



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018

CPAs / ADVISORS



HENRY COMMUNITY HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Henry Community Health
New Castle, Indiana

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Henry County Memorial Hospital d/b/a Henry Community Health (the Hospital), a component unit of Henry County, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements. We have also audited the Hospital's statement of fiduciary net position as of December 31, 2019 and the related statement of changes in fiduciary net position for the year then ended and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Henry County Hospital Foundation (the Foundation), a blended component unit, which statements reflect total assets of approximately \$59.9 million and \$53.4 million as of December 31, 2019 and 2018, respectively, and total revenues of approximately \$9.5 million and \$5.3 million, respectively, for the years then ended. Also, we did not audit the financial statements of HCMH Diversified Management Corporation (DMC), a blended component unit, which statements reflect total assets of approximately \$5.0 million and \$5.3 million as of December 31, 2019 and 2018, respectively, and total revenues of approximately \$19.4 million and \$18.7 million, respectively, for the years then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for the Foundation and DMC, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *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.

Board of Trustees
Henry Community Health
New Castle, Indiana

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Hospital as of December 31, 2019 and 2018, 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.

DISCLAIMER OF OPINION ON THE 2018 FIDUCIARY FINANCIAL STATEMENTS

Because we were not engaged to audit the 2018 fiduciary financial statements, which comprise the statement of fiduciary net position as of December 31, 2018, and the related statement of changes in fiduciary net position for the year then ended, we did not extend our auditing procedures to enable us to express an opinion on the fiduciary net position and changes in fiduciary net position for the year ended December 31, 2018. Accordingly, we express no opinion on the 2018 fiduciary financial statements.

CHANGE IN ACCOUNTING PRINCIPLES

As described in Note 2 to the consolidated financial statements, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 84 – *Fiduciary Activities* and GASB Statement 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. Our opinion and disclaimer of opinion are not modified with respect to these matters.

Board of Trustees
Henry Community Health
New Castle, Indiana

REPORT ON REQUIRED SUPPLEMENTARY INFORMATION

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

REPORT ON SUPPLEMENTARY INFORMATION

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

Blue & Co., LLC

Indianapolis, Indiana
May 4, 2020

REQUIRED SUPPLEMENTARY INFORMATION

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

Management's discussion and analysis of Henry Community Health's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2019. Please read it in conjunction with the Hospital's financial statements, which begin on page 4. As mentioned in Note 1, the financial statements include the Hospital, as well as Henry County Hospital Foundation, Inc. and HCMH Diversified Management Corporation (DMC), collectively referred to as the Hospital.

USING THIS ANNUAL REPORT

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

- In the "*management's discussion and analysis*" section of this report, management discusses various components of the annual report and provides an analysis of the current consolidated financial statement information.
- The "*consolidated financial statements*" section of this report includes a series of consolidated financial statements, which provide information about the activities of the Hospital as a whole. The Consolidated Balance Sheets reveal the assets, deferred outflows, liabilities, and net position of the Hospital on December 31, 2019 and 2018 while the Statements of Operations and Changes in Net Position summarize the revenues and expenses, including nonoperating items for the years then ended. The Consolidated Statements of Cash Flows summarize the change in cash and cash equivalents as a result of operating, investing and financing activities during the year. The Statements of Fiduciary Net Position reveal the assets and net position of the Hospital's fiduciary activities on December 31, 2019 and 2018 and the Statements of Changes in Fiduciary Net Position summarize the additions and deductions in fiduciary activities for the years then ended. The Notes to the Consolidated Financial Statements disclose additional information addressed within the body of the consolidated financial statements.

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

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

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

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

THE STATEMENT OF CASH FLOWS

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

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets compared to its liabilities reported in the Balance Sheet on pages 4-5. The Hospital's net position increased by approximately \$14.5 million or 11.2% from 2018 to 2019 and increased by approximately \$5.0 million or 4.1% from 2017 to 2018 as you can see from Table 1.

Table 1: Consolidated Balance Sheets

	2019	2018	2019-2018 Change	2017
Assets				
Current assets	\$ 103,018,523	\$ 97,727,132	\$ 5,291,391	\$ 91,721,186
Capital assets, net	64,883,209	63,763,035	1,120,174	64,761,698
Other investments and assets	49,408,496	32,928,025	16,480,471	33,779,980
Total assets	<u>\$ 217,310,228</u>	<u>\$ 194,418,192</u>	<u>\$ 22,892,036</u>	<u>\$ 190,262,864</u>
Liabilities				
Current liabilities	\$ 58,913,430	\$ 49,280,453	\$ 9,632,977	\$ 50,181,695
Long term debt, net of current portion	13,533,109	14,920,881	(1,387,772)	15,020,000
Other long term liabilities	1,052,305	935,382	116,923	818,459
Total liabilities	<u>\$ 73,498,844</u>	<u>\$ 65,136,716</u>	<u>\$ 8,362,128</u>	<u>\$ 66,020,154</u>
Net Position				
Net investment in capital assets	\$ 49,943,493	\$ 47,464,265	\$ 2,479,228	\$ 48,716,698
By donor - expendable - for capital acquisition	1,103,312	996,860	106,452	1,173,890
Unrestricted	92,764,579	80,820,351	11,944,228	74,352,122
Total net position	<u>\$ 143,811,384</u>	<u>\$ 129,281,476</u>	<u>\$ 14,529,908</u>	<u>\$ 124,242,710</u>

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

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

The significant changes from 2017 to 2018 in the Hospital's assets included current assets, which increased by approximately \$6.0 million, with growth in revenues and long-term care operations. The net position increased from 2017 to 2018 by approximately \$5.0 million due to gains from operating revenue.

It should also be noted that there was an increase in total net position from 2017 to 2019 of approximately \$19.6 million or 15.8%, showing the stability of the Hospital and its operations.

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

In 2019, the Hospital's operating revenues increased by approximately \$15.8 million as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2019	2018	2019-2018 Change	2017
Operating revenues				
Net patient service revenues	\$ 286,442,146	\$ 270,149,378	\$ 16,292,768	\$ 266,492,697
Other operating revenues	6,367,065	6,875,251	(508,186)	5,799,645
Total operating revenues	292,809,211	277,024,629	15,784,582	272,292,342
Operating expenses				
Salaries and benefits	74,289,563	68,279,935	6,009,628	63,316,185
Medical supplies and drugs	23,489,849	22,737,784	752,065	20,741,741
Depreciation and amortization	7,314,130	7,338,048	(23,918)	6,273,994
Other operating expenses	178,373,592	170,112,295	8,261,297	173,468,500
Total operating expenses	283,467,134	268,468,062	14,999,072	263,800,420
Operating income	9,342,077	8,556,567	785,510	8,491,922
Non-operating revenues (expenses)				
Investment income	5,375,749	(2,225,033)	7,600,782	4,617,128
Other non-operating revenues and expenses, net	(187,918)	(1,292,768)	1,104,850	(406,352)
Total non-operating revenues (expenses)	5,187,831	(3,517,801)	8,705,632	4,210,776
Change in net position	14,529,908	5,038,766	9,491,142	12,702,698
Net position beginning of year	129,281,476	124,242,710	5,038,766	111,540,012
Net position end of year	<u>\$ 143,811,384</u>	<u>\$ 129,281,476</u>	<u>\$ 14,529,908</u>	<u>\$ 124,242,710</u>

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

OPERATING INCOME

During 2019, there were increases in volumes, which attributed to increases in net patient service revenue during the year. Additionally, expenses increased at a lower rate compared to revenues, which contributed to the increase in operating income.

