intracompany accounts not eliminated in consolidation), included in current liabilities, as of December 31, 2015 and 2014 approximated \$51,242,000 and \$31,605,000, respectively.

### 14. BLENDED COMPONENT UNITS

Hendricks includes two blended component units in its reporting entity. Condensed component unit information for all of its blended component units as of and for the year ended December 31, 2015 is as follows:

	2015		
	Foundation	HAMCO	Total
<b>Balance sheet</b>			
Assets			
Current assets	\$ 893,199	\$ 2,246,182	\$ 3,139,381
Capital assets	-0-	932,603	932,603
Total assets	<u>\$ 893,199</u>	<u>\$ 3,178,785</u>	<u>\$ 4,071,984</u>
Liabilities			
Other current liabilities	\$ 8,233	\$ 656,361	\$ 664,594
Total liabilities	8,233	656,361	664,594
Net position			
Net investment in capital assets	-0-	932,603	932,603
Unrestricted	884,966	1,589,821	2,474,787
Total net position	884,966	2,522,424	3,407,390
Total liabilities and net position	<u>\$ 893,199</u>	<u>\$ 3,178,785</u>	<u>\$ 4,071,984</u>
<b>Statement of Revenues and Expenses and Changes in Net Position</b>			
Revenues			
Net patient service revenue	\$ -0-	\$ 4,136,589	\$ 4,136,589
Total revenues	-0-	4,136,589	4,136,589
Expenses			
Depreciation	-0-	321,336	321,336
Other expenses	579,221	2,166,143	2,745,364
Total expenses	579,221	2,487,479	3,066,700
Operating income (loss)	(579,221)	1,649,110	1,069,889
Nonoperating revenues (expenses)	629,432	21,510	650,942
Excess revenues over expenses	50,211	1,670,620	1,720,831
Dividends	-0-	(1,670,400)	(1,670,400)
Change in net position	50,211	220	50,431
Net position, beginning of year	834,755	2,522,204	3,356,959
Net position, end of year	<u>\$ 884,966</u>	<u>\$ 2,522,424</u>	<u>\$ 3,407,390</u>

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

	2015		
	Foundation	HAMCO	Total
<b>Statement of cash flows</b>			
Cash provided by (used in)			
Operating activities	\$ 45,595	\$ 439,358	\$ 484,953
Capital and related financing activities	-0-	(555,340)	(555,340)
Investing activities	-0-	16,390	16,390
Change	45,595	(99,592)	(53,997)
Cash and cash equivalents, beginning of year	785,065	701,859	1,486,924
Cash and cash equivalents, end of year	\$ 830,660	\$ 602,267	\$ 1,432,927

Condensed component unit information for all of its blended as of and for the year ended December 31, 2014 is as follows:

	2014		
	Foundation	HAMCO	Total
<b>Balance sheet</b>			
Assets			
Current assets	\$ 837,865	\$ 2,326,112	\$ 3,163,977
Capital assets	-0-	698,599	698,599
Total assets	\$ 837,865	\$ 3,024,711	\$ 3,862,576
Liabilities			
Other current liabilities	\$ 3,110	\$ 502,507	\$ 505,617
Total liabilities	3,110	502,507	505,617
Net position			
Net investment in capital assets	-0-	698,599	698,599
Unrestricted	834,755	1,823,605	2,658,360
Total net position	834,755	2,522,204	3,356,959
Total liabilities and net position	\$ 837,865	\$ 3,024,711	\$ 3,862,576
<b>Statement of Revenues and Expenses and Changes in Net Position</b>			
Revenues			
Net patient service revenue	\$ -0-	\$ 3,269,068	\$ 3,269,068
Total revenues	-0-	3,269,068	3,269,068
Expenses			
Depreciation	-0-	182,881	182,881
Other expenses	434,704	1,940,420	2,375,124
Total expenses	434,704	2,123,301	2,558,005
Operating income (loss)	(434,704)	1,145,767	711,063
Nonoperating revenues (expenses)	516,381	31,551	547,932
Excess revenues over expenses	81,677	1,177,318	1,258,995
Dividends	-0-	(1,170,000)	(1,170,000)
Change in net position	81,677	7,318	88,995
Net position, beginning of year	753,078	2,514,886	3,267,964
Net position, end of year	\$ 834,755	\$ 2,522,204	\$ 3,356,959

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

	2014		
	Foundation	HAMCO	Total
<b>Statement of cash flows</b>			
Cash provided by (used in)			
Operating activities	\$ 69,266	\$ 117,488	\$ 186,754
Capital and related financing activities	-0-	(470,147)	(470,147)
Investing activities	-0-	14,388	14,388
Change	69,266	(338,271)	(269,005)
Cash equivalents, beginning of year	715,799	1,040,130	1,755,929
Cash equivalents, end of year	\$ 785,065	\$ 701,859	\$ 1,486,924

Separate financial information for the component units can be obtained by contacting the Administrative Offices (ATTN: Vice President of Finance/CFO), at PO Box 409, Danville, IN, 46122-0409.

