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August 16, 2018

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

We have reviewed the audit report opinion on by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2017 to December 31, 2017. Per Report of Independent Auditors, the financial statements included in the report present fairly the financial condition of the Hendricks Regional Health as of December 31, 2017, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts.

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

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

Paul D. Joyce, CPA  
State Examiner



**Hendricks**  
Regional Health

**CONSOLIDATED FINANCIAL STATEMENTS**  
**AND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2017 AND 2016**

*CPAs / ADVISORS*



**HENDRICKS REGIONAL HEALTH**

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DECEMBER 31, 2017 AND 2016

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Hendricks Regional Health  
Danville, Indiana

We have audited the accompanying consolidated financial statements of Hendricks Regional Health (Hendricks), a component unit of Hendricks County, which comprise the consolidated balance sheets as of December 31, 2017 and 2016 and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### Auditor's Responsibility

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

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

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

Board of Trustees  
Hendricks Regional Health  
Danville, Indiana

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, 2017 and 2016, and the results of its operations, changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios, and the Schedule of Contributions 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.

**Blue & Co., LLC**

Indianapolis, Indiana  
July 9, 2018

**REQUIRED SUPPLEMENTARY INFORMATION**

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# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016

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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, 2017. This MD&A does include a discussion and analysis of the activities and results of the Blended Component Units, Hendricks Regional Health Foundation, Inc., Hendricks Ambulatory Management Company, LLC., HRH Health Services Corporation and HRH Real Estate Holding Company, Inc. and should be read in conjunction with Hendricks' consolidated financial statements that follow this MD&A.

### Financial Highlights

- Hendricks' net position increased approximately \$39,178,000 or 9.8% in 2017.
- Hendricks reported operating income of approximately \$18,417,000 for 2017, representing a decrease of \$18,602,000 in comparison to the 2016 results.
- Hendricks continued its expansion of facilities and equipment in 2017 by adding approximately \$64,687,000 in gross property and equipment. Hendricks disposed of capital assets with a net book value of \$198,000 during 2017. These items combined with depreciation expense of \$20,176,000 resulted in net capital assets increasing \$44,312,000 from the prior year.
- Hendricks' assets whose use is limited increased approximately \$29,306,000 as a result of operations and investment returns.
- During 2017 and 2016, Hendricks recognized approximately \$269,237,000 and \$273,419,000, respectively, of gross patient service revenue related to long-term care.

### Using This Annual Report

Hendricks' consolidated financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and 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, expenses incurred and changes in net position are accounted for in the consolidated statement of revenues, expenses and changes in net position.

# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016

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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, Expenses and Changes in Net Position**

One of the most important questions asked about Hendricks' finances is, "What is the financial strength of Hendricks?" The balance sheet and the statement of revenues, expenses and changes in net position 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 current assets and assets whose use is limited which increased approximately \$43,343,000 in 2017 compared to 2016. The total asset and deferred outflows increase of \$92,712,000 in 2017 was 14.8% from 2016.

Capital assets, prior to depreciation, increased approximately \$27,382,000 while accumulated depreciation decreased \$16,930,000 for a net increase in capital assets of \$44,312,000 in 2017.

Current liabilities increased by approximately \$27,033,000 mainly related to an increase in accounts payable of \$12,214,000 for 2017.

Net position (or equity) increased by approximately \$39,178,000 in 2017 compared to 2016. The increase relates to operations and investment return.

# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016

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

|   | 2017                  | 2016                  | Change<br>2017 - 2016 | 2015                  | Change<br>2016 - 2015 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Assets</b>   |                       |                       |                       |                       |                       |
| Current assets  | \$ 166,233,130        | \$ 152,197,040        | \$ 14,036,090         | \$ 140,080,125        | \$ 12,116,915         |
| Capital assets, net                                     | 279,825,597           | 235,513,450           | 44,312,147            | 215,784,814           | 19,728,636            |
| Assets whose use is limited, net                        | 251,881,621           | 222,575,137           | 29,306,484            | 176,298,339           | 46,276,798            |
| Other assets  | 14,298,322            | 7,724,653             | 6,573,669             | 8,121,502             | (396,849)             |
| Total assets  | 712,238,670           | 618,010,280           | 94,228,390            | 540,284,780           | 77,725,500            |
| <b>Deferred outflows</b>                                | 5,883,371             | 7,399,305             | (1,515,934)           | 7,467,158             | (67,853)              |
| Total assets and deferred outflows                      | <u>\$ 718,122,041</u> | <u>\$ 625,409,585</u> | <u>\$ 92,712,456</u>  | <u>\$ 547,751,938</u> | <u>\$ 77,657,647</u>  |
| <b>Liabilities</b>                                      |                       |                       |                       |                       |                       |
| Current liabilities                                     | \$ 137,987,838        | \$ 110,955,316        | \$ 27,032,522         | \$ 86,587,811         | \$ 24,367,505         |
| Long-term debt, net                                     | 133,697,670           | 111,863,462           | 21,834,208            | 102,923,349           | 8,940,113             |
| Total liabilities                                       | 271,685,508           | 222,818,778           | 48,866,730            | 189,511,160           | 33,307,618            |
| <b>Deferred inflows</b>                                 | 5,650,451             | 982,507               | 4,667,944             | 41,042                | 941,465               |
| Total liabilities and deferred inflows                  | 277,335,959           | 223,801,285           | 53,534,674            | 189,552,202           | 34,249,083            |
| <b>Net position</b>                                     |                       |                       |                       |                       |                       |
| Net investment in capital assets                        | 133,005,426           | 117,527,909           | 15,477,517            | 107,632,273           | 9,895,636             |
| Restricted  | 7,386,400             | 7,336,138             | 50,262                | 10,240,469            | (2,904,331)           |
| Unrestricted  | 300,394,256           | 276,744,253           | 23,650,003            | 240,326,994           | 36,417,259            |
| Total net position                                      | 440,786,082           | 401,608,300           | 39,177,782            | 358,199,736           | 43,408,564            |
| Total liabilities, deferred inflows<br>and net position | <u>\$ 718,122,041</u> | <u>\$ 625,409,585</u> | <u>\$ 92,712,456</u>  | <u>\$ 547,751,938</u> | <u>\$ 77,657,647</u>  |

Total assets and deferred outflows in 2016 compared to 2015 increased approximately \$77,658,000. The majority of the change was in assets whose use is limited whose increase was \$46,277,000 in 2016 from 2015. Net capital assets increased \$19,729,000 in 2016 from 2015.

Total liabilities in 2016 increased approximately \$33,308,000 mainly related to a line of credit borrowing of \$24,000,000 for 2016.

The net position in 2016 increased approximately \$43,409,000 over 2015 based on operations and investment return.

### Table 2: Consolidated Statements of Revenues, Expenses and Changes in Net Position

Hendricks' performance in 2017 was favorable with a return on equity of 8.9% compared to 10.8% in 2016.

Total operating revenue increased approximately \$20,229,000 as net patient service revenue increased \$18,583,000 in 2017 over 2016. Acute care services constituted the majority of the increase in 2017.

# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016

Expenses increased by approximately \$38,830,000 between 2016 and 2017. Salaries, wages and benefits increased \$16,785,000 in 2017. Purchased services increased \$7,585,000 in 2017 while other professional fees increased \$5,690,000 in 2017.

Nonoperating income (expense) increased by approximately \$14,340,000 due to investment income of \$26,586,000 in 2017 compared to \$12,357,000 in 2016 combined with interest expense decreasing \$111,000 from 2016.

|   | 2017                  | 2016                  | Change<br>2017 - 2016 | 2015                  | Change<br>2016 - 2015 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Operating revenue</b>                    |                       |                       |                       |                       |                       |
| Net patient service revenue                 | \$ 541,893,318        | \$ 523,310,331        | \$ 18,582,987         | \$ 488,304,748        | \$ 35,005,583         |
| Other operating revenue                     | 8,895,809             | 7,250,114             | 1,645,695             | 6,571,883             | 678,231               |
| Total operating revenue                     | <u>550,789,127</u>    | <u>530,560,445</u>    | <u>20,228,682</u>     | <u>494,876,631</u>    | <u>35,683,814</u>     |
| <b>Operating expenses</b>                   |                       |                       |                       |                       |                       |
| Salaries and benefits                       | 147,673,974           | 130,889,262           | 16,784,712            | 122,150,217           | 8,739,045             |
| Medical supplies and drugs                  | 41,663,896            | 41,753,356            | (89,460)              | 39,656,598            | 2,096,758             |
| Depreciation and amortization               | 20,176,372            | 19,107,017            | 1,069,355             | 15,907,206            | 3,199,811             |
| Other operating expenses                    | 322,858,138           | 301,792,441           | 21,065,697            | 276,338,069           | 25,454,372            |
| Total operating expenses                    | <u>532,372,380</u>    | <u>493,542,076</u>    | <u>38,830,304</u>     | <u>454,052,090</u>    | <u>39,489,986</u>     |
| Operating income                            | 18,416,747            | 37,018,369            | (18,601,622)          | 40,824,541            | (3,806,172)           |
| <b>Nonoperating income (expense)</b>        |                       |                       |                       |                       |                       |
| Investment income                           | 26,585,829            | 12,357,393            | 14,228,436            | 1,592,974             | 10,764,419            |
| Interest expense                            | (5,005,194)           | (5,116,398)           | 111,204               | (5,125,952)           | 9,554                 |
| Total nonoperating income (expense), net    | <u>21,580,635</u>     | <u>7,240,995</u>      | <u>14,339,640</u>     | <u>(3,532,978)</u>    | <u>10,773,973</u>     |
| Change in net position before other items   | 39,997,382            | 44,259,364            | (4,261,982)           | 37,291,563            | 6,967,801             |
| <b>Other items</b>                          |                       |                       |                       |                       |                       |
| Contributions from non-controlling interest | -0-                   | -0-                   | -0-                   | 99,892                | (99,892)              |
| Dividends to non-controlling interest       | (819,600)             | (850,800)             | 31,200                | (835,200)             | (15,600)              |
| Change in net position                      | <u>39,177,782</u>     | <u>43,408,564</u>     | <u>(4,230,782)</u>    | <u>36,556,255</u>     | <u>6,852,309</u>      |
| <b>Net position</b>                         |                       |                       |                       |                       |                       |
| Beginning of year                           | 401,608,300           | 358,199,736           | 43,408,564            | 321,643,481           | 36,556,255            |
| End of year                                 | <u>\$ 440,786,082</u> | <u>\$ 401,608,300</u> | <u>\$ 39,177,782</u>  | <u>\$ 358,199,736</u> | <u>\$ 43,408,564</u>  |

Total operating revenue increased approximately \$35,684,000 as net patient service revenue increased \$35,006,000 in 2016 over 2015. Long-term care services constituted the majority of the increase in 2016.