NONOPERATING INCOME

Nonoperating income was primarily driven by an increase in investment income, with a gain of approximately \$5.4 million in 2019 and loss of approximately \$2.2 million in 2018. This can be attributed to better market conditions in 2019 compared to 2018.

Table 3: Hospital Cash Flows

	2019	2018	2019-2018 Change	2017
Cash flows from activities				
Operating	\$ 18,803,313	\$ 14,455,942	\$ 4,347,371	\$ 14,256,946
Capital and related financing	(10,325,762)	(6,597,522)	(3,728,240)	(25,428,227)
Investing	(5,324,798)	(2,273,548)	(3,051,250)	12,364,468
	<u>\$ 3,152,753</u>	<u>\$ 5,584,872</u>	<u>\$ (2,432,119)</u>	<u>\$ 1,193,187</u>

In 2019, the Hospital continued to generate strong cash flows from operations with approximately \$18.8 million generated in 2019 and approximately \$14.5 million generated in 2018. Cash flows used in capital and related financing activities relate primarily to the purchase of property and equipment.

CAPITAL ASSETS

During 2019, the Hospital's net capital assets have increased by approximately \$1.1 million, compared to a decrease of approximately \$1.0 million in 2018. The change in capital assets is outlined in the following table:

	2019	2018	2019-2018 Change	2017
Land and improvements	\$ 5,403,920	\$ 5,303,732	\$ 100,188	\$ 5,256,228
Buildings and improvements	75,627,637	74,732,584	895,053	74,111,646
Equipment	64,208,278	68,177,473	(3,969,195)	66,215,169
Construction in progress	3,314,300	242,374	3,071,926	125,156
Total capital assets	<u>148,554,135</u>	<u>148,456,163</u>	<u>97,972</u>	<u>145,708,199</u>
Less accumulated depreciation	<u>83,670,926</u>	<u>84,693,128</u>	<u>(1,022,202)</u>	<u>80,946,501</u>
Capital assets, net	<u>\$ 64,883,209</u>	<u>\$ 63,763,035</u>	<u>\$ 1,120,174</u>	<u>\$ 64,761,698</u>

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

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

DEBT

The Hospital has the following debt outstanding, which approximates \$14.9 million as of December 31, 2019:

- 2015 tax-exempt revenue bonds
- Capital lease obligation

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

BAD DEBT AND CHARITY CARE

Bad debt expense and charity care write-offs increased in 2019 compared to 2018 experience due to increases in charge rates, volumes, and payor mix shifts during the fiscal year.

	<u>Bad Debt</u>	<u>Charity</u>	<u>Total</u>	<u>% Chg</u>
2016	\$5,971,428	\$1,137,690	\$7,109,118	
2017	\$5,303,514	\$1,000,762	\$6,304,276	-11%
2018	\$7,092,633	\$1,741,856	\$8,834,489	40%
2019	\$10,114,271	\$1,674,613	\$11,788,884	33%

ECONOMIC OUTLOOK

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

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2019

(WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

Management believes that the healthcare industry and the Hospital's operating margins will continue to be under pressure as a result of COVID-19, the changes in payor mix and growth in operating expenses, that exceed any increases in contractually arranged and legally established payments received for services provided. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. This competitive market challenge will potentially be offset by the expected growth in the service area. The Hospital will still be faced with the challenge of providing quality services in an increasingly competitive environment, while at the same time managing costs. The Hospital will be affected by the increases in labor costs due to the competition for health care workers. The Hospital is also affected by the uncertainty of federal healthcare reform.

FIDUCIARY FUNDS

As described in Note 2 to the consolidated financial statements, the Hospital adopted Governmental Accounting Standards Board Statement No. 84 – *Fiduciary Activities* in 2019. Fiduciary funds are used to account for resources held for the benefit of individuals or units outside of the Hospital. The Hospital is the trustee or fiduciary responsible for assets, which can be used only for the trust beneficiaries per trust arrangements. The Hospital is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Hospital's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. The accounting for fiduciary funds is much like that used for proprietary funds. The Hospital's Pension Trust Fund is reported under the fiduciary funds. Since the resources of these funds are not available to support the Hospital's own programs, they are not reflected in the government-wide financial statements. The statements of fiduciary net position and the statements of changes in fiduciary net position can be found on pages 8 and 9, respectively, of this report.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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

HENRY COMMUNITY HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018

ASSETS		
	2019	2018
Current assets		
Cash and money market deposit accounts	\$ 39,059,545	\$ 41,035,947
Patient accounts receivable, net of estimated allowance for uncollectible accounts of approximately \$8,600,000 in 2019 and \$9,900,000 in 2018	33,881,830	33,682,561
Supplies and other current assets	24,780,376	21,318,526
Estimated third-party settlements	3,972,777	392,389
Current portion of assets whose use is limited	1,323,995	1,297,709
Total current assets	103,018,523	97,727,132
Investments	31,791,083	16,972,017
Assets whose use is limited		
Internally designated	11,572,692	10,165,342
By donor - expendable - for capital acquisition	1,103,312	996,860
	12,676,004	11,162,202
Less current portion	1,323,995	1,297,709
Total assets whose use is limited	11,352,009	9,864,493
Capital assets, net	64,883,209	63,763,035
Other assets	6,265,404	6,091,515
Total assets	\$ 217,310,228	\$ 194,418,192

LIABILITIES AND NET POSITION

	2019	2018
Current liabilities		
Current portion of long-term debt	\$ 1,406,607	\$ 1,377,889
Accounts payable and accrued expenses	51,829,089	42,791,724
Accrued wages and related liabilities	5,677,734	5,110,840
Total current liabilities	58,913,430	49,280,453
Other long-term liabilities	1,052,305	935,382
Long-term debt, net of current portion	13,533,109	14,920,881
Total liabilities	73,498,844	65,136,716
Net position		
Unrestricted	92,764,579	80,820,351
Net investment in capital assets	49,943,493	47,464,265
Restricted		
By donor - expendable - for capital acquisition	1,103,312	996,860
Total net position	143,811,384	129,281,476
Total liabilities and net position	\$ 217,310,228	\$ 194,418,192

See accompanying notes to consolidated financial statements.