### 15. SELF INSURANCE

Hendricks is self-insured for employee health claims. A third party administrator processes the claims for Hendricks who maintains an estimated liability for the amount of claims incurred but not reported. Hendricks also maintains reinsurance including a stop loss for individual employees over \$300,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$15,724,000 and \$12,795,000 for 2015 and 2014, respectively.

Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Changes in balance of health claim liabilities during the past two years are as follows:

	2015	2014
Unpaid claims, beginning of year	\$ 1,087,127	\$ 1,332,126
Incurred claims and changes in estimates	15,723,843	12,795,145
Claim payments	(13,761,745)	(13,040,144)
Unpaid claims, end of year	\$ 3,049,225	\$ 1,087,127

As of December 31, 2015 and 2014, Hendricks had \$-0- of reinsurance recovery receivables for stop loss claims netted against the unpaid claims liability.

## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

#### 16. RESTRICTED NON-EXPENDABLE NET POSITION

Restricted nonexpendable net position includes non-controlling interests, which represents the portion that is owned by investors that are external to and not included in the consolidated financial statements, as described below:

	2015	2014
Non-controlling interests	\$ 1,261,212	\$ 1,161,210

Hendricks consolidates as a blended component unit, HAMCO, in which external investors have a minority, non-controlling interest. Total net position for Hendricks' controlling and the non-controlling interest is described below:

	Controlling Interest	Non-controlling Interest	Total
Net position, December 31, 2013	\$ 1,357,328	\$ 1,157,558	\$ 2,514,886
Operating income	573,907	571,860	1,145,767
Nonoperating income	15,804	15,747	31,551
Dividends	(586,045)	(583,955)	(1,170,000)
Change in net position	3,666	3,652	7,318
Net position, December 31, 2014	1,360,994	1,161,210	2,522,204
Operating income	824,555	824,555	1,649,110
Nonoperating income	10,755	10,755	21,510
Purchase (sale) of stock	(99,892)	99,892	-0-
Dividends	(835,200)	(835,200)	(1,670,400)
Change in net position	(99,782)	100,002	220
Net position, December 31, 2015	\$ 1,261,212	\$ 1,261,212	\$ 2,522,424

**SUPPLEMENTARY INFORMATION**

# HENDRICKS REGIONAL HEALTH

## CONSOLIDATING BALANCE SHEET DECEMBER 31, 2015

<b>Assets and deferred outflows</b>	Hendricks	Foundation	HAMCO	Eliminations	Consolidated
<b>Current assets</b>					
Cash and cash equivalents	\$ 4,871,680	\$ 830,660	\$ 602,267	\$ -0-	\$ 6,304,607
Investments	52,112,993	-0-	877,783	-0-	52,990,776
Patient accounts receivable, net	42,860,349	24,550	-0-	-0-	42,884,899
Inventories	2,091,937	-0-	383,638	-0-	2,475,575
Other current assets	30,006,793	37,989	382,494	(232,200)	30,195,076
Current portion of assets whose use is limited	5,229,192	-0-	-0-	-0-	5,229,192
Total current assets	137,172,944	893,199	2,246,182	(232,200)	140,080,125
<b>Assets whose use is limited</b>					
Board designated funded depreciation investments	172,042,613	-0-	-0-	-0-	172,042,613
Held by trustee for debt service	8,979,257	-0-	-0-	-0-	8,979,257
Other board designated investments	505,661	-0-	-0-	-0-	505,661
Total assets whose use is limited	181,527,531	-0-	-0-	-0-	181,527,531
Less current portion	5,229,192	-0-	-0-	-0-	5,229,192
Noncurrent assets whose use is limited	176,298,339	-0-	-0-	-0-	176,298,339
<b>Capital assets</b>					
Land	16,574,202	-0-	-0-	-0-	16,574,202
Depreciable capital assets	352,281,659	-0-	3,730,939	(1,063,853)	354,948,745
Construction in progress	658,195	-0-	-0-	-0-	658,195
	369,514,056	-0-	3,730,939	(1,063,853)	372,181,142
Less accumulated depreciation	154,661,845	-0-	2,798,336	(1,063,853)	156,396,328
Capital assets, net	214,852,211	-0-	932,603	-0-	215,784,814
<b>Other assets</b>					
Pension asset	7,845,708	-0-	-0-	-0-	7,845,708
Other	1,537,006	-0-	-0-	(1,261,212)	275,794
Total other assets	9,382,714	-0-	-0-	(1,261,212)	8,121,502
Total assets	537,706,208	893,199	3,178,785	(1,493,412)	540,284,780
<b>Deferred outflows</b>					
	7,467,158	-0-	-0-	-0-	7,467,158
Total assets and deferred outflows	<u>\$ 545,173,366</u>	<u>\$ 893,199</u>	<u>\$ 3,178,785</u>	<u>\$ (1,493,412)</u>	<u>\$ 547,751,938</u>