Expenses increased by approximately \$39,490,000 between 2015 and 2016. Salaries, wages and benefits contributed to the majority of the 2016 increase, which increased in by \$8,739,000 in 2016.

Nonoperating income (expense) increased by approximately \$10,774,000 due to investment income of \$12,357,000 in 2016 compared to \$1,593,000 in 2015 and interest expense decreasing \$9,500 from 2015. Long-term care services contributed to the majority of the 2016 increase related to facility and equipment leases of \$3,664,000, purchased services of \$8,337,000 and other supplies and expenses of \$9,436,000.

# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016

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### 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 "What were the sources of cash?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

Total cash and cash equivalents increased approximately \$5,664,000 in 2017. This was an increase of \$2,568,000 from 2016. Operating activities generated cash of \$53,953,000 during 2017 compared to \$51,685,000 in 2016. Capital and related financing decreased cash and cash equivalents by \$38,313,000 during 2017 compared to a decrease of \$9,548,000 in 2016, mainly as the result of expenditures for property and equipment additions. Investing activities decreased cash and cash equivalents by \$9,976,000 in 2017 compared to \$39,042,000 in 2016, due to investment activity and the purchase of investments with available cash.

|                                     | 2017          | 2016          | Change<br>2017 - 2016 | 2015          | Change<br>2016 - 2015 |
|-------------------------------------|---------------|---------------|-----------------------|---------------|-----------------------|
| <b>Cash flow from activities</b>    |               |               |                       |               |                       |
| Operating                           | \$ 53,952,653 | \$ 51,685,421 | \$ 2,267,232          | \$ 63,260,208 | \$ (11,574,787)       |
| Capital and related financing       | (38,313,026)  | (9,548,109)   | (28,764,917)          | (32,364,504)  | 22,816,395            |
| Investing                           | (9,975,860)   | (39,041,854)  | 29,065,994            | (23,398,293)  | (15,643,561)          |
| Change in cash and cash equivalents | \$ 5,663,767  | \$ 3,095,458  | \$ 2,568,309          | \$ 7,497,411  | \$ (4,401,953)        |

Cash flows from operating activities in 2016 were approximately \$11,575,000 lower than 2015. Cash flows used in capital and related financing activities in 2016 were \$22,816,000 more than 2015. Finally, cash flows used in investing activities in 2016 were \$15,644,000 more than 2015. Cash and cash equivalents in total increased \$3,095,000 in 2016.

### Sources of Revenue

During 2017, 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 2017 but only 33% of Hendricks' net patient service revenues.

## HENDRICKS REGIONAL HEALTH

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016

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Following is a table of major sources of gross patient revenues for 2017:

| Payor                | % of Gross<br>Revenues |
|----------------------|------------------------|
| Medicare             | 40%                    |
| Anthem/Blue Cross    | 25%                    |
| Commercial and other | 21%                    |
| Medicaid             | 10%                    |
| Self-Pay             | 4%                     |
| Total                | 100%                   |

Outpatient services represented approximately 76% and 75% of acute care gross patient revenue for 2017 and 2016, respectively. According to the Indiana Hospital Association's IHA Databank, the State of Indiana's average outpatient percent of total charges was approximately 55% and 57% for 2017 and 2016, respectively.

#### Capital Assets

During 2017, Hendricks invested approximately \$27,382,000 in capital assets net of asset disposals compared to \$36,416,000 in 2016. Capital assets net of asset disposals added during 2015 were \$16,869,000. The change in capital assets is outlined in the following table:

|                               | 2017           | 2016           | Change<br>2017 - 2016 | 2015           | Change<br>2016 - 2015 |
|-------------------------------|----------------|----------------|-----------------------|----------------|-----------------------|
| Land and improvements         | \$ 34,087,839  | \$ 30,940,211  | \$ 3,147,628          | \$22,771,415   | \$ 8,168,796          |
| Buildings and fixed equipment | 264,065,955    | 277,546,619    | (13,480,664)          | 262,186,045    | 15,360,574            |
| Major moveable equipment      | 80,146,928     | 87,279,345     | (7,132,417)           | 86,565,487     | 713,858               |
| Construction in progress      | 57,678,640     | 12,830,797     | 44,847,843            | 658,195        | 12,172,602            |
| Total capital assets          | 435,979,362    | 408,596,972    | 27,382,390            | 372,181,142    | 36,415,830            |
| Less accumulated depreciation | 156,153,765    | 173,083,522    | (16,929,757)          | 156,396,328    | 16,687,194            |
| Capital assets - net          | \$ 279,825,597 | \$ 235,513,450 | \$ 44,312,147         | \$ 215,784,814 | \$ 19,728,636         |

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. More detailed information about Hendricks' capital assets is presented in the Notes to the Consolidated Financial Statements.

# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016

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### **Debt**

Total long-term debt (including current portion) increased from approximately \$117,986,000 to \$146,820,000 in 2017. During 2015, Hendricks issued long-term debt to construct a new ambulatory care facility and made additional draws in 2016 and 2017 which was the primary reason for the increase in long-term debt. 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, uncertainty regarding 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.

### **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, 2017 AND 2016

### ASSETS AND DEFERRED OUTFLOWS

|   | 2017           | 2016           |
|---|----------------|----------------|
| <b>Current assets</b>   |                |                |
| Cash and cash equivalents   | \$ 15,080,775  | \$ 9,156,309   |
| Investments   | 56,983,585     | 57,226,048     |
| Patient accounts receivable, less allowance<br>for uncollectible accounts of \$24,914,000<br>in 2017 and \$22,621,000 in 2016 | 55,081,850     | 52,988,573     |
| Inventories   | 3,264,563      | 2,523,489      |
| Other current assets  | 22,699,856     | 24,180,542     |
| Current portion of assets whose use is limited  | 13,122,501     | 6,122,079      |
| Total current assets  | 166,233,130    | 152,197,040    |
| <b>Assets whose use is limited</b>  |                |                |
| Board designated funded depreciation investments  | 258,689,510    | 222,116,388    |
| Held by trustee   | 6,112,205      | 6,074,663      |
| Other board designated investments  | 202,407        | 506,165        |
| Total assets whose use is limited   | 265,004,122    | 228,697,216    |
| Less current portion  | 13,122,501     | 6,122,079      |
| Noncurrent assets whose use is limited  | 251,881,621    | 222,575,137    |
| <b>Capital assets</b>   |                |                |
| Land  | 24,094,494     | 20,928,211     |
| Depreciable capital assets  | 354,206,228    | 374,837,964    |
| Construction in progress  | 57,678,640     | 12,830,797     |
|   | 435,979,362    | 408,596,972    |
| Less accumulated depreciation   | 156,153,765    | 173,083,522    |
| Capital assets, net   | 279,825,597    | 235,513,450    |
| <b>Other assets</b>   |                |                |
| Pension asset   | 12,753,843     | 7,071,709      |
| Other   | 1,544,479      | 652,944        |
| Total other assets  | 14,298,322     | 7,724,653      |
| Total assets  | 712,238,670    | 618,010,280    |
| <b>Deferred outflows</b>  | 5,883,371      | 7,399,305      |
| Total assets and deferred outflows  | \$ 718,122,041 | \$ 625,409,585 |

See accompanying notes to consolidated financial statements.