HENRY COMMUNITY HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Operating revenue		
Net patient service revenue	\$ 286,442,146	\$ 270,149,378
Other revenue	6,367,065	6,875,251
Total revenue	292,809,211	277,024,629
Operating expenses		
Salaries and benefits	74,289,563	68,279,935
Medical professional fees	1,088,931	1,065,581
Purchased services	111,195,081	105,939,286
Medical supplies and drugs	23,489,849	22,737,784
Other supplies	11,671,010	11,638,624
Depreciation and amortization	7,314,130	7,338,048
Utilities	5,098,325	5,380,435
Rent	16,266,630	16,189,603
Hospital assessment fee	3,871,800	2,867,370
Other	29,181,815	27,031,396
Total expenses	283,467,134	268,468,062
Operating income	9,342,077	8,556,567
Nonoperating revenues (expenses)		
Investment income (loss)	5,375,749	(2,225,033)
Interest expense	(864,973)	(742,907)
Other nonoperating	677,055	(549,861)
Total nonoperating revenues (expenses)	5,187,831	(3,517,801)
Change in net position	14,529,908	5,038,766
Net position		
Beginning of year	129,281,476	124,242,710
End of year	\$ 143,811,384	\$ 129,281,476

See accompanying notes to consolidated financial statements.

HENRY COMMUNITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities		
Cash received from patients and third party payors	\$ 278,790,689	\$ 265,057,337
Cash paid to employees for wages and benefits	(73,722,669)	(67,773,508)
Cash paid to vendors for goods and services	(192,629,444)	(190,401,612)
Other operating receipts, net	6,364,737	7,573,725
Net cash flows from operating activities	18,803,313	14,455,942
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(8,128,482)	(5,428,722)
Loss on disposal of property and equipment	26,747	910,768
Proceeds from sale of property and equipment	-0-	8,031
Interest on long-term debt	(864,973)	(742,907)
Principal payments on long-term debt	(1,359,054)	(1,344,692)
Net cash flows from capital and related financing activities	(10,325,762)	(6,597,522)
Cash flows from investing activities		
Investment income and other non-operating	6,052,804	(2,774,894)
Change in other assets, net	(173,889)	(84,908)
Purchases of investments in assets whose use is limited - internally designated and investments	(13,837,802)	(5,690,961)
Proceeds from sale of investments in assets whose use is limited - internally designated and investments	2,740,541	6,100,185
Change in assets whose use is limited - restricted by donor, net	(106,452)	177,030
Net cash flows from investing activities	(5,324,798)	(2,273,548)
 Net change in cash and money market deposit accounts	 3,152,753	 5,584,872
Cash and money market deposit accounts		
Beginning of year	41,035,947	35,451,075
End of year	\$ 44,188,700	\$ 41,035,947

See accompanying notes to consolidated financial statements.

HENRY COMMUNITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

Reconciliation of operating income to net cash flows from operating activities	2019	2018
Operating income	\$ 9,342,077	\$ 8,556,567
Adjustment to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	7,314,130	7,338,048
Bad debts	10,114,271	7,092,633
Changes in assets and liabilities		
Patient accounts receivable	(10,313,540)	(9,050,613)
Supplies and other current assets	(3,461,850)	10,534,264
Accounts payable and accrued expenses	8,704,796	(10,689,041)
Accrued salaries and related liabilities	566,894	749,323
Other long-term liabilities	116,923	116,923
Due from related parties	-0-	167,156
Estimated third-party settlements	(3,580,388)	(359,318)
Net cash flows from operating activities	\$ 18,803,313	\$ 14,455,942
Reconciliation of cash and money market deposit accounts to the balance sheets		
Cash and money market deposit accounts		
In current assets	\$ 39,059,545	\$ 41,035,947
In investments	5,129,155	-0-
Total cash and money market deposit accounts	\$ 44,188,700	\$ 41,035,947
Supplemental cash flows information		
Property acquired through capital lease obligation	\$ -0-	\$ 1,598,462
Property included in accounts payable	\$ 332,569	\$ 231,000

See accompanying notes to consolidated financial statements.

HENRY COMMUNITY HEALTH

CONSOLIDATED STATEMENTS OF FIDUCIARY NET POSITION YEARS ENDED DECEMBER 31, 2019 AND 2018 (UNAUDITED)

	<u>2019</u>	<u>2018 - Unaudited</u>
	Pension trust funds	Pension trust funds
Additions		
Cash and money market deposit accounts	\$ 1,728,223	\$ 2,317,842
Investments at fair value	54,912,476	44,945,255
Employer contribution receivable	100,381	142,228
Total assets	<u>56,741,080</u>	<u>47,405,325</u>
Net position		
Restricted for pensions	<u>\$ 56,741,080</u>	<u>\$ 47,405,325</u>

See accompanying notes to consolidated financial statements.

HENRY COMMUNITY HEALTH

CONSOLIDATED STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION YEARS ENDED DECEMBER 31, 2019 AND 2018 (UNAUDITED)

	2019	2018 - Unaudited
	Pension trust funds	Pension trust funds
Additions		
Contributions		
Employer	\$ 2,225,247	\$ 2,203,574
Investment Income		
Net change in fair value of investments	8,834,667	(6,773,695)
Interest and dividends	1,877,640	2,456,849
Total investment income	10,712,307	(4,316,846)
Total additions	12,937,554	(2,113,272)
Deductions		
Benefits paid to participants	3,388,166	3,569,420
Administrative expenses	213,633	235,495
Total deductions	3,601,799	3,804,915
Net change	9,335,755	(5,918,187)
Net position		
Beginning of year	47,405,325	53,323,512
End of year	\$ 56,741,080	\$ 47,405,325

See accompanying notes to consolidated financial statements.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

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

Pursuant to the provision of long-term care, the Hospital owns the operations of certain long-term care facilities by way of an arrangement with the managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

The Hospital has entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital will pay the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

Blended Component Units

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

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

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

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

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

DMC owns New Castle Clinic, Inc. (the Clinic), which operates a physician group practice. DMC's results within these financials include those of the Clinic for the years ended December 31, 2019 and 2018.

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

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

Measurement Focus and Basis of Accounting

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

Fiduciary Funds

Following the Hospital's consolidated financial statements are separate financial statements for fiduciary funds. Fiduciary funds are excluded from the Hospital's consolidated financial statements as these assets are held in a trust capacity for the various associates and cannot be used to support the Hospital's programs. These funds include the Henry County Memorial Hospital Employees' Pension Plan (Pension Plan).

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Use of Estimates

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

Cash and Money Market Deposit Accounts

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

Patient Accounts Receivable, Net and Net Patient Service Revenue

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

Patient accounts receivable are reduced by an allowance for uncollectible accounts based on the Hospital's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to its service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary. For receivables associated with self-pay payments, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Medicare program cost reports have been audited through December 31, 2016 with immaterial differences reflected as deductions from revenue in 2019 and 2018. Amounts from unresolved cost reports through 2019 are reflected in estimated third-party payor settlements on the consolidated balance sheets.

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges net of an allowance for contractual adjustments. The allowance for contractual adjustments is based on expected payment rates from payors based on current reimbursement methodologies. In addition, management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's patient base.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount.

Supplies and Other Current Assets

Supplies and other current assets consist primarily of drug and medical supply inventories, prepaid expenses, other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized within the next fiscal year. Supplies and other current assets consist of the following at December 31, 2019 and 2018:

	2019	2018
Drug and medical supply inventories	\$ 1,424,366	\$ 1,338,888
Prepaid expenses	1,296,938	968,531
Receivables related to long-term care	19,238,231	17,471,789
Other	2,820,841	1,539,318
	<u>\$ 24,780,376</u>	<u>\$ 21,318,526</u>

Inventories

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

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Assets Whose Use Is Limited and Investments

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

Capital Assets

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

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

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

Other Assets

Other assets consist primarily of the value of the split dollar life insurance policy on a key employee and investments in affiliates. See footnotes 11 and 15 for further information.