See report of independent auditors on pages 1 through 3.

# HENDRICKS REGIONAL HEALTH

## CONSOLIDATING BALANCE SHEET DECEMBER 31, 2015

<b>Liabilities and net position</b>	Hendricks	Foundation	HAMCO	Eliminations	Consolidated
<b>Current liabilities</b>					
Current portion of long-term debt	\$ 5,229,192	\$ -0-	\$ -0-	\$ -0-	\$ 5,229,192
Accounts payable	17,186,397	8,233	656,228	(232,200)	17,618,658
Accrued salaries and related liabilities	9,008,222	-0-	(10)	-0-	9,008,212
Accrued expenses and other current liabilities	52,028,757	-0-	143	-0-	52,028,900
Accrued interest	1,752,912	-0-	-0-	-0-	1,752,912
Estimated third-party settlements	949,937	-0-	-0-	-0-	949,937
Total current liabilities	<u>86,155,417</u>	<u>8,233</u>	<u>656,361</u>	<u>(232,200)</u>	<u>86,587,811</u>
<b>Long-term debt, net of current portion</b>	<u>102,923,349</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>102,923,349</u>
Total liabilities	<u>189,078,766</u>	<u>8,233</u>	<u>656,361</u>	<u>(232,200)</u>	<u>189,511,160</u>
<b>Deferred inflows</b>	<u>41,042</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>41,042</u>
Total liabilities and deferred inflows	<u>189,119,808</u>	<u>8,233</u>	<u>656,361</u>	<u>(232,200)</u>	<u>189,552,202</u>
<b>Net position</b>					
Net investment in capital assets	114,166,828	-0-	932,603	-0-	115,099,431
Restricted					
Debt service	8,979,257	-0-	-0-	-0-	8,979,257
Restricted for pension - expendable	13,594,102	-0-	-0-	-0-	13,594,102
Non-expendable	-0-	-0-	-0-	1,261,212	1,261,212
Total restricted	<u>22,573,359</u>	<u>-0-</u>	<u>-0-</u>	<u>1,261,212</u>	<u>23,834,571</u>
Unrestricted	<u>219,313,371</u>	<u>884,966</u>	<u>1,589,821</u>	<u>(2,522,424)</u>	<u>219,265,734</u>
Total net position	<u>356,053,558</u>	<u>884,966</u>	<u>2,522,424</u>	<u>(1,261,212)</u>	<u>358,199,736</u>
Total liabilities and net position	<u>\$ 545,173,366</u>	<u>\$ 893,199</u>	<u>\$ 3,178,785</u>	<u>\$ (1,493,412)</u>	<u>\$ 547,751,938</u>

See report of independent auditors on pages 1 through 3.