# HENDRICKS REGIONAL HEALTH

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2017 AND 2016

### LIABILITIES, DEFERRED INFLOWS AND NET POSITION

|  | 2017           | 2016           |
|--|----------------|----------------|
| <b>Current liabilities</b>                           |                |                |
| Current portion of long-term debt                    | \$ 13,122,501  | \$ 6,122,079   |
| Line of credit                                       | 22,900,000     | 24,000,000     |
| Accounts payable                                     | 26,747,370     | 14,533,486     |
| Accrued salaries and related liabilities             | 12,561,699     | 10,936,807     |
| Accrued expenses and other current liabilities       | 58,284,392     | 52,252,950     |
| Accrued interest                                     | 1,581,925      | 1,663,608      |
| Estimated third-party settlements                    | 2,789,951      | 1,446,386      |
| Total current liabilities                            | 137,987,838    | 110,955,316    |
| <b>Long-term debt, net of current portion</b>        | 133,697,670    | 111,863,462    |
| Total liabilities                                    | 271,685,508    | 222,818,778    |
| <b>Deferred inflows</b>                              | 5,650,451      | 982,507        |
| Total liabilities and deferred inflows               | 277,335,959    | 223,801,285    |
| <b>Net position</b>                                  |                |                |
| Net investment in capital assets                     | 133,005,426    | 117,527,909    |
| Restricted   |                |                |
| Held by trustee                                      | 6,112,205      | 6,074,663      |
| Non-expendable                                       | 1,274,195      | 1,261,475      |
| Total restricted                                     | 7,386,400      | 7,336,138      |
| Unrestricted   | 300,394,256    | 276,744,253    |
| Total net position                                   | 440,786,082    | 401,608,300    |
| Total liabilities, deferred inflows and net position | \$ 718,122,041 | \$ 625,409,585 |

See accompanying notes to consolidated financial statements.

## HENDRICKS REGIONAL HEALTH

### CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2017 AND 2016

|   | 2017           | 2016           |
|---|----------------|----------------|
| <b>Operating revenue</b>                  |                |                |
| Net patient service revenue               | \$ 541,893,318 | \$ 523,310,331 |
| Other operating revenue                   | 8,895,809      | 7,250,114      |
| Total operating revenue                   | 550,789,127    | 530,560,445    |
| <b>Operating expenses</b>                 |                |                |
| Salaries and wages                        | 116,043,833    | 102,265,201    |
| Employee benefits                         | 31,630,141     | 28,624,061     |
| Professional medical fees                 | 2,254,988      | 1,585,052      |
| Other professional fees                   | 33,933,097     | 28,243,103     |
| Medical and surgical supplies             | 30,145,013     | 30,083,222     |
| Drugs and intravenous solutions           | 11,518,883     | 11,670,134     |
| Food                                      | 6,706,853      | 6,700,692      |
| Purchased services                        | 164,990,035    | 157,405,381    |
| Equipment rental                          | 3,238,154      | 3,074,859      |
| HAF and HIP program assessments           | 7,173,702      | 4,320,405      |
| Telephone and utilities                   | 11,118,079     | 10,065,987     |
| Depreciation and amortization             | 20,176,372     | 19,107,017     |
| Insurance                                 | 5,907,103      | 4,804,086      |
| Facility and equipment leases             | 34,323,363     | 33,624,172     |
| Other supplies and expenses               | 53,212,764     | 51,968,704     |
| Total operating expenses                  | 532,372,380    | 493,542,076    |
| Operating income                          | 18,416,747     | 37,018,369     |
| <b>Nonoperating income (expense)</b>      |                |                |
| Investment income                         | 26,585,829     | 12,357,393     |
| Interest expense                          | (5,005,194)    | (5,116,398)    |
| Total nonoperating income (expense), net  | 21,580,635     | 7,240,995      |
| Change in net position before other items | 39,997,382     | 44,259,364     |
| <b>Other items</b>                        |                |                |
| Dividends to non-controlling interest     | (819,600)      | (850,800)      |
| Change in net position                    | 39,177,782     | 43,408,564     |
| <b>Net position</b>                       |                |                |
| Beginning of year                         | 401,608,300    | 358,199,736    |
| End of year                               | \$ 440,786,082 | \$ 401,608,300 |

See accompanying notes to consolidated financial statements.

## HENDRICKS REGIONAL HEALTH

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

|  | 2017           | 2016           |
|--|----------------|----------------|
| <b>Operating activities</b>  |                |                |
| Cash received from patient services                                      | \$ 541,143,606 | \$ 513,703,106 |
| Cash paid for salaries, wages and benefits                               | (145,547,338)  | (127,177,350)  |
| Cash paid to vendors and suppliers                                       | (350,539,424)  | (342,090,449)  |
| Other receipts, net  | 8,895,809      | 7,250,114      |
| Net cash flows from operating activities                                 | 53,952,653     | 51,685,421     |
| <b>Capital and related financing activities</b>                          |                |                |
| Acquisition and construction of capital assets                           | (60,575,705)   | (37,577,895)   |
| Dividends to non-controlling interest                                    | (819,600)      | (850,800)      |
| Loss of disposal of property and equipment                               | 197,979        | 15,242         |
| Interest on long-term debt   | (5,086,877)    | (5,205,702)    |
| Borrowings on line of credit   | -0-            | 24,000,000     |
| Payments on line of credit   | (1,100,000)    | -0-            |
| Proceeds from issuance of long-term debt                                 | 35,330,926     | 15,836,962     |
| Principal payments for long-term debt                                    | (6,259,749)    | (5,765,916)    |
| Net cash flows from capital and related financing activities             | (38,313,026)   | (9,548,109)    |
| <b>Investing activities</b>  |                |                |
| Investment income  | 26,585,829     | 12,357,393     |
| Purchase of investments  | (44,284,678)   | (67,062,399)   |
| Proceeds from sale of investments  | 7,722,989      | 15,663,152     |
| Net cash flows from investing activities                                 | (9,975,860)    | (39,041,854)   |
| Net change in cash and cash equivalents                                  | 5,663,767      | 3,095,458      |
| <b>Cash and cash equivalents</b>   |                |                |
| Beginning of year  | 65,700,559     | 62,605,101     |
| End of year  | \$ 71,364,326  | \$ 65,700,559  |
| <b>Reconciliation of cash and cash equivalents to the balance sheets</b> |                |                |
| Cash and cash equivalents  |                |                |
| In current assets - cash and cash equivalents                            | \$ 15,080,775  | \$ 9,156,309   |
| In investments   | 56,072,230     | 56,331,364     |
| In board designated investments  | 211,321        | 212,886        |
| Total cash and cash equivalents  | \$ 71,364,326  | \$ 65,700,559  |

See accompanying notes to consolidated financial statements.

## HENDRICKS REGIONAL HEALTH

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

|  | 2017          | 2016          |
|--|---------------|---------------|
| <b>Reconciliation of operating income to net cash flows from operating activities</b>          |               |               |
| Operating income   | \$ 18,416,747 | \$ 37,018,369 |
| Adjustment to reconcile operating income to net cash flows from operating activities           |               |               |
| Depreciation and amortization  | 20,176,372    | 19,107,017    |
| Provision for bad debts  | 21,010,665    | 25,669,861    |
| Changes in operating assets and liabilities  |               |               |
| Patient accounts receivable  | (23,103,942)  | (35,773,535)  |
| Inventories  | (741,074)     | (47,914)      |
| Other current assets   | 1,480,686     | 3,069,236     |
| Pension asset  | (5,682,134)   | 773,999       |
| Other assets   | (891,535)     | (377,150)     |
| Deferred outflows  | 1,515,934     | 67,853        |
| Accounts payable   | 8,103,091     | (4,281,904)   |
| Accrued salaries and related liabilities   | 1,624,892     | 1,928,595     |
| Accrued expenses and other current liabilities   | 6,031,442     | 3,093,080     |
| Estimated third-party settlements  | 1,343,565     | 496,449       |
| Deferred inflows   | 4,667,944     | 941,465       |
| Net cash flows from operating activities   | \$ 53,952,653 | \$ 51,685,421 |
| <br><b>Supplemental disclosure of cash flows information</b>                                   |               |               |
| Cash paid for interest, net of capitalized interest of \$340,000 in 2017 and \$101,000 in 2016 | \$ 5,086,877  | \$ 5,205,702  |
| <br><b>Noncash capital and related financing activities</b>                                    |               |               |
| Property purchases in accounts payable   | \$ 4,110,793  | \$ 1,273,000  |

See accompanying notes to consolidated financial statements.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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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 Title 16 Article 22 of the Indiana statutes. 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 the financial position of the County as of December 31, 2017 and 2016, 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 leases the operations of over twenty-five long-term care facilities by way of arrangements 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, 2017 AND 2016

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### Basis of Consolidation

The accompanying consolidated financial statements of Hendricks includes the accounts of its blended component units, Hendricks Regional Health Foundation, Inc. (Foundation), a separate not-for-profit entity organized to support the operations of Hendricks, Hendricks Ambulatory Management Company, LLC (HAMCO), a separate limited liability company entity, HRH Health Services Corporation (HRH Health Services), and HRH Real Estate Holding Company (HRH Real Estate).

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.

HRH Health Services (formed in late 2016) and HRH Real Estate (formed in 2015) are not-for-profit corporations with Hendricks as the sole corporate member. There was no financial activity for either entity until 2017.

All significant transactions between the entities have been eliminated for financial reporting purposes. Separate financial statements related to the individual component units can be obtained by contacting Hendricks' management.

### Measurement Focus and Basis of Accounting

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

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United 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.

### 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

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# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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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. As of December 31, 2017 and 2016, these amounts approximately \$55,800,000 and \$55,600,000, respectively.

### Investments

Investments consist of cash and cash equivalents, certificates of deposit, mutual funds, U.S. Government obligations and fixed income obligations. Certificate of deposits are reported at contract value. The remaining investments 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, 2015 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2016 and 2017 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2017 and 2016, Hendricks did not recognize a change in net position in the consolidated statements of revenues, expenses and changes in net position due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying 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.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### 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 2017 and 2016, Hendricks recognized approximately \$541,000 and \$744,000, 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.