Investments in Affiliates

The Hospital has equity interests in joint ventures. These investments are recorded on the equity and cost methods of accounting in the Hospital's consolidated financial statements. These balances are included within other assets on the consolidated balance sheets. See footnote 15 for further information.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Compensated Absences

Regular employees of the Hospital earn paid days off (PDO) at rates of twenty-three days to thirty-nine days per year, based on the length of continuous employment and regular hours worked. PDO is adjusted proportionately to hours worked for employees working less than full time. No limit exists on the amount of PDO that may be accumulated. Accrued PDO is paid to employees who resign, giving a two-week notice or in the event of death. All employees may elect to be paid for PDO accumulated in excess of ten days. This option is available twice during the calendar year. The Hospital tracks the PDO accrual computed on the hourly rate and PDO balance per employee, and the consolidated financial statements recognize this liability. Accumulated PDO is reported as a current liability in the approximate amount of \$3,035,000 and \$2,794,000 for 2019 and 2018, respectively, and is included within accrued wages and related liabilities in the consolidated balance sheets.

Other Long-Term Liabilities

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

Net Position

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

Restricted Resources

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

Grants and Contributions

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

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Hospital Assessment Fee (HAF) Program

The purpose of the HAF Program is to fund the state share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana inpatient providers. Previously, the state share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates.

During 2019 and 2018, the Hospital recognized HAF Program expense of approximately \$3,870,000 and \$2,870,000, respectively, which resulted in increased Medicaid reimbursement.

Operating Revenues and Expenses

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits.

Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized during either 2019 or 2018.

Federal or State Income Taxes

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

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

The Foundation is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only. The Foundation has filed its federal and state income tax returns for periods through December 31, 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).

DMC is a for-profit organization incorporated in 1985 and the sole shareholder is HCMH. DMC has filed its federal and state income tax returns for periods through December 31, 2018. These income tax returns are generally open to examination by relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

DMC has federal net operating loss carry forwards to reduce future taxable income of approximately \$52,652,000, and a similar amount for state income taxes as of December 31, 2019. Including valuation allowances, DMC has a net deferred tax asset of \$-0- for 2019 and 2018. These federal and state carry forwards begin to expire in 2023. The valuation allowance is established to reduce the deferred tax asset to the amount expected to be realized when it is more likely than not that all or some portion of the deferred tax asset will not be realized.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the HCMH, Foundation, and DMC and recognize a tax liability if these organizations have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by these organizations, and has concluded that as of December 31, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Foundation and DMC are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care charges provided during 2019 and 2018 were approximately \$1,675,000 and \$1,742,000, respectively.

Of the Hospital's total expenses reported, an estimated \$928,000 and \$1,033,000 arose from providing services to charity patients during the years ended December 31, 2019 and December 31, 2018, respectively.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

Litigation

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

Reclassifications

Certain amounts from 2018 have been reclassified in order to conform to the 2019 presentation. There were no changes to net position as a result of these reclassifications, as previously reported.

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued, which is May 4, 2020.

Recently Issued Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, Leases, which will be effective for periods beginning after December 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. The Hospital is presently evaluating the impact of this standard.

2. CHANGE IN ACCOUNTING PRINCIPLES

In 2019, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 84 – *Fiduciary Activities*. Generally, this statement requires governmental entities, who control assets of a fiduciary activity in which a fiduciary relationship exists with beneficiaries, to include those activities in two separate, interrelated financial statements, the statement of fiduciary net position and the statement of changes in fiduciary net position. Prior to the adoption of this statement, the assets, net position and activity related to the Hospital's Employees' Pension Plan were not included in the Hospital's consolidated financial statements.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

The Hospital's fiduciary activities related to its Employees' Pension Plan have been presented in the pension trust funds column of the newly added statements of fiduciary net position and accompanying statements of changes in fiduciary net position. The changes adopted to conform to the provisions of this statement were applied retroactively by restating the consolidated financial statements for 2018.

In 2019, the Hospital adopted GASB Statement 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement requires governmental entities to expand disclosures related to debt. Disclosures were added to Note 8 to comply with the requirements of this new standard.

3. ACCOUNTS RECEIVABLE AND PAYABLE

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

	2019	2018
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 32,905,223	\$ 34,085,214
Receivable from Medicare	22,839,300	24,520,126
Receivable from Medicaid	14,553,721	10,307,738
Total patient accounts receivable	<u>70,298,244</u>	<u>68,913,078</u>
Less contractual allowances	(27,807,172)	(25,328,178)
Less allowances for uncollectible accounts	(8,609,242)	(9,902,339)
Patient accounts receivable, net	<u>\$ 33,881,830</u>	<u>\$ 33,682,561</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 4,677,174	\$ 4,156,808
Payable to suppliers and management companies	51,829,089	42,791,724
Accrued employee health benefit claims	1,000,560	954,032
Total accounts payable and accrued expenses	<u>\$ 57,506,823</u>	<u>\$ 47,902,564</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

4. ASSETS WHOSE USE IS LIMITED

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

	2019	2018
Internally designated		
Funded depreciation		
Investments	\$ 11,324,912	\$ 9,923,216
Money market mutual funds	247,780	242,126
Donor restricted assets		
Investments	1,103,312	996,860
 Total assets limited to use	\$ 12,676,004	\$ 11,162,202

5. DEPOSITS AND INVESTMENTS

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

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

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2019 and 2018, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

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

December 31, 2018					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 23,550,225	\$ 23,550,225	\$ -0-	\$ -0-	\$ -0-
Common stocks	4,341,868	4,341,868	-0-	-0-	-0-
Money market mutual funds	242,126	242,126	-0-	-0-	-0-
	\$ 28,134,219	\$ 28,134,219	\$ -0-	\$ -0-	\$ -0-

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

As of December 31, 2019 and 2018, the Hospital had the following investments and maturities for fiduciary activities, all of which were held in a trust capacity for the various associates.