## HENDRICKS REGIONAL HEALTH

### CONSOLIDATING STATEMENT OF REVENUES AND EXPENSES YEAR ENDED DECEMBER 31, 2015

	Hendricks	Foundation	HAMCO	Eliminations	Consolidated
<b>Operating revenue</b>					
Net patient service revenue	\$ 488,304,748	\$ -0-	\$ 4,136,589	\$ (4,136,589)	488,304,748
Other revenue	6,571,883	-0-	-0-	-0-	6,571,883
Total operating revenue	494,876,631	-0-	4,136,589	(4,136,589)	494,876,631
<b>Operating expenses</b>					
Salaries and wages	93,570,159	-0-	36,091	-0-	93,606,250
Employee benefits	28,540,466	-0-	3,501	-0-	28,543,967
Professional medical fees	1,713,680	-0-	-0-	-0-	1,713,680
Other professional fees	29,104,826	-0-	-0-	(4,136,589)	24,968,237
Medical and surgical supplies	26,930,030	-0-	1,300,687	-0-	28,230,717
Drugs and intravenous solutions	11,234,430	-0-	191,451	-0-	11,425,881
Food	6,414,693	-0-	-0-	-0-	6,414,693
Purchased services	148,673,264	-0-	395,488	-0-	149,068,752
Equipment rental	3,184,565	-0-	7,906	-0-	3,192,471
Hospital Assessment Fee	3,106,589	-0-	-0-	-0-	3,106,589
Telephone and utilities	8,943,035	-0-	-0-	-0-	8,943,035
Depreciation and amortization	15,585,870	-0-	321,336	-0-	15,907,206
Insurance	6,428,715	-0-	8,750	-0-	6,437,465
Facility and equipment leases	29,960,580	-0-	-0-	-0-	29,960,580
Other supplies and expenses	41,976,481	579,221	222,269	(245,404)	42,532,567
Total operating expenses	455,367,383	579,221	2,487,479	(4,381,993)	454,052,090
Operating income (loss)	39,509,248	(579,221)	1,649,110	245,404	40,824,541
<b>Nonoperating income (expense)</b>					
Investment income (loss) and other	2,022,746	629,432	21,510	(1,080,714)	1,592,974
Interest expense	(5,125,952)	-0-	-0-	-0-	(5,125,952)
Total non operating income (expense), net	(3,103,206)	629,432	21,510	(1,080,714)	(3,532,978)
Change in net position before other items	36,406,042	50,211	1,670,620	(835,310)	37,291,563
<b>Other items</b>					
Contributions	-0-	-0-	-0-	99,892	99,892
Dividends	-0-	-0-	(1,670,400)	835,200	(835,200)
<b>Change in net position</b>	<u>\$ 36,406,042</u>	<u>\$ 50,211</u>	<u>\$ 220</u>	<u>\$ 99,782</u>	<u>\$ 36,556,255</u>

See report of independent auditors on pages 1 through 3.

# HENDRICKS REGIONAL HEALTH

## CONSOLIDATING BALANCE SHEET (RESTATED) DECEMBER 31, 2014

<b>Assets and deferred outflows</b>	Hendricks	Foundation	HAMCO	Eliminations	Consolidated
<b>Current assets</b>					
Cash and cash equivalents	\$ 6,987,326	\$ 785,065	\$ 701,859	\$ -0-	\$ 8,474,250
Investments	35,260,799	-0-	872,663	-0-	36,133,462
Patient accounts receivable, net	38,682,494	26,794	-0-	-0-	38,709,288
Inventories	2,114,680	-0-	429,725	-0-	2,544,405
Other current assets	17,307,849	26,006	321,865	(232,775)	17,422,945
Current portion of assets whose use is limited	4,680,000	-0-	-0-	-0-	4,680,000
Total current assets	105,033,148	837,865	2,326,112	(232,775)	107,964,350
<b>Assets whose use is limited</b>					
Board designated funded depreciation investments	154,530,628	-0-	-0-	-0-	154,530,628
Held by trustee for debt service	9,099,334	-0-	-0-	-0-	9,099,334
Other board designated investments	480,454	-0-	-0-	-0-	480,454
Total assets whose use is limited	164,110,416	-0-	-0-	-0-	164,110,416
Less current portion	4,680,000	-0-	-0-	-0-	4,680,000
Noncurrent assets whose use is limited	159,430,416	-0-	-0-	-0-	159,430,416
<b>Capital assets</b>					
Land	16,407,702	-0-	-0-	-0-	16,407,702
Depreciable capital assets	334,155,469	-0-	3,175,599	(1,063,853)	336,267,215
Construction in progress	2,637,667	-0-	-0-	-0-	2,637,667
	353,200,838	-0-	3,175,599	(1,063,853)	355,312,584
Less accumulated depreciation	147,803,497	-0-	2,477,000	(1,063,853)	149,216,644
Capital assets, net	205,397,341	-0-	698,599	-0-	206,095,940
<b>Other assets</b>					
Pension asset	14,619,278	-0-	-0-	-0-	14,619,278
Other	2,234,943	-0-	-0-	(1,360,994)	873,949
Total other assets	16,854,221	-0-	-0-	(1,360,994)	15,493,227
Total assets	486,715,126	837,865	3,024,711	(1,593,769)	488,983,933
<b>Deferred outflows</b>					
	1,795,457	-0-	-0-	-0-	1,795,457
Total assets and deferred outflows	<u>\$ 488,510,583</u>	<u>\$ 837,865</u>	<u>\$ 3,024,711</u>	<u>\$ (1,593,769)</u>	<u>\$ 490,779,390</u>