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

Receipt of these funds is subject to the fulfillment of certain obligations by 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 net realizable value 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.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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Inventories at year-end consist of the following:

|                            | <u>2017</u>         | <u>2016</u>         |
|----------------------------|---------------------|---------------------|
| Medical supplies and other | \$ 2,682,431        | \$ 1,945,915        |
| Pharmaceutical             | 582,132             | 577,574             |
|                            | <u>\$ 3,264,563</u> | <u>\$ 2,523,489</u> |

### Other Current Assets

Other current assets consist of prepaid expenses, other receivables and various other current items. These assets are classified as current as they are expected to be utilized within the next fiscal year. Other receivables approximated \$17,000,000 and \$19,017,000 of the total as of December 31, 2017 and 2016, respectively.

### 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 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, expenses and changes in net position.

### 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.

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<br/>Useful Lives</u> |
|-------------------------------|----------------------------------|
| Land improvements             | 5-25 years                       |
| Buildings and fixed equipment | 3-50 years                       |
| Major movable equipment       | 3-30 years                       |

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# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### Advertising and Community Relations

Hendricks records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was approximately \$2,302,000 and \$1,970,000 for 2017 and 2016, 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 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 (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, Expenses and Changes in Net Position

Hendricks' consolidated statements of revenues, expenses and changes in net position 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.

### 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 2017 and 2016 were approximately \$3,984,000 and \$4,527,000, respectively. Hendricks did not change its charity care and financial assistance policy during 2017 and 2016.

Of Hendricks' total expenses reported, including interest expense, in 2017 and 2016, an estimated \$1,726,000 and \$1,882,000 arose from providing services to charity patients during 2017 and 2016, 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 REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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Hendricks has a policy with discounted rates similar to contractual payors for uninsured patients. Uninsured self pay discounts provided to patients were approximately \$4,241,000 and \$3,812,000 for 2017 and 2016, 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. During 2017 and 2016, capitalized interest was approximately \$340,000 and \$101,000, respectively.

### Federal or State Income Taxes

Hendricks is a governmental instrumentality organized under Title 16, Article 22, 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, HRH Health Services and HRH Real Estate are organized as a not-for-profit organization under Section 501(c)(3) of the United States IRC. As such, these entities are generally exempt from income taxes. However, they are required to file Federal Form 990 – Return of Organization Exempt from Income Tax. The Foundation has filed its federal and state income tax returns for periods through December 31, 2016. HRH Health Services and HRH Real Estate had no financial activity until 2017. HRH Health Services and HRH Real Estate expect to file their initial 2017 tax returns during 2018. 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).

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, 2016. 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 and its affiliates 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, 2017 and 2016, 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. These organizations are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### 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.

### Litigation

Hendricks is exposed to litigation arising in the normal course of business and is currently involved in certain litigation related to certain long-term care facilities. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Hendricks' financial position.

### 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. Except for health and dental benefits, commercial insurance coverage is purchased for claims arising from such matters and settled claims have not exceeded this commercial coverage in any of the three preceding years. Hendricks is self-insured for health and dental claims. Amounts are expensed as incurred and estimated accruals are made for incurred but not yet reported claims as of each balance sheet date.

### 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, IC 34-18 (the Act) provides a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act requires Hendricks to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence and \$12,000,000 in the annual aggregate until June 30, 2019. Starting July 1, 2019, the Act will require Hendricks to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence and \$15,000,000 in the annual aggregate. The Act also requires Hendricks to pay a surcharge to the State Patient's Compensation Fund (Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and

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# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

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

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.

### Reclassifications

Certain amounts from the 2016 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.

### 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 July 9, 2018.

## **2. INVESTMENTS**

Investments consist of cash and cash equivalents, certificates of deposit, mutual funds, U.S. Government obligations and fixed income obligations. Certificates of deposit are reported at contract value. Mutual funds and U.S. Government and fixed income obligations are reported at fair value. Investments balances as of December 31, 2017 and 2016 were approximately \$56,984,000 and \$57,226,000, respectively.

## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

#### 3. 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, 2017 and 2016:

|                             | 2017           | 2016           |
|-----------------------------|----------------|----------------|
| Assets whose use is limited |                |                |
| Cash and cash equivalents   | \$ 211,321     | \$ 212,886     |
| Certificates of deposit     | -0-            | 302,113        |
| Investments                 | 264,792,801    | 228,182,217    |
|                             | \$ 265,004,122 | \$ 228,697,216 |

#### 4. 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 Public 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 U.S. Government and fixed income obligations.

As of December 31, 2017 and 2016, 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, 2017  |                                  |        |        |                 |
|-----------------------------|--------------------|----------------------------------|--------|--------|-----------------|
|                             | Carrying<br>Amount | Investment Maturities (in years) |        |        |                 |
|                             |                    | Less<br>than 1                   | 1-5    | 6-10   | More<br>than 10 |
| Mutual funds                | \$ 251,751,164     | \$ 251,751,164                   | \$ -0- | \$ -0- | \$ -0-          |
| U.S. Government obligations | 6,512,992          | 6,512,992                        | -0-    | -0-    | -0-             |
| Fixed income obligations    | 7,440,000          | -0-                              | -0-    | -0-    | 7,440,000       |
|                             | \$ 265,704,156     | \$ 258,264,156                   | \$ -0- | \$ -0- | \$ 7,440,000    |

## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

|                             | December 31, 2016  |                                  |        |        |                 |
|-----------------------------|--------------------|----------------------------------|--------|--------|-----------------|
|                             | Carrying<br>Amount | Investment Maturities (in years) |        |        |                 |
|                             |                    | Less<br>than 1                   | 1-5    | 6-10   | More<br>than 10 |
| Certificates of deposit     | \$ 302,113         | \$ 302,113                       | \$ -0- | \$ -0- | \$ -0-          |
| Mutual funds                | 215,306,700        | 215,306,700                      | -0-    | -0-    | -0-             |
| U.S. Government obligations | 6,170,201          | 6,170,201                        | -0-    | -0-    | -0-             |
| Fixed income obligations    | 7,600,000          | -0-                              | -0-    | -0-    | 7,600,000       |
|                             | \$ 229,379,014     | \$ 215,608,813                   | \$ -0- | \$ -0- | \$ 7,600,000    |

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 does not have a formal policy for credit and concentration of credit risk for deposits and investments.

Deposits and investments consist of the following as of December 31, 2017 and 2016:

|  | 2017           | 2016           |
|--|----------------|----------------|
| Carrying amount                                  |                |                |
| Deposits   | \$ 71,364,326  | \$ 65,700,559  |
| Investments                                      | 265,704,156    | 229,379,014    |
|  | \$ 337,068,482 | \$ 295,079,573 |
| Included in the balance sheet captions           |                |                |
| Cash and cash equivalents                        | \$ 15,080,775  | \$ 9,156,309   |
| Investments                                      | 56,983,585     | 57,226,048     |
| Board designated funded depreciation investments | 258,689,510    | 222,116,388    |
| Held by trustee                                  | 6,112,205      | 6,074,663      |
| Other board designated investments               | 202,407        | 506,165        |
|  | \$ 337,068,482 | \$ 295,079,573 |

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### 5. FAIR VALUE MEASUREMENTS

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

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

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, 2017 and 2016:

- *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.
- *U.S. Government obligations*: Valued using pricing models maximizing the use of observable inputs for similar securities.
- *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, 2017 and 2016 are as follows:

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# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

|                                   |    | December 31, 2017 |                |               |         |
|-----------------------------------|----|-------------------|----------------|---------------|---------|
|                                   |    | Total             | Level 1        | Level 2       | Level 3 |
| Assets                            |    |                   |                |               |         |
| Investments                       |    |                   |                |               |         |
| Mutual funds - total return bond  | \$ | 881,753           | \$ 881,753     | \$ -0-        | \$ -0-  |
| U.S. Government obligations       |    | 29,602            | -0-            | 29,602        | -0-     |
|                                   |    | 911,355           | \$ 881,753     | \$ 29,602     | \$ -0-  |
| Cash                              |    | 56,072,230        |                |               |         |
|                                   |    | \$ 56,983,585     |                |               |         |
| Assets whose use is limited       |    |                   |                |               |         |
| Mutual funds                      |    |                   |                |               |         |
| Foreign large growth              | \$ | 9,774,258         | \$ 9,774,258   | \$ -0-        | \$ -0-  |
| Foreign large value               |    | 10,138,004        | 10,138,004     | -0-           | -0-     |
| Intermediate-term bond            |    | 117,714,343       | 117,714,343    | -0-           | -0-     |
| Large blend                       |    | 82,913,699        | 82,913,699     | -0-           | -0-     |
| Large growth                      |    | 12,575,093        | 12,575,093     | -0-           | -0-     |
| Short-term bond                   |    | 107,238           | 107,238        | -0-           | -0-     |
| Small growth                      |    | 8,860,345         | 8,860,345      | -0-           | -0-     |
| Small value                       |    | 8,786,431         | 8,786,431      | -0-           | -0-     |
| Total mutual funds                |    | 250,869,411       | 250,869,411    | -0-           | -0-     |
| U.S. Government obligations       |    | 6,483,390         | -0-            | 6,483,390     | -0-     |
| Fixed income obligations          |    | 7,440,000         | -0-            | 7,440,000     | -0-     |
|                                   |    | 264,792,801       | \$ 250,869,411 | \$ 13,923,390 | \$ -0-  |
| Cash                              |    | 211,321           |                |               |         |
| Total assets whose use is limited |    | \$ 265,004,122    |                |               |         |
|                                   |    | December 31, 2016 |                |               |         |
|                                   |    | Total             | Level 1        | Level 2       | Level 3 |
| Assets                            |    |                   |                |               |         |
| Investments                       |    |                   |                |               |         |
| Mutual funds - total return bond  | \$ | 878,633           | \$ 878,633     | \$ -0-        | \$ -0-  |
| U.S. Government obligations       |    | 16,051            | -0-            | 16,051        | -0-     |
|                                   |    | 894,684           | \$ 878,633     | \$ 16,051     | \$ -0-  |
| Cash                              |    | 56,331,364        |                |               |         |
|                                   |    | \$ 57,226,048     |                |               |         |
| Assets whose use is limited       |    |                   |                |               |         |
| Mutual funds                      |    |                   |                |               |         |
| Foreign large growth              | \$ | 6,001,968         | \$ 6,001,968   | \$ -0-        | \$ -0-  |
| Foreign large value               |    | 6,236,030         | 6,236,030      | -0-           | -0-     |
| Intermediate-term bond            |    | 113,250,063       | 113,250,063    | -0-           | -0-     |
| Large blend                       |    | 58,988,098        | 58,988,098     | -0-           | -0-     |
| Large growth                      |    | 12,842,477        | 12,842,477     | -0-           | -0-     |
| Short-term bond                   |    | 3,970,326         | 3,970,326      | -0-           | -0-     |
| Small growth                      |    | 6,423,161         | 6,423,161      | -0-           | -0-     |
| Small value                       |    | 6,715,944         | 6,715,944      | -0-           | -0-     |
| Total mutual funds                |    | 214,428,067       | 214,428,067    | -0-           | -0-     |
| U.S. Government obligations       |    | 6,154,150         | -0-            | 6,154,150     | -0-     |
| Fixed income obligations          |    | 7,600,000         | -0-            | 7,600,000     | -0-     |
|                                   |    | 228,182,217       | \$ 214,428,067 | \$ 13,754,150 | \$ -0-  |
| Cash                              |    | 212,886           |                |               |         |
| Certificates of deposit           |    | 302,113           |                |               |         |
| Total assets whose use is limited |    | \$ 228,697,216    |                |               |         |