December 31, 2019					
Carrying Amount	Investment Maturities (in years)				
	Less than 1	1-5	6-10	More than 10	
Mutual funds - equities	\$ 38,601,935	\$ 38,601,935	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	16,310,541	16,310,541	-0-	-0-	-0-
	\$ 54,912,476	\$ 54,912,476	\$ -0-	\$ -0-	\$ -0-

December 31, 2018					
Carrying Amount	Investment Maturities (in years)				
	Less than 1	1-5	6-10	More than 10	
Mutual funds - equities	\$ 30,457,197	\$ 30,457,197	\$ -0-	\$ -0-	\$ -0-
Mutual funds - fixed income	14,488,058	14,488,058	-0-	-0-	-0-
	\$ 44,945,255	\$ 44,945,255	\$ -0-	\$ -0-	\$ -0-

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

Credit risk – The Hospital’s investment policy authorizes it to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The policy also requires that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

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

Deposits and investments consist of the following as of December 31, 2019 and 2018:

	2019	2018
Carrying amount		
Deposits	\$ 44,188,700	\$ 41,035,947
Investments	39,337,932	28,134,219
	\$ 83,526,632	\$ 69,170,166
Included in the balance sheet captions		
Cash and money market deposit accounts	\$ 39,059,545	\$ 41,035,947
Investments	31,791,083	16,972,017
Internally designated	11,572,692	10,165,342
By donor - expendable - for capital acquisition	1,103,312	996,860
	\$ 83,526,632	\$ 69,170,166

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Investment income (loss) for 2019 and 2018 is summarized as follows:

	2019	2018
Unrealized gains (losses)	\$ 3,564,659	\$ (3,492,892)
Realized gains	875,671	646,905
Interest and dividends	935,419	620,954
Total investment income (loss)	<u>\$ 5,375,749</u>	<u>\$ (2,225,033)</u>

6. FAIR VALUE MEASUREMENTS

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2019 and 2018:

- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

- *Money market mutual funds:* Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

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

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

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 are as follows:

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & assets whose use is limited				
Mutual funds:				
Diversified emerging markets	\$ 2,241,692	\$ 2,241,692	\$ -0-	\$ -0-
Foreign large blend	596,278	596,278	-0-	-0-
High yield bond	607,360	607,360	-0-	-0-
Intermediate-term bond	5,333,949	5,333,949	-0-	-0-
Large blend	2,803,241	2,803,241	-0-	-0-
Large growth	4,168,754	4,168,754	-0-	-0-
Mid growth	1,105,729	1,105,729	-0-	-0-
Multisector bond	4,589,792	4,589,792	-0-	-0-
Small value	575,487	575,487	-0-	-0-
World bond	308,896	308,896	-0-	-0-
Other	1,219,047	1,219,047	-0-	-0-
Money market mutual funds	242,126	-0-	242,126	-0-
Common stocks:				
Capital goods	52,979	52,979	-0-	-0-
Finance	78,574	78,574	-0-	-0-
Health care	98,550	98,550	-0-	-0-
Services	101,285	101,285	-0-	-0-
Technology	160,620	160,620	-0-	-0-
World stock	3,741,985	3,741,985	-0-	-0-
Other	107,875	107,875	-0-	-0-
Total investments & assets whose use is limited	<u>\$ 28,134,219</u>	<u>\$ 27,892,093</u>	<u>\$ 242,126</u>	<u>\$ -0-</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Assets measured at fair value on a recurring basis as of December 31, 2019 and 2018 for the Hospital's fiduciary activities are as follows:

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Investments				
Mutual funds:				
Mid-cap growth	\$ 2,839,569	\$ 2,839,569	\$ -0-	\$ -0-
Mid-cap blend	5,108,888	5,108,888	-0-	-0-
Large value	9,288,920	9,288,920	-0-	-0-
Large growth	21,364,558	21,364,558	-0-	-0-
Fixed income	16,310,541	16,310,541	-0-	-0-
Total investments	\$ 54,912,476	\$ 54,912,476	\$ -0-	\$ -0-
	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Investments				
Mutual funds:				
Small blend	\$ 2,138,517	\$ 2,138,517	\$ -0-	\$ -
Mid-cap growth	1,899,877	1,899,877	-0-	-0-
Mid-cap blend	2,292,313	2,292,313	-0-	-0-
Large value	10,801,562	10,801,562	-0-	-0-
Large growth	5,885,969	5,885,969	-0-	-0-
Large blend	7,438,959	7,438,959	-0-	-0-
Fixed income	14,488,058	14,488,058	-0-	-0-
Total investments	\$ 44,945,255	\$ 44,945,255	\$ -0-	\$ -0-

The Hospital's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no significant transfers between levels during 2019 and 2018.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

7. CAPITAL ASSETS

A summary of capital assets, including assets under capital leases, as of December 31, 2019 and 2018, follows:

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

	Balance December 31, 2017	Additions	Retirements	Transfers	Balance December 31, 2018
Land	\$ 2,453,234	\$ -0-	\$ -0-	\$ -0-	\$ 2,453,234
Land improvements	2,802,994	47,504	-0-	-0-	2,850,498
Buildings and improvements	74,111,646	657,509	(876,287)	839,716	74,732,584
Fixed equipment	18,784,000	598,189	(2,350,715)	337,279	17,368,753
Major equipment	47,431,169	4,599,105	(1,283,218)	61,664	50,808,720
Construction in progress	125,156	1,355,877	-0-	(1,238,659)	242,374
Total capital assets	<u>145,708,199</u>	<u>7,258,184</u>	<u>(4,510,220)</u>	<u>-0-</u>	<u>148,456,163</u>
Less accumulated depreciation:					
Land improvements	(1,981,311)	(71,567)	-0-	-0-	(2,052,878)
Buildings and improvements	(37,070,442)	(3,464,794)	634,691	-0-	(39,900,545)
Fixed equipment	(13,908,154)	(632,293)	2,315,581	-0-	(12,224,866)
Major equipment	(27,986,594)	(3,169,394)	641,149	-0-	(30,514,839)
Total accumulated depreciation	<u>(80,946,501)</u>	<u>(7,338,048)</u>	<u>3,591,421</u>	<u>-0-</u>	<u>(84,693,128)</u>
Capital assets, net	<u>\$ 64,761,698</u>	<u>\$ (79,864)</u>	<u>\$ (918,799)</u>	<u>\$ -0-</u>	<u>\$ 63,763,035</u>

The Hospital did not have any significant outstanding commitments related to construction in progress as of December 31, 2019.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

8. LONG-TERM DEBT

During March 2015, the Hospital borrowed \$18,000,000 from the Indiana Financing Authority (the Authority) and issued Health Facility Revenue Bonds Series 2015 (Series 2015 Bonds) to refund the Series 2009 and Series 2012 bonds. The Series 2015 Bonds bear interest at rates as determined by daily, weekly, flexible, semiannual, or fixed modes, which was 2.30% and 2.74% as of December 31, 2019 and 2018, respectively.

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

During 2018, the Hospital borrowed approximately \$1,599,000 related to a capital lease obligation. The capital lease obligation, at an imputed interest rate of 5%, is collateralized by leased equipment with a net book value of approximately \$1,092,000 and \$1,412,000 as of December 31, 2019 and 2018, respectively. The cost of the equipment was approximately \$1,599,000 and accumulated depreciation of the equipment was approximately \$507,000 and \$187,000 as of December 31, 2019 and 2018.

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

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

	Balance December 31, 2017	Additional borrowings	Payments	Balance December 31, 2018	Current portion	Long-term portion
Demand Revenue Bonds,						
Direct placement - Series 2015	\$ 16,045,000	\$ -0-	\$ 1,025,000	\$ 15,020,000	\$ 1,055,000	\$ 13,965,000
Capital lease	-0-	1,598,462	319,692	1,278,770	322,889	955,881
	<u>\$ 16,045,000</u>	<u>\$ 1,598,462</u>	<u>\$ 1,344,692</u>	<u>\$ 16,298,770</u>	<u>\$ 1,377,889</u>	<u>\$ 14,920,881</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

The Hospital is also required to meet certain financial and affirmative covenants. One of these covenants requires that the Hospital maintain a minimum of \$9.2 million in cash and investments with Regions. The Hospital believes it is in compliance with all covenants as of December 31, 2019 and 2018. If the Hospital was to be in default under the agreement, the interest rate on the 2015 Series Bonds could be increased to the lesser of 1M BBA LIBOR plus 5% or the highest rate allowable by law.