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## HENDRICKS REGIONAL HEALTH

### CONSOLIDATING BALANCE SHEET (RESTATED) DECEMBER 31, 2014

<b>Liabilities, deferred inflows and net position</b>	Hendricks	Foundation	HAMCO	Eliminations	Consolidated
<b>Current liabilities</b>					
Current portion of long-term debt	\$ 4,680,000	\$ -0-	\$ -0-	\$ -0-	\$ 4,680,000
Accounts payable	13,164,589	3,110	502,260	(232,775)	13,437,184
Accrued salaries and related liabilities	8,512,333	-0-	209	-0-	8,512,542
Accrued expenses and other current liabilities	31,446,327	-0-	38	-0-	31,446,365
Accrued interest	1,836,829	-0-	-0-	-0-	1,836,829
Estimated third-party settlements	2,606,248	-0-	-0-	-0-	2,606,248
Total current liabilities	62,246,326	3,110	502,507	(232,775)	62,519,168
<b>Long-term debt, net of current portion</b>	106,562,019	-0-	-0-	-0-	106,562,019
Total liabilities	168,808,345	3,110	502,507	(232,775)	169,081,187
<b>Deferred inflows</b>	54,722				54,722
Total liabilities and deferred inflows	168,863,067	3,110	502,507	(232,775)	169,135,909
<b>Net position</b>					
Net investment in capital assets	95,950,779	-0-	698,599	-0-	96,649,378
Restricted					
For debt service	9,099,334	-0-	-0-	-0-	9,099,334
Restricted for pension - expendable	14,564,556	-0-	-0-	-0-	14,564,556
Non-expendable	-0-	-0-	-0-	1,161,210	1,161,210
Total restricted	23,663,890	-0-	-0-	1,161,210	24,825,100
Unrestricted	200,032,847	834,755	1,823,605	(2,522,204)	200,169,003
Total net position	319,647,516	834,755	2,522,204	(1,360,994)	321,643,481
Total liabilities, deferred inflows and net position	\$ 488,510,583	\$ 837,865	\$ 3,024,711	\$ (1,593,769)	\$ 490,779,390

See report of independent auditors on pages 1 through 3.

## HENDRICKS REGIONAL HEALTH

### CONSOLIDATING STATEMENT OF REVENUES AND EXPENSES (RESTATED) YEAR ENDED DECEMBER 31, 2014

	Hendricks	Foundation	HAMCO	Eliminations	Consolidated
<b>Operating revenue</b>					
Net patient service revenue	\$ 457,237,544	\$ -0-	\$ 3,269,068	\$ (3,269,068)	457,237,544
Other revenue	6,361,995	-0-	-0-	-0-	6,361,995
Total operating revenue	463,599,539	-0-	3,269,068	(3,269,068)	463,599,539
<b>Operating expenses</b>					
Salaries and wages	87,128,917	-0-	62,752	-0-	87,191,669
Employee benefits	21,879,411	-0-	14,318	-0-	21,893,729
Professional medical fees	2,342,882	-0-	-0-	-0-	2,342,882
Other professional fees	21,926,586	-0-	-0-	(3,269,068)	18,657,518
Medical and surgical supplies	25,301,406	-0-	1,274,053	-0-	26,575,459
Drugs and intravenous solutions	9,023,348	-0-	170,835	-0-	9,194,183
Food	6,557,509	-0-	-0-	-0-	6,557,509
Purchased services	148,709,694	-0-	206,249	-0-	148,915,943
Equipment rental	3,431,248	-0-	11,514	-0-	3,442,762
Hospital Assessment Fee	12,058,688	-0-	-0-	-0-	12,058,688
Telephone and utilities	9,450,183	-0-	-0-	-0-	9,450,183
Depreciation and amortization	14,440,317	-0-	182,881	-0-	14,623,198
Insurance	4,816,665	-0-	8,430	-0-	4,825,095
Facility and equipment leases	27,406,480	-0-	-0-	-0-	27,406,480
Other supplies and expenses	37,838,723	434,704	192,269	-0-	38,465,696
Total operating expenses	432,312,057	434,704	2,123,301	(3,269,068)	431,600,994
Operating income (loss)	31,287,482	(434,704)	1,145,767	-0-	31,998,545
<b>Nonoperating income (expense)</b>					
Investment income (loss) and other	7,896,124	516,381	31,551	(589,711)	7,854,345
Interest expense	(5,350,629)	-0-	-0-	-0-	(5,350,629)
Total non operating income (expense), net	2,545,495	516,381	31,551	(589,711)	2,503,716
Change in net position before other items	33,832,977	81,677	1,177,318	(589,711)	34,502,261
<b>Other items</b>					
Contributions	-0-	-0-	-0-	-0-	-0-
Dividends	-0-	-0-	(1,170,000)	586,045	(583,955)
<b>Change in net position</b>	<b>\$ 33,832,977</b>	<b>\$ 81,677</b>	<b>\$ 7,318</b>	<b>\$ (3,666)</b>	<b>\$ 33,918,306</b>