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Hendricks' policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2017 and 2016.

Realized gains and losses included in earnings are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment income. The market value of investments exceeded cost by approximately \$22,779,000 and \$13,872,000 as of December 31, 2017 and 2016, 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, 2017 and 2016 and are reported in the consolidated statements of revenues, expenses and changes in net position 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.

### 6. CAPITAL ASSETS

Progressions for capital assets for 2017 and 2016 follow:

|                                | December 31,<br>2016 | Additions     | Disposals    | Transfers   | December 31,<br>2017 |
|--------------------------------|----------------------|---------------|--------------|-------------|----------------------|
| Land                           | \$ 20,928,211        | \$ 3,166,283  | \$ -0-       | \$ -0-      | \$ 24,094,494        |
| Land improvements              | 10,012,000           | -0-           | (18,655)     | -0-         | 9,993,345            |
| Buildings and fixed equipment  | 277,546,619          | 1,067,782     | (14,548,446) | -0-         | 264,065,955          |
| Major movable equipment        | 87,279,345           | 15,604,590    | (22,737,007) | -0-         | 80,146,928           |
| Construction in progress       | 12,830,797           | 44,847,843    | -0-          | -0-         | 57,678,640           |
| Total capital assets           | 408,596,972          | 64,686,498    | (37,304,108) | -0-         | 435,979,362          |
| Less accumulated depreciation  |                      |               |              |             |                      |
| Land improvements              | 4,819,000            | 658,702       | -0-          | -0-         | 5,477,702            |
| Buildings and fixed equipment  | 105,716,956          | 8,189,048     | (15,048,441) | -0-         | 98,857,563           |
| Major movable equipment        | 62,547,566           | 11,328,622    | (22,057,688) | -0-         | 51,818,500           |
| Total accumulated depreciation | 173,083,522          | 20,176,372    | (37,106,129) | -0-         | 156,153,765          |
| Capital assets, net            | \$ 235,513,450       | \$ 44,510,126 | \$ (197,979) | \$ -0-      | \$ 279,825,597       |
|                                | December 31,<br>2015 | Additions     | Disposals    | Transfers   | December 31,<br>2016 |
| Land                           | \$ 16,574,202        | \$ 4,354,009  | \$ -0-       | \$ -0-      | \$ 20,928,211        |
| Land improvements              | 6,197,213            | 208,445       | -0-          | 3,606,342   | 10,012,000           |
| Buildings and fixed equipment  | 262,186,045          | 8,222,839     | (1,828,754)  | 8,966,489   | 277,546,619          |
| Major movable equipment        | 86,565,487           | 8,951,951     | (606,311)    | (7,631,782) | 87,279,345           |
| Construction in progress       | 658,195              | 17,113,651    | -0-          | (4,941,049) | 12,830,797           |
| Total capital assets           | 372,181,142          | 38,850,895    | (2,435,065)  | -0-         | 408,596,972          |
| Less accumulated depreciation  |                      |               |              |             |                      |
| Land improvements              | 4,180,536            | 638,464       | -0-          | -0-         | 4,819,000            |
| Buildings and fixed equipment  | 97,554,372           | 9,988,738     | (1,826,154)  | -0-         | 105,716,956          |
| Major movable equipment        | 54,661,420           | 8,479,815     | (593,669)    | -0-         | 62,547,566           |
| Total accumulated depreciation | 156,396,328          | 19,107,017    | (2,419,823)  | -0-         | 173,083,522          |
| Capital assets, net            | \$ 215,784,814       | \$ 19,743,878 | \$ (15,242)  | \$ -0-      | \$ 235,513,450       |

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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Significant outstanding commitments on capital assets as of December 31, 2017 were approximately \$3,209,000.

### **7. 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.

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%.

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.

In 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 in Brownsburg, Indiana. 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%. Principal payments for these bonds begin in January 2018 through October 2022. The Series 2015A and 2015B Bonds are secured by Hendricks' net revenues.

During 2016, Hendricks issued Indiana Taxable Economic Development Revenue Bonds, Series 2016 in the amount of \$2,600,000. These Series 2016 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.

The Series 2007A, 2009A, 2015A and 2015B Bonds are covered under a Master Trust Indenture and are secured by an interest in the gross revenues of Hendricks. The Series 2007A, 2009A, 2015A and 2015B Bonds require Hendricks to comply with certain financial covenants. As of December 31, 2017 and 2016, Hendricks believed it was in compliance with these financial covenants.

## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

During 2016, Hendricks entered into a line of credit agreement with Fifth Third with a maximum amount of \$24,000,000 to fund working capital. The amount outstanding as of December 31, 2017 and 2016 was \$22,900,000 and \$24,000,000, respectively. The line of credit bears interest at the floating 30 day LIBOR rate plus 125 basis points (2.8% at December 31, 2017) and is secured by Hendricks net revenues. The line of credit is renewable annually and was renewed during 2018 for another year through February 5, 2019. Subsequent to December 31, 2017, Hendricks paid off the line of credit.

Included in deferred outflows as of December 31, 2017 and 2016 is a loss on bond refunding of approximately \$1,442,000 and \$1,560,000, respectively, related to the refunding of Series 2002 Bonds during 2007. Annual amortization of the loss is approximately \$118,000 through April 2030.

Progressions for long-term debt for 2017 and 2016 include the following:

|   | December 31,<br>2016  | Additional<br>Borrowings | Payments              | December 31,<br>2017  | Current<br>Portion   |
|---|-----------------------|--------------------------|-----------------------|-----------------------|----------------------|
| Indiana Bond Bank                               |                       |                          |                       |                       |                      |
| Special Program Refunding                       |                       |                          |                       |                       |                      |
| Bonds Series 2007A                              | \$ 38,140,000         | \$ -0-                   | \$ (1,910,000)        | \$ 36,230,000         | \$ 2,015,000         |
| Special Hospital Program                        |                       |                          |                       |                       |                      |
| Bonds Series 2009A                              | 54,835,000            | -0-                      | (3,295,000)           | 51,540,000            | 3,435,000            |
| Indiana Taxable Economic                        |                       |                          |                       |                       |                      |
| Development Revenue Bonds                       |                       |                          |                       |                       |                      |
| Series 2009                                     | 5,000,000             | -0-                      | -0-                   | 5,000,000             | -0-                  |
| Series 2016                                     | 2,600,000             | -0-                      | (160,000)             | 2,440,000             | 110,000              |
| Indiana Finance Authority                       |                       |                          |                       |                       |                      |
| Health Facility Revenue                         |                       |                          |                       |                       |                      |
| Bonds, Series 2015A & B<br>(construction draws) | 12,698,640            | 35,301,360               | -0-                   | 48,000,000            | 6,857,144            |
| Other   | 1,597,975             | 29,566                   | (894,749)             | 732,792               | 705,357              |
|   | <u>114,871,615</u>    | <u>\$ 35,330,926</u>     | <u>\$ (6,259,749)</u> | <u>143,942,792</u>    | <u>\$ 13,122,501</u> |
| Unamortized bond premium                        | <u>3,113,926</u>      |                          |                       | <u>2,877,379</u>      |                      |
|   | <u>\$ 117,985,541</u> |                          |                       | <u>\$ 146,820,171</u> |                      |

## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

|                           | December 31,<br>2015  | Additional<br>Borrowings | Payments              | December 31,<br>2016  | Current<br>Portion  |
|---------------------------|-----------------------|--------------------------|-----------------------|-----------------------|---------------------|
| Indiana Bond Bank         |                       |                          |                       |                       |                     |
| Special Program Refunding |                       |                          |                       |                       |                     |
| Bonds Series 2007A        | \$ 39,960,000         | \$ -0-                   | \$ (1,820,000)        | \$ 38,140,000         | \$ 1,910,000        |
| Special Hospital Program  |                       |                          |                       |                       |                     |
| Bonds Series 2009A        | 57,975,000            | -0-                      | (3,140,000)           | 54,835,000            | 3,295,000           |
| Indiana Taxable Economic  |                       |                          |                       |                       |                     |
| Development Revenue Bonds |                       |                          |                       |                       |                     |
| Series 2009               | 5,000,000             | -0-                      | -0-                   | 5,000,000             | -0-                 |
| Series 2016               | -0-                   | 2,600,000                | -0-                   | 2,600,000             | -0-                 |
| Indiana Finance Authority |                       |                          |                       |                       |                     |
| Health Facility Revenue   |                       |                          |                       |                       |                     |
| Bonds, Series 2015A & B   |                       |                          |                       |                       |                     |
| (construction draws)      | 1,263,000             | 11,435,640               | -0-                   | 12,698,640            | -0-                 |
| Other                     | 602,569               | 1,801,322                | (805,916)             | 1,597,975             | 917,079             |
|                           | 104,800,569           | <u>\$ 15,836,962</u>     | <u>\$ (5,765,916)</u> | 114,871,615           | <u>\$ 6,122,079</u> |
| Unamortized bond premium  | <u>3,351,972</u>      |                          |                       | <u>3,113,926</u>      |                     |
|                           | <u>\$ 108,152,541</u> |                          |                       | <u>\$ 117,985,541</u> |                     |

Aggregate maturities of long-term debt are as follows:

| Year Ending<br>December 31, | Principal             | Interest             | Total                 |
|-----------------------------|-----------------------|----------------------|-----------------------|
| 2018                        | \$ 13,122,501         | \$ 5,443,756         | \$ 18,566,257         |
| 2019                        | 12,899,579            | 5,187,688            | 18,087,267            |
| 2020                        | 13,292,144            | 4,892,500            | 18,184,644            |
| 2021                        | 13,607,144            | 4,596,544            | 18,203,688            |
| 2022                        | 27,651,430            | 4,285,963            | 31,937,393            |
| 2023-2027                   | 41,390,000            | 10,900,519           | 52,290,519            |
| 2028-2032                   | 21,260,000            | 1,332,094            | 22,592,094            |
| 2033-2036                   | 719,994               | -0-                  | 719,994               |
|                             | <u>\$ 143,942,792</u> | <u>\$ 36,639,064</u> | <u>\$ 180,581,856</u> |

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### 8. 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 Hospital Assessment Fee Program

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

Hendricks participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF Program expense reported in the statements of revenues, expenses and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Beginning July 1, 2017, hospitals also started funding the Healthy Indiana Plan (HIP), the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program but the funding includes physician, state administration, and certain non-hospital expenditures. During 2017 and 2016, Hendricks recognized HAF and HIP program assessments of approximately \$7,174,000 and \$4,320,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP assessments are included in the statements of revenues, expenses and changes in net position as operating expenses. The Medicaid rate increases under the HAF Program and the HIP payments are included in patient service revenue in the statements revenues, expenses and changes in net position.

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## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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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 \$2,253,000 and \$3,090,000 during 2017 and 2016, 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 2017 and 2016 consists of the following:

|                               | <u>2017</u>           | <u>2016</u>           |
|-------------------------------|-----------------------|-----------------------|
| Inpatient routine services    | \$ 26,990,684         | \$ 25,818,464         |
| Inpatient ancillary services  | 131,020,269           | 122,511,687           |
| Outpatient ancillary services | 496,545,255           | 454,195,429           |
| Long-term care services       | 269,236,881           | 273,418,605           |
| Gross patient service revenue | 923,793,089           | 875,944,185           |
| Contractual allowances        | 352,664,303           | 318,625,342           |
| Uninsured self pay discounts  | 4,241,031             | 3,811,833             |
| Charity care                  | 3,983,772             | 4,526,818             |
| Provision for bad debts       | 21,010,665            | 25,669,861            |
| Deductions from revenue       | 381,899,771           | 352,633,854           |
| Net patient service revenue   | <u>\$ 541,893,318</u> | <u>\$ 523,310,331</u> |

Hendricks also participates in a Medicare Shared Savings program through an Accountable Care Organization with several other hospitals, and shares in savings related to the cost of care provided to Medicare beneficiaries. Hendricks' share is included in the consolidated statements of revenues, expenses and changes in net position.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### 9. 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 is a single employer plan which 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. 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. No contributions were required in 2017 and 2016 and Hendricks does not expect to be required to contribute to the Plan in 2018.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### Employees Covered by Benefit Terms

As of December 31, 2017 and 2016, the following employees were covered by the benefit terms of the Plan:

|  | 2017         | 2016         |
|--|--------------|--------------|
| Active plan members, including<br>terminated but vested participants | 916          | 977          |
| Inactive plan members and<br>beneficiaries receiving benefits        | 307          | 293          |
| Inactive plan members entitled to but<br>not yet receiving benefits  | 224          | 341          |
|  | <u>1,447</u> | <u>1,611</u> |

### Contributions

The annual required contributions for 2017 and 2016 and estimated liabilities as of January 1, 2017 and 2016 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, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 and 2016.

### *Actuarial assumptions*

The total pension liability in the December 31, 2017 and 2016 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |       |
|---------------------------|-------|
| Inflation                 | 2.75% |
| Salary increases          | 3.00% |
| Investment rate of return | 7.25% |

Mortality rates were based on the Social Security Administration's assumptions to RP-2014 Sex Distinct Mortality with generational improvements beginning in 2006 based on the Social Security Administration's assumptions. During 2017, the scale applied to the table for generational mortality improvement has been updated from a scale based on assumptions developed from the 2016 Social Security Trustees Report to a scale based on assumptions developed from the 2017 Social Security Trustees Report. The base mortality table is unchanged. This results in a decrease in the liability and normal cost.

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## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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The actuarial value of assets was based on market value of assets. The same actuarial assumptions were used to determine the actuarial value required contributions for 2017 and 2016.

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:

| <u>Asset Class</u> | <u>Target<br/>Allocation</u> | <u>Long-Term<br/>Expected Real<br/>Rate of Return</u> |
|--------------------|------------------------------|---|
| Fixed income funds | 35%                          | 1.60%   |
| Equity funds       | 65%                          | 6.25%   |
|                    | <u>100%</u>                  |   |

#### *Discount Rate*

The discount rate used to measure the total pension liability was 7.25% for 2017 and 2016. 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 (Asset) Liability*

The following presents the net pension (asset) liability of Hendricks, calculated using the discount rate of 7.25%, as well as what Hendricks' net pension (asset) liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

|                               | <u>1% Decrease<br/>(6.25%)</u> | <u>Current<br/>Discount<br/>Rate (7.25%)</u> | <u>1% Increase<br/>(8.25%)</u> |
|-------------------------------|--------------------------------|--|--------------------------------|
| Net pension (asset) liability | \$ (5,001,891)                 | \$ (12,753,843)                              | \$ (19,606,200)                |

## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

#### *Changes in the Net Pension (Asset) Liability*

The changes in the net pension (asset) liability during 2017 and 2016 were as follows:

|   | Total Pension<br>Liability<br>(a) | Plan Fiduciary<br>Net Position<br>(b) | Net Pension<br>(Asset)<br>Liability<br>(a) - (b) |
|---|-----------------------------------|---------------------------------------|--|
| Balance, 12/31/2016                                   | \$ 56,557,144                     | \$ 63,628,853                         | \$ (7,071,709)                                   |
| Service cost  | 449,870                           | -0-                                   | 449,870  |
| Interest  | 4,059,028                         | -0-                                   | 4,059,028  |
| Change of benefit terms                               | -0-                               | -0-                                   | -0-  |
| Differences between expected<br>and actual experience | 271,415                           | -0-                                   | 271,415  |
| Changes of assumptions                                | (248,774)                         | -0-                                   | (248,774)  |
| Benefit payments                                      | (2,040,835)                       | (2,040,835)                           | -0-  |
| Net investment income                                 | -0-                               | 10,340,867                            | (10,340,867)                                     |
| Administrative expenses                               | -0-                               | (144,474)                             | 144,474  |
| Other   | -0-                               | 17,280                                | (17,280)   |
| Net change  | <u>2,490,704</u>                  | <u>8,172,838</u>                      | <u>(5,682,134)</u>                               |
| Balance, 12/31/2017                                   | <u>\$ 59,047,848</u>              | <u>\$ 71,801,691</u>                  | <u>\$ (12,753,843)</u>                           |

  

|   | Total Pension<br>Liability<br>(a) | Plan Fiduciary<br>Net Position<br>(b) | Net Pension<br>(Asset)<br>Liability<br>(a) - (b) |
|---|-----------------------------------|---------------------------------------|--|
| Balance, 12/31/2015                                   | \$ 54,029,609                     | \$ 61,875,317                         | \$ (7,845,708)                                   |
| Service cost  | 405,170                           | -0-                                   | 405,170  |
| Interest  | 3,994,066                         | -0-                                   | 3,994,066  |
| Change of benefit terms                               | 246,372                           | -0-                                   | 246,372  |
| Differences between expected<br>and actual experience | (1,146,174)                       | -0-                                   | (1,146,174)                                      |
| Changes of assumptions                                | 1,389,220                         | -0-                                   | 1,389,220  |
| Benefit payments                                      | (2,361,119)                       | (2,361,119)                           | -0-  |
| Net investment income                                 | -0-                               | 4,239,435                             | (4,239,435)                                      |
| Administrative expenses                               | -0-                               | (140,674)                             | 140,674  |
| Other   | -0-                               | 15,894                                | (15,894)   |
| Net change  | <u>2,527,535</u>                  | <u>1,753,536</u>                      | <u>773,999</u>                                   |
| Balance, 12/31/2016                                   | <u>\$ 56,557,144</u>              | <u>\$ 63,628,853</u>                  | <u>\$ (7,071,709)</u>                            |

## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

For 2017 and 2016, Hendricks recognized pension expense of approximately \$384,000 and \$1,666,000, respectively. As of December 31, 2017 and 2016, Hendricks reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

|  | <u>Deferred<br/>Outflows<br/>of Resources</u> | <u>Deferred<br/>Inflows<br/>of Resources</u> |
|--|---|--|
| Balance, December 31, 2016   | \$ 5,839,319                                  | \$ (982,507)                                 |
| Differences between expected<br>and actual experience                    | 271,415                                       | -0-  |
| Amortization of expected versus actual                                   | (148,685)                                     | 191,029                                      |
| Changes in assumptions   | -0-   | (248,774)                                    |
| Amortization of changes in assumptions                                   | (547,054)                                     | 35,539                                       |
| Differences between projected and<br>actual earnings on plan investments | -0-   | (5,824,273)                                  |
| Amortization of projected versus actual<br>earnings on plan investments  | <u>(973,875)</u>                              | <u>1,178,535</u>                             |
| Balance, December 31, 2017   | 4,441,120                                     | <u>\$ (5,650,451)</u>                        |
| Deferred outflows - loss on bond refunding                               | <u>1,442,251</u>                              |  |
| Total deferred outflows, December 31, 2017                               | <u>\$ 5,883,371</u>                           |  |
|  |   |  |
|  | <u>Deferred<br/>Outflows<br/>of Resources</u> | <u>Deferred<br/>Inflows<br/>of Resources</u> |
| Balance, December 31, 2015   | \$ 5,789,436                                  | \$ (41,042)                                  |
| Differences between expected<br>and actual experience                    | -0-   | (1,146,174)                                  |
| Amortization of expected versus actual                                   | (109,911)                                     | 191,029                                      |
| Changes in assumptions   | 1,389,220                                     | -0-  |
| Amortization of changes in assumptions                                   | (547,054)                                     | -0-  |
| Differences between projected and<br>actual earnings on plan investments | 291,503                                       | -0-  |
| Amortization of projected versus actual<br>earnings on plan investments  | <u>(973,875)</u>                              | <u>13,680</u>                                |
| Balance, December 31, 2016   | 5,839,319                                     | <u>\$ (982,507)</u>                          |
| Deferred outflows - loss on bond refunding                               | <u>1,559,986</u>                              |  |
| Total deferred outflows, December 31, 2016                               | <u>\$ 7,399,305</u>                           |  |

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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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<br>December 31, |                       |
|-----------------------------|-----------------------|
| 2018                        | \$ 264,509            |
| 2019                        | 278,191               |
| 2020                        | (637,385)             |
| 2021                        | (1,121,112)           |
| 2022                        | 3,235                 |
| Thereafter                  | 3,231                 |
|                             | <u>\$ (1,209,331)</u> |

### 10. 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. 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 2017 and 2016, 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 2017 and 2016.

Hendricks' contributions to the plans for 2017 and 2016 were approximately \$3,269,000 and \$3,738,000, respectively.

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### 11. RENTAL EXPENSE

Hendricks has leases expiring at various times through 2019. 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 2017 and 2016 was approximately \$3,238,000 and \$3,075,000, respectively.

Minimum future payments on non-cancelable leases for the years following December 31, 2017 are:

| Year Ending<br>December 31, |    |                |
|-----------------------------|----|----------------|
| 2018                        | \$ | 705,862        |
| 2019                        |    | 8,270          |
|                             | \$ | <u>714,132</u> |

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$34,323,000 and \$33,624,000 for 2017 and 2016, respectively. Annual rent expense through 2019 is scheduled to approximate \$30,000,000 under these leases.

### 12. 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, 2017 and 2016 was as follows:

|                      | Receivables |             | Revenues    |             |
|----------------------|-------------|-------------|-------------|-------------|
|                      | 2017        | 2016        | 2017        | 2016        |
| Medicare             | 29%         | 28%         | 40%         | 43%         |
| Medicaid             | 16%         | 13%         | 10%         | 10%         |
| Anthem/Blue Cross    | 13%         | 11%         | 25%         | 23%         |
| Commercial and other | 24%         | 21%         | 21%         | 20%         |
| Self-Pay             | 18%         | 27%         | 4%          | 4%          |
|                      | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Under the long-term care leases, Hendricks recorded expenses related to purchased services from the managers of the facilities of approximately \$142,030,000 and \$138,659,000 during 2017 and 2016, respectively. Amounts due to the managers included in current liabilities as of December 31, 2017 and 2016 approximated \$52,540,000 and \$47,933,000, respectively.

### 13. BLENDED COMPONENT UNITS

Hendricks includes its blended component units in its reporting entity. Condensed component unit information for all of its blended component units as of and for the years ended December 31, 2017 and 2016 is as follows:

|   | 2017                |                     |                        |                     |
|---|---------------------|---------------------|------------------------|---------------------|
|   | Foundation          | HAMCO               | HRH Health<br>Services | HRH<br>Real Estate  |
| <b>Balance sheet</b>  |                     |                     |                        |                     |
| Assets  |                     |                     |                        |                     |
| Current assets  | \$ 1,770,837        | \$ 2,695,389        | \$ 3,052,647           | \$ 19,575           |
| Capital assets  | -0-                 | 718,003             | -0-                    | 6,084,139           |
| Total assets  | <u>\$ 1,770,837</u> | <u>\$ 3,413,392</u> | <u>\$ 3,052,647</u>    | <u>\$ 6,103,714</u> |
| Liabilities   |                     |                     |                        |                     |
| Other current liabilities   | \$ 245,596          | \$ 865,004          | \$ 1,482               | \$ -0-              |
| Total liabilities   | 245,596             | 865,004             | 1,482                  | -0-                 |
| Net position  |                     |                     |                        |                     |
| Net investment in capital assets  | -0-                 | 718,003             | -0-                    | 6,084,139           |
| Unrestricted  | 1,525,241           | 1,830,385           | 3,051,165              | 19,575              |
| Total net position  | <u>1,525,241</u>    | <u>2,548,388</u>    | <u>3,051,165</u>       | <u>6,103,714</u>    |
| Total liabilities and net position  | <u>\$ 1,770,837</u> | <u>\$ 3,413,392</u> | <u>\$ 3,052,647</u>    | <u>\$ 6,103,714</u> |
| <b>Statement of Revenues and Expenses<br/>and Changes in Net Position</b> |                     |                     |                        |                     |
| Revenues  | \$ -0-              | \$ 4,145,686        | \$ 103,397             | \$ 19,575           |
| Expenses  |                     |                     |                        |                     |
| Depreciation  | -0-                 | 312,059             | -0-                    | -0-                 |
| Other expenses  | 404,899             | 2,185,659           | 52,232                 | -0-                 |
| Total expenses  | <u>404,899</u>      | <u>2,497,718</u>    | <u>52,232</u>          | <u>-0-</u>          |
| Operating income (loss)   | (404,899)           | 1,647,968           | 51,165                 | 19,575              |
| Nonoperating revenues (expenses)  | 856,468             | 16,671              | -0-                    | -0-                 |
| Excess revenues over expenses   | 451,569             | 1,664,639           | 51,165                 | 19,575              |
| Contributions (distributions)   | -0-                 | (1,639,200)         | 3,000,000              | 6,084,139           |
| Change in net position  | 451,569             | 25,439              | 3,051,165              | 6,103,714           |
| Net position, beginning of year   | <u>1,073,672</u>    | <u>2,522,949</u>    | <u>-0-</u>             | <u>-0-</u>          |
| Net position, end of year   | <u>\$ 1,525,241</u> | <u>\$ 2,548,388</u> | <u>\$ 3,051,165</u>    | <u>\$ 6,103,714</u> |