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

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

<u>Years Ending December 31,</u>	Direct placement		Capital lease	
	Principal	Interest	Principal	Interest
2020	\$ 1,087,000	\$ 209,475	319,607	9,559
2021	1,121,000	193,170	326,118	6,298
2022	1,155,000	176,355	328,991	3,004
2023	1,191,000	159,030	-0-	-0-
2024	1,225,000	141,165	-0-	-0-
2025	1,264,000	122,790	-0-	-0-
2026-2030	6,922,000	317,715	-0-	-0-
	<u>\$ 13,965,000</u>	<u>\$ 1,319,700</u>	<u>\$ 974,716</u>	<u>\$ 18,861</u>

9. NET PATIENT SERVICE REVENUE

Patient service revenue for 2019 and 2018 consists of the following:

	2019	2018
Inpatient services	\$ 77,437,610	\$ 65,744,611
Outpatient services	253,892,435	207,519,825
Long term care	180,615,581	179,418,779
Gross patient service revenue	511,945,626	452,683,215
Contractual allowances	213,714,596	173,699,348
Bad debts	10,114,271	7,092,633
Charity care	1,674,613	1,741,856
Deductions from revenue	225,503,480	182,533,837
Net patient service revenue	<u>\$ 286,442,146</u>	<u>\$ 270,149,378</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

Medicare

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

Medicaid

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

Other

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

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

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

10. RETIREMENT PLANS

Plan Descriptions

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

Funding Policy

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

The Hospital contributes 4% of an eligible employee's wages and matches 50% of an employee's contribution to the plan up to 2% of their wages to the Pension Plan. Hospital contributions to the Pension Plan for 2019 and 2018 were approximately \$1,709,000 and \$1,323,000, respectively.

11. SPLIT-DOLLAR LIFE INSURANCE POLICY

The Hospital has a Split-Dollar Life Insurance Agreement (the Agreement) for a key employee that is recorded at contract value in other assets at approximately \$2,820,000 and \$2,709,000 as of December 31, 2019 and 2018, respectively. The Hospital is the sole and absolute owner of the related life insurance policy. The Agreement was used to fund a supplemental retirement benefit plan. In the event the employee remains employed by the Hospital at least until reaching sixty five years of age, or as is otherwise provided in the Agreement, beginning with the retirement date, the Hospital will pay an annual benefit, as is stipulated in the Agreement until the death of the employee. An annual expense is recorded for the death benefit and the salary continuation components of the agreement.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

12. EMPLOYEE HEALTH PLAN

The Hospital participates in a self-funded health plan covering substantially all employees. Covered services include medical benefits. The plan has annual reinsurance coverage starting at a specific level of \$300,000 per individual with an unlimited specific lifetime maximum reimbursement per covered person and no aggregate limit. The financial statements include an estimated provision for claims that have been incurred but not reported. Total health claims expense was approximately \$8,693,000 and \$8,327,000 for the years ended December 31, 2019 and 2018, respectively.

13. NET POSITION RESTRICTED BY DONOR

Net position restricted by donor of approximately \$1,103,000 and \$997,000 at December 31, 2019 and 2018, respectively, consist of donor-restricted funds held by the Foundation primarily for Hospital construction projects.

14. MALPRACTICE INSURANCE

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

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provided a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act required the Hospital 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 required the Hospital 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 the Hospital to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

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

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

15. INVESTMENTS IN AFFILIATES

The Hospital purchased a 1% ownership in St. Vincent Heart Center of Indiana, LLC (Heart Center) during 2017 for approximately \$2,557,000 and has a 1% ownership in the Heart Center at December 31, 2018 and 2019, respectively. The Hospital has accounted for this investment under the cost method of accounting and assesses the investment for impairment on an annual basis. As of December 31, 2018 and 2019, the investment was not deemed to be impaired. The investment is included in other assets on the consolidated balance sheets.

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

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

16. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, who are primarily local residents and are insured under third-party payor agreements. The mix of receivables and gross patient service revenues from patients and third-party payors for 2019 and 2018 was as follows:

	Receivables		Revenues	
	2019	2018	2019	2018
Self pay	9%	10%	7%	7%
Medicare and Medicaid	53%	51%	70%	71%
Other commercial	38%	39%	23%	22%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

17. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its blended component units, DMC and the Foundation. Separate financial statements related to the individual component units may be obtained by contacting Hospital management. The following is a summary of the financial position of DMC and the Foundation as of December 31, 2019, and a summary of the related statements of operations, changes in net position, and cash flows for the year then ended:

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

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

	DMC	Foundation	Total
Operating revenues			
Net patient service revenue	\$ 19,347,232	\$ 1,277,050	\$ 20,624,282
Other revenue	-0-	3,942,358	3,942,358
Total operating revenues	<u>19,347,232</u>	<u>5,219,408</u>	<u>24,566,640</u>
Operating expenses			
Salaries and benefits	14,172,719	439,187	14,611,906
Medical professional fees	-0-	-0-	-0-
Purchased services	3,747,012	353,792	4,100,804
Medical supplies and drugs	7,861,126	-0-	7,861,126
Other supplies	-0-	11,996	11,996
Depreciation and amortization	49,440	854,405	903,845
Utilities	131,917	378,177	510,094
Rent	585,240	-0-	585,240
Other	1,580,862	1,326,283	2,907,145
Total operating expenses	<u>28,128,316</u>	<u>3,363,840</u>	<u>31,492,156</u>
Gain (loss) from operations	(8,781,084)	1,855,568	(6,925,516)
Non-operating revenues (expenses)			
Investment income (loss)	113	3,777,316	3,777,429
Interest expense	(46,872)	(29,446)	(76,318)
Other nonoperating	28,437	517,194	545,631
Total nonoperating revenues (expenses)	<u>(18,322)</u>	<u>4,265,064</u>	<u>4,246,742</u>
Change in net position (deficit)	(8,799,406)	6,120,632	(2,678,774)
Net position - beginning of year	(54,994,866)	50,484,023	(4,510,843)
Net position - end of year	<u>\$ (63,794,272)</u>	<u>\$ 56,604,655</u>	<u>\$ (7,189,617)</u>
Cash flows from activities			
Operating	\$ (28,572)	\$ 7,800,534	\$ 7,771,962
Capital and related financing	(53,614)	(1,580,538)	(1,634,152)
Investing	28,550	(5,501,853)	(5,473,303)
Net change in cash and money market deposit accounts	<u>(53,636)</u>	<u>718,143</u>	<u>664,507</u>
Cash - beginning of year	218,768	5,582,454	5,801,222
Cash - end of year	<u>\$ 165,132</u>	<u>\$ 6,300,597</u>	<u>\$ 6,465,729</u>
Reconciliation of cash and money market deposit accounts to the balance sheet			
Cash and money market deposit accounts			
In current assets	\$ 165,132	\$ 1,171,442	\$ 1,336,574
In investments	-0-	5,129,155	5,129,155
Total cash and money market deposit accounts	<u>\$ 165,132</u>	<u>\$ 6,300,597</u>	<u>\$ 6,465,729</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