See report of independent auditors on pages 1 through 3.

**REQUIRED SUPPLEMENTARY INFORMATION**

# HENDRICKS REGIONAL HEALTH

## REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2015

### SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

	<u>2015</u>	<u>2014</u>
Total pension liability		
Service cost	\$ 466,554	\$ 452,071
Interest	3,737,349	3,636,062
Differences between expected and actual experience	659,468	-0-
Changes of assumptions	1,893,100	-0-
Benefit payments	<u>(4,183,243)</u>	<u>(1,321,007)</u>
Net change in pension liability	2,573,228	2,767,126
Total pension liability - beginning	<u>51,456,381</u>	<u>48,689,255</u>
Total pension liability - ending (a)	<u><u>\$ 54,029,609</u></u>	<u><u>\$ 51,456,381</u></u>
Plan fiduciary net position		
Benefit payments	\$ (4,183,243)	\$ (1,321,007)
Net investment income	203,831	4,722,125
Administrative expenses	(229,428)	(71,215)
Other	<u>8,498</u>	<u>-0-</u>
Net change in plan fiduciary net position	(4,200,342)	3,329,903
Plan fiduciary net position - beginning	<u>66,075,659</u>	<u>62,745,756</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 61,875,317</u></u>	<u><u>\$ 66,075,659</u></u>
Net pension liability (a) - (b)	<u><u>\$ (7,845,708)</u></u>	<u><u>\$ (14,619,278)</u></u>
Plan fiduciary net position as a % of total pension liability	114.52%	128.41%
Covered employee payroll	\$ 16,766,172	\$ 17,051,344
Net pension liability as a % of covered employee payroll	-46.79%	-85.74%

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

# HENDRICKS REGIONAL HEALTH

## REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2015

### SCHEDULE OF CONTRIBUTIONS

	Actuarially Determined Contribution	Employer Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as % of Covered Employee Payroll
12/31/2015	\$ -0-	\$ -0-	\$ -0-	\$ 16,766,172	0.00%
12/31/2014	\$ -0-	\$ -0-	\$ -0-	\$ 17,051,344	0.00%
12/31/2013	\$ -0-	\$ -0-	\$ -0-	\$ 17,062,098	0.00%
12/31/2012	\$ 1,862,492	\$ -0-	\$ 1,862,492	\$ 76,121,054	0.00%
12/31/2011	\$ 1,613,170	\$ 750,000	\$ 863,170	\$ 74,645,517	1.00%
12/31/2010	\$ 1,737,544	\$ 3,165,000	\$ (1,427,456)	\$ 72,800,013	4.35%
12/31/2009	\$ 2,235,559	\$ 3,000,000	\$ (764,441)	\$ 67,826,899	4.42%
12/31/2008	\$ 2,194,715	\$ 2,284,964	\$ (90,249)	\$ 64,044,390	3.57%
12/31/2007	\$ 1,824,368	\$ 1,681,875	\$ 142,493	\$ 57,069,326	2.95%
12/31/2006	\$ 1,957,460	\$ 2,025,000	\$ (67,540)	\$ 53,095,071	3.81%

Notes to Schedule

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	15 year level dollar
Remaining amortization period	15 year period
Asset valuation method	Market value - 5 year phase in of gains/losses subject to a 20% corridor
Salary increases	Ranging from 3.5% to 6.0%
Investment rate of return	7.50%
Retirement age	65 and 5 years of participation
Mortality	RP-2015 Sex Distinct Mortality with generational improvements beginning in 2006 based on the Social Security Administration's assumptions included in the 2014 Trustee's Report