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

|  | 2017         |                |                        |                    |
|--|--------------|----------------|------------------------|--------------------|
|  | Foundation   | HAMCO          | HRH Health<br>Services | HRH<br>Real Estate |
| <b>Statement of cash flows</b>               |              |                |                        |                    |
| Cash provided by (used in)                   |              |                |                        |                    |
| Operating activities                         | \$ 587,848   | \$ (2,342,878) | \$ 50,329              | \$ 19,575          |
| Capital and related financing activities     | -0-          | 1,888,522      | 3,000,000              | -0-                |
| Investing activities                         | -0-          | 1              | -0-                    | -0-                |
| Change                                       | 587,848      | (454,355)      | 3,050,329              | 19,575             |
| Cash and cash equivalents, beginning of year | 1,129,258    | 472,285        | -0-                    | -0-                |
| Cash and cash equivalents, end of year       | \$ 1,717,106 | \$ 17,930      | \$ 3,050,329           | \$ 19,575          |

|   | 2016         |              |                        |                    |
|---|--------------|--------------|------------------------|--------------------|
|   | Foundation   | HAMCO        | HRH Health<br>Services | HRH<br>Real Estate |
| <b>Balance sheet</b>  |              |              |                        |                    |
| Assets  |              |              |                        |                    |
| Current assets  | \$ 1,187,180 | \$ 2,536,790 | \$ -0-                 | \$ -0-             |
| Capital assets  | -0-          | 679,358      | -0-                    | -0-                |
| Total assets  | \$ 1,187,180 | \$ 3,216,148 | \$ -0-                 | \$ -0-             |
| Liabilities   |              |              |                        |                    |
| Other current liabilities   | \$ 113,508   | \$ 693,199   | \$ -0-                 | \$ -0-             |
| Total liabilities   | 113,508      | 693,199      | -0-                    | -0-                |
| Net position  |              |              |                        |                    |
| Net investment in capital assets  | -0-          | 679,358      | -0-                    | -0-                |
| Unrestricted  | 1,073,672    | 1,843,591    | -0-                    | -0-                |
| Total net position  | 1,073,672    | 2,522,949    | -0-                    | -0-                |
| Total liabilities and net position  | \$ 1,187,180 | \$ 3,216,148 | \$ -0-                 | \$ -0-             |
| <b>Statement of Revenues and Expenses<br/>and Changes in Net Position</b> |              |              |                        |                    |
| Revenues  | \$ -0-       | \$ 4,195,533 | \$ -0-                 | \$ -0-             |
| Expenses  |              |              |                        |                    |
| Depreciation  | -0-          | 269,768      | -0-                    | -0-                |
| Other expenses  | 344,344      | 2,241,474    | -0-                    | -0-                |
| Total expenses  | 344,344      | 2,511,242    | -0-                    | -0-                |
| Operating income (loss)   | (344,344)    | 1,684,291    | -0-                    | -0-                |
| Nonoperating revenues (expenses)  | 533,050      | 17,834       | -0-                    | -0-                |
| Excess revenues over expenses   | 188,706      | 1,702,125    | -0-                    | -0-                |
| Dividends   | -0-          | (1,701,600)  | -0-                    | -0-                |
| Change in net position  | 188,706      | 525          | -0-                    | -0-                |
| Net position, beginning of year   | 884,966      | 2,522,424    | -0-                    | -0-                |
| Net position, end of year   | \$ 1,073,672 | \$ 2,522,949 | \$ -0-                 | \$ -0-             |

# HENDRICKS REGIONAL HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

|  | 2016         |              |                        |                    |
|--|--------------|--------------|------------------------|--------------------|
|  | Foundation   | HAMCO        | HRH Health<br>Services | HRH<br>Real Estate |
| <b>Statement of cash flows</b>           |              |              |                        |                    |
| Cash provided by (used in)               |              |              |                        |                    |
| Operating activities                     | \$ 298,598   | \$ (114,391) | \$ -0-                 | \$ -0-             |
| Capital and related financing activities | -0-          | (16,523)     | -0-                    | -0-                |
| Investing activities                     | -0-          | 932          | -0-                    | -0-                |
| Change                                   | 298,598      | (129,982)    | -0-                    | -0-                |
| Cash equivalents, beginning of year      | 830,660      | 602,267      | -0-                    | -0-                |
| Cash equivalents, end of year            | \$ 1,129,258 | \$ 472,285   | \$ -0-                 | \$ -0-             |

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.

#### 14. 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 \$16,659,000 and \$14,363,000 for 2017 and 2016, 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:

|  | 2017         | 2016         |
|--|--------------|--------------|
| Unpaid claims, beginning of year         | \$ 2,263,062 | \$ 3,049,225 |
| Incurred claims and changes in estimates | 16,659,195   | 14,362,922   |
| Claim payments                           | (16,126,782) | (15,149,085) |
| Unpaid claims, end of year               | \$ 2,795,475 | \$ 2,263,062 |

As of December 31, 2017 and 2016, 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, 2017 AND 2016

#### 15. 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:

|                           | 2017         | 2016         |
|---------------------------|--------------|--------------|
| Non-controlling interests | \$ 1,274,195 | \$ 1,261,475 |

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<br>Interest | Non-controlling<br>Interest | Total        |
|---------------------------------|-------------------------|-----------------------------|--------------|
| Net position, December 31, 2015 | \$ 1,261,212            | \$ 1,261,212                | \$ 2,522,424 |
| Operating income                | 842,145                 | 842,146                     | 1,684,291    |
| Nonoperating income             | 8,917                   | 8,917                       | 17,834       |
| Dividends                       | (850,800)               | (850,800)                   | (1,701,600)  |
| Change in net position          | 262                     | 263                         | 525          |
| Net position, December 31, 2016 | 1,261,474               | 1,261,475                   | 2,522,949    |
| Operating income                | 823,984                 | 823,984                     | 1,647,968    |
| Nonoperating income             | 8,335                   | 8,336                       | 16,671       |
| Dividends                       | (819,600)               | (819,600)                   | (1,639,200)  |
| Change in net position          | 12,719                  | 12,720                      | 25,439       |
| Net position, December 31, 2017 | \$ 1,274,193            | \$ 1,274,195                | \$ 2,548,388 |

#### 16. RECENTLY ISSUED ACCOUNTING STANDARDS

In January of 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 84, *Fiduciary Activities*, which will be effective for periods beginning after December 15, 2018. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

## HENDRICKS REGIONAL HEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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In June of 2017, GASB issued GASB Statement No. 87, *Leases*, which will be effective for periods beginning after June 15, 2019. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

In March of 2018, GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which will be for effective for periods beginning after June 15, 2018. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

In June of 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for periods beginning after December 15, 2019. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

Hendricks is presently evaluating the impact of these standards on its future consolidated financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

# HENDRICKS REGIONAL HEALTH

## REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2017

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

|   | 2017                   | 2016                  | 2015                  | 2014                   |
|---|------------------------|-----------------------|-----------------------|------------------------|
| Total pension liability                                       |                        |                       |                       |                        |
| Service cost  | \$ 449,870             | \$ 405,170            | \$ 466,554            | \$ 452,071             |
| Interest  | 4,059,028              | 3,994,066             | 3,737,349             | 3,636,062              |
| Change of benefit terms                                       | -0-                    | 246,372               | -0-                   | -0-                    |
| Differences between expected and actual experience            | 271,415                | (1,146,174)           | 659,468               | -0-                    |
| Changes of assumptions  | (248,774)              | 1,389,220             | 1,893,100             | -0-                    |
| Benefit payments  | (2,040,835)            | (2,361,119)           | (4,183,243)           | (1,321,007)            |
| Net change in pension liability                               | 2,490,704              | 2,527,535             | 2,573,228             | 2,767,126              |
| Total pension liability - beginning                           | 56,557,144             | 54,029,609            | 51,456,381            | 48,689,255             |
| Total pension liability - ending (a)                          | <u>\$ 59,047,848</u>   | <u>\$ 56,557,144</u>  | <u>\$ 54,029,609</u>  | <u>\$ 51,456,381</u>   |
| Plan fiduciary net position                                   |                        |                       |                       |                        |
| Benefit payments  | \$ (2,040,835)         | \$ (2,361,119)        | \$ (4,183,243)        | \$ (1,321,007)         |
| Net investment income   | 10,340,867             | 4,239,435             | 203,831               | 4,722,125              |
| Administrative expenses                                       | (144,474)              | (140,674)             | (229,428)             | (71,215)               |
| Other   | 17,280                 | 15,894                | 8,498                 | -0-                    |
| Net change in plan fiduciary net position                     | 8,172,838              | 1,753,536             | (4,200,342)           | 3,329,903              |
| Plan fiduciary net position - beginning                       | 63,628,853             | 61,875,317            | 66,075,659            | 62,745,756             |
| Plan fiduciary net position - ending (b)                      | <u>\$ 71,801,691</u>   | <u>\$ 63,628,853</u>  | <u>\$ 61,875,317</u>  | <u>\$ 66,075,659</u>   |
| Net pension (asset) liability (a) - (b)                       | <u>\$ (12,753,843)</u> | <u>\$ (7,071,709)</u> | <u>\$ (7,845,708)</u> | <u>\$ (14,619,278)</u> |
| Plan fiduciary net position as a % of total pension liability | 121.60%                | 112.50%               | 114.52%               | 128.41%                |
| Covered payroll   | \$ 15,572,358          | \$ 16,057,360         | \$ 16,766,172         | \$ 17,051,344          |
| Net pension liability as a % of covered payroll               | -81.90%                | -44.04%               | -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, 2017

### SCHEDULE OF CONTRIBUTIONS

|            | Actuarially<br>Determined<br>Contribution | Employer<br>Contribution | Contribution<br>Deficiency<br>(Excess) | Covered<br>Payroll | Contributions<br>as % of Covered<br>Payroll |
|------------|---|--------------------------|--|--------------------|---|
| 12/31/2017 | \$ -0-                                    | \$ -0-                   | \$ -0-                                 | \$ 15,572,358      | 0.00%                                       |
| 12/31/2016 | \$ -0-                                    | \$ -0-                   | \$ -0-                                 | \$ 16,057,360      | 0.00%                                       |
| 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%                                       |

**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 of assets  |
| Salary increases              | 3.00%   |
| Investment rate of return     | 7.25%   |
| Retirement age                | 65 and 5 years of participation   |
| Mortality                     | RP-2014 Sex Distinct Mortality with<br>generational improvements beginning in<br>2006 based on the Social Security<br>Administration's assumptions included in<br>the 2017 Trustee's Report |