The following is a summary of the financial position of DMC and the Foundation as of December 31, 2018, and a summary of the related statements of operations, changes in net position, and cash flows for the year then ended:

	2018		
	DMC	Foundation	Total
Assets:			
Cash and money market deposit accounts	\$ 218,768	\$ 5,582,454	\$ 5,801,222
Patient accounts receivable, net	3,876,343	-0-	3,876,343
Supplies and other current assets	633,758	552,857	1,186,615
Due from Hospital	180,886	4,650,242	4,831,128
Total current assets	<u>4,909,755</u>	<u>10,785,553</u>	<u>15,695,308</u>
Investments	-0-	16,972,017	16,972,017
Assets whose use is limited - by donor	-0-	996,860	996,860
Capital assets, net	339,848	24,627,589	24,967,437
Other assets	38,837	-0-	38,837
Total assets	<u>\$ 5,288,440</u>	<u>\$ 53,382,019</u>	<u>\$ 58,670,459</u>
Liabilities:			
Current portion of long-term debt	\$ -0-	\$ 80,180	\$ 80,180
Accounts payable and accrued expenses	551,572	139,337	690,909
Due to Hospital	59,731,734	1,617,139	61,348,873
Total current liabilities	<u>60,283,306</u>	<u>1,836,656</u>	<u>62,119,962</u>
Long-term debt, net of current portion	-0-	1,061,340	1,061,340
Total liabilities	<u>60,283,306</u>	<u>2,897,996</u>	<u>63,181,302</u>
Net position			
Unrestricted net position (deficit)	(55,334,714)	26,001,094	(29,333,620)
Net investment in capital assets	339,848	23,486,069	23,825,917
Restricted by donor for capital acquisition	-0-	996,860	996,860
Total net position	<u>(54,994,866)</u>	<u>50,484,023</u>	<u>(4,510,843)</u>
Total liabilities and net position	<u>\$ 5,288,440</u>	<u>\$ 53,382,019</u>	<u>\$ 58,670,459</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

	DMC	Foundation	Total
Operating revenues			
Net patient service revenue	\$ 18,651,712	\$ 1,217,720	\$ 19,869,432
Other revenue	-0-	3,915,384	3,915,384
Total operating revenues	<u>18,651,712</u>	<u>5,133,104</u>	<u>23,784,816</u>
Operating expenses			
Salaries and benefits	13,113,588	426,369	13,539,957
Purchased services	4,017,182	346,620	4,363,802
Medical supplies and drugs	8,167,156	-0-	8,167,156
Other supplies	-0-	21,062	21,062
Depreciation and amortization	43,686	854,487	898,173
Utilities	109,641	358,765	468,406
Rent	861,550	-0-	861,550
Other	716,486	1,277,424	1,993,910
Total operating expenses	<u>27,029,289</u>	<u>3,284,727</u>	<u>30,314,016</u>
Gain (loss) from operations	(8,377,577)	1,848,377	(6,529,200)
Non-operating revenues (expenses)			
Investment income	58	(1,743,974)	(1,743,916)
Interest expense	(46,872)	(29,289)	(76,161)
Other nonoperating	27,473	174,450	201,923
Total nonoperating revenues (expenses)	<u>(19,341)</u>	<u>(1,598,813)</u>	<u>(1,618,154)</u>
Change in net position	(8,396,918)	249,564	(8,147,354)
Net position (deficit) - beginning of year	(46,597,948)	50,234,459	3,636,511
Net position (deficit) - end of year	<u>\$ (54,994,866)</u>	<u>\$ 50,484,023</u>	<u>\$ (4,510,843)</u>
Cash flows from activities			
Operating	\$ (15,183)	\$ 6,861,813	\$ 6,846,630
Capital and related financing	(103,756)	(299,057)	(402,813)
Investing	27,531	(1,532,706)	(1,505,175)
Net change in cash and money market deposit accounts	<u>(91,408)</u>	<u>5,030,050</u>	<u>4,938,642</u>
Cash - beginning of year	310,176	552,404	862,580
Cash - end of year	<u>\$ 218,768</u>	<u>\$ 5,582,454</u>	<u>\$ 5,801,222</u>

18. SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines. Management believes the Hospital is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

HENRY COMMUNITY HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2019

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

See Report of Independent Auditors on Pages 1 through 3.

HENRY COMMUNITY HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2019

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

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HENRY COMMUNITY HEALTH

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

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

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2019

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

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2019

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

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HENRY COMMUNITY HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2018

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current assets					
Cash and money market deposit accounts	\$ 35,234,725	\$ 5,582,454	\$ 218,768	\$ -0-	\$ 41,035,947
Patient accounts receivable, net	29,806,218	-0-	3,876,343	-0-	33,682,561
Supplies and other current assets	20,518,923	552,857	633,758	(387,012)	21,318,526
Due from related parties	55,047,016	4,650,242	180,886	(59,878,144)	-0-
Estimated third-party settlements	392,389	-0-	-0-	-0-	392,389
Current portion of assets whose use is limited	1,297,709	-0-	-0-	-0-	1,297,709
Total current assets	<u>142,296,980</u>	<u>10,785,553</u>	<u>4,909,755</u>	<u>(60,265,156)</u>	<u>97,727,132</u>
Investments	-0-	16,972,017	-0-	-0-	16,972,017
Assets whose use is limited					
Internally designated	10,165,342	-0-	-0-	-0-	10,165,342
By donor - expendable - for capital acquisition	-0-	996,860	-0-	-0-	996,860
	<u>10,165,342</u>	<u>996,860</u>	<u>-0-</u>	<u>-0-</u>	<u>11,162,202</u>
Less current portion	1,297,709	-0-	-0-	-0-	1,297,709
Total assets whose use is limited	8,867,633	996,860	-0-	-0-	9,864,493
Capital assets, net	38,795,598	24,627,589	339,848	-0-	63,763,035
Other assets	7,484,091	-0-	38,837	(1,431,413)	6,091,515
Total assets	<u>\$ 197,444,302</u>	<u>\$ 53,382,019</u>	<u>\$ 5,288,440</u>	<u>\$ (61,696,569)</u>	<u>\$ 194,418,192</u>

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HENRY COMMUNITY HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2018

LIABILITIES AND NET POSITION	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 1,297,709	\$ 80,180	\$ -0-	\$ -0-	\$ 1,377,889
Accounts payable and accrued expenses	42,448,511	139,337	551,572	(347,696)	42,791,724
Accrued wages and related liabilities	5,110,840	-0-	-0-	-0-	5,110,840
Due to related parties	-0-	1,617,139	59,731,734	(61,348,873)	-0-
Total current liabilities	<u>48,857,060</u>	<u>1,836,656</u>	<u>60,283,306</u>	<u>(61,696,569)</u>	<u>49,280,453</u>
Other long-term liabilities	935,382	-0-	-0-	-0-	935,382
Long-term debt, net of current portion	13,859,541	1,061,340	-0-	-0-	14,920,881
Total liabilities	<u>63,651,983</u>	<u>2,897,996</u>	<u>60,283,306</u>	<u>(61,696,569)</u>	<u>65,136,716</u>
Net position					
Unrestricted	110,153,971	26,001,094	(55,334,714)	-0-	80,820,351
Net investment in capital assets	23,638,348	23,486,069	339,848	-0-	47,464,265
Restricted					
By donor - expendable - for capital acquisition	-0-	996,860	-0-	-0-	996,860
Total net position	<u>133,792,319</u>	<u>50,484,023</u>	<u>(54,994,866)</u>	<u>-0-</u>	<u>129,281,476</u>
Total liabilities and net position	<u>\$ 197,444,302</u>	<u>\$ 53,382,019</u>	<u>\$ 5,288,440</u>	<u>\$ (61,696,569)</u>	<u>\$ 194,418,192</u>

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2018

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 251,445,990	\$ 1,217,720	\$ 18,651,712	\$ (1,166,044)	\$ 270,149,378
Other revenue	7,614,002	3,915,384	-0-	(4,654,135)	6,875,251
Total revenue	<u>259,059,992</u>	<u>5,133,104</u>	<u>18,651,712</u>	<u>(5,820,179)</u>	<u>277,024,629</u>
Operating expenses					
Salaries and benefits	55,702,691	426,369	13,113,588	(962,713)	68,279,935
Medical professional fees	1,065,581	-0-	-0-	-0-	1,065,581
Purchased services	101,580,157	346,620	4,017,182	(4,673)	105,939,286
Medical supplies and drugs	14,900,911	-0-	8,167,156	(330,283)	22,737,784
Other supplies	11,617,562	21,062	-0-	-0-	11,638,624
Depreciation and amortization	6,439,875	854,487	43,686	-0-	7,338,048
Utilities	4,912,029	358,765	109,641	-0-	5,380,435
Rent	18,571,066	-0-	861,550	(3,243,013)	16,189,603
Hospital assessment fee	2,867,370	-0-	-0-	-0-	2,867,370
Other	26,316,983	1,277,424	716,486	(1,279,497)	27,031,396
Total expenses	<u>243,974,225</u>	<u>3,284,727</u>	<u>27,029,289</u>	<u>(5,820,179)</u>	<u>268,468,062</u>
Operating income (loss)	15,085,767	1,848,377	(8,377,577)	-0-	8,556,567
Nonoperating revenues (expenses)					
Investment income	(434,245)	(1,743,974)	58	(46,872)	(2,225,033)
Interest expense	(713,618)	(29,289)	(46,872)	46,872	(742,907)
Other nonoperating	(751,784)	174,450	27,473	-0-	(549,861)
Total nonoperating revenues (expenses)	<u>(1,899,647)</u>	<u>(1,598,813)</u>	<u>(19,341)</u>	<u>-0-</u>	<u>(3,517,801)</u>
Change in net position	13,186,120	249,564	(8,396,918)	-0-	5,038,766
Net position beginning of year	120,606,199	50,234,459	(46,597,948)	-0-	124,242,710
Net position end of year	<u>\$ 133,792,319</u>	<u>\$ 50,484,023</u>	<u>\$ (54,994,866)</u>	<u>\$ -0-</u>	<u>\$ 129,281,476</u>

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2018

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 246,696,143	\$ 1,217,720	\$ 18,216,891	\$ (1,073,417)	\$ 265,057,337
Cash paid to employees for wages and benefits	(54,953,368)	(426,369)	(13,113,588)	719,817	(67,773,508)
Cash paid to vendors for goods and services	(191,747,465)	2,155,078	(5,118,486)	4,309,261	(190,401,612)
Other operating receipts, net	7,614,002	3,915,384	-0-	(3,955,661)	7,573,725
Net cash flows from operating activities	7,609,312	6,861,813	(15,183)	-0-	14,455,942
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(5,179,970)	(191,868)	(56,884)	-0-	(5,428,722)
Loss (gain) on disposal of property and equipment	910,768	-0-	-0-	-0-	910,768
Proceeds from sale of equipment	8,031	-0-	-0-	-0-	8,031
Interest on long-term debt	(713,618)	(29,289)	(46,872)	46,872	(742,907)
Principal payments on long-term debt, net	(1,266,792)	(77,900)	-0-	-0-	(1,344,692)
Net cash flows from capital and related financing activities	(6,241,581)	(299,057)	(103,756)	46,872	(6,597,522)
Cash flows from investing activities					
Investment income and other non-operating	(1,186,029)	(1,569,524)	27,531	(46,872)	(2,774,894)
Change in other assets, net	(84,908)	-0-	-0-	-0-	(84,908)
Purchases of investments in assets whose use is limited - internally designated and investments	(3,753,676)	(1,937,285)	-0-	-0-	(5,690,961)
Proceeds from sale of investments in assets whose use is limited - internally designated and investments	4,303,112	1,797,073	-0-	-0-	6,100,185
Change in assets whose use is limited - restricted by donor, net	-0-	177,030	-0-	-0-	177,030
Net cash flows from investing activities	(721,501)	(1,532,706)	27,531	(46,872)	(2,273,548)
Net change in cash and money market deposit accounts	646,230	5,030,050	(91,408)	-0-	5,584,872
Cash and money market deposit accounts					
Beginning of year	34,588,495	552,404	310,176	-0-	35,451,075
End of year	\$ 35,234,725	\$ 5,582,454	\$ 218,768	\$ -0-	\$ 41,035,947

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2018

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 15,085,767	\$ 1,848,377	\$ (8,377,577)	\$ -0-	\$ 8,556,567
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	6,439,875	854,487	43,686	-0-	7,338,048
Bad debts	5,490,275	-0-	1,602,358	-0-	7,092,633
Changes in assets and liabilities:					
Patient accounts receivable	(7,013,434)	-0-	(2,037,179)	-0-	(9,050,613)
Supplies and other current assets	1,898,896	4,112,476	189,036	4,333,856	10,534,264
Accounts payable and accrued expenses	(5,934,291)	(419,085)	(26,019)	(4,309,646)	(10,689,041)
Accrued salaries and related liabilities	749,323	-0-	-0-	-0-	749,323
Other long-term liabilities	116,923	-0-	-0-	-0-	116,923
Due from (to) related parties	(8,864,704)	465,558	8,590,512	(24,210)	167,156
Estimated third-party settlements	(359,318)	-0-	-0-	-0-	(359,318)
Net cash flows from operating activities	<u>\$ 7,609,312</u>	<u>\$ 6,861,813</u>	<u>\$ (15,183)</u>	<u>\$ -0-</u>	<u>\$ 14,455,942</u>
Supplemental cash flows information					
Property acquired through capital lease obligation	1,598,462	\$ -0-	\$ -0-	\$ -0-	\$ 1,598,462
Property included in accounts payable	\$ 231,000	\$ -0-	\$ -0-	\$ -0-	\$ 231,000

See Report of Independent Auditors on Pages 1 through 3.