



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B49211

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

December 20, 2017

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

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2016 to December 31, 2016. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per Report of Independent Auditors opinion, the financial statements included in the report present fairly the financial condition of the Hendricks Regional Health, as of December 31, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

Paul D. Joyce, CPA
State Examiner



Hendricks
Regional Health

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016 AND 2015

CPAs / ADVISORS



HENDRICKS REGIONAL HEALTH

TABLE OF CONTENTS DECEMBER 31, 2016 AND 2015

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management’s Discussion and Analysis (Unaudited).....	MDA - i
Consolidated Financial Statements	
Consolidated Balance Sheets.....	4
Consolidated Statements of Revenues, Expenses and Changes in Net Position	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	9
Required Supplementary Information	
Schedule of Changes in Net Pension Liability and Related Ratios.....	40
Schedule of Contributions	41
Supplementary Information	
Consolidating Balance Sheet - December 31, 2016.....	42
Consolidating Statement of Revenues, Expenses and Changes in Net Position Year Ended December 31, 2016.....	44
Consolidating Balance Sheet - December 31, 2015.....	45
Consolidating Statement of Revenues, Expenses and Changes in Net Position Year Ended December 31, 2015.....	47



Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Hendricks Regional Health
Danville, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hendricks Regional Health (Hendricks), a component unit of Hendricks County, which comprise the consolidated balance sheets as of December 31, 2016 and 2015 and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Board of Trustees
Hendricks Regional Health
Danville, Indiana

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hendricks as of December 31, 2016 and 2015, and the results of its operations, changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, in 2016, Hendricks adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Our opinion is not modified with respect to these matters.

Report on Required Supplementary Information

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

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in net position of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting

Board of Trustees
Hendricks Regional Health
Danville, Indiana

and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
May 24, 2017

REQUIRED SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2016 AND 2015

This section of Hendricks Regional Health's (Hendricks) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of Hendricks' consolidated financial performance during the year ended December 31, 2016. This MD&A does include a discussion and analysis of the activities and results of the Blended Component Units, Hendricks Regional Health Foundation, Inc. and Hendricks Ambulatory Management Company, LLC., and should be read in conjunction with Hendricks' consolidated financial statements that follow this MD&A.

Financial Highlights

- Hendricks' net position increased approximately \$43,409,000 or 12.1% in 2016.
- Hendricks reported operating income of approximately \$37,018,000 for 2016, representing a decrease of approximately \$3,806,000 in comparison to the 2015 results.
- Hendricks continued its expansion of facilities and equipment in 2016 by adding approximately \$38,851,000 in gross property and equipment. Hendricks disposed of capital assets with a net book value of approximately \$15,000 during 2016. These items combined with depreciation expense of approximately \$19,107,000 resulted in net capital assets increasing approximately \$19,729,000 from the prior year.
- Hendricks' assets whose use is limited increased approximately \$46,277,000 as a result of operating income and investment returns.
- During 2016 and 2015, Hendricks recognized approximately \$273,419,000 and \$254,659,000, respectively, of gross patient service revenue related to long-term care.

Using This Annual Report

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

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

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

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2016 AND 2015

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

The Consolidated Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about Hendricks' finances is, "What is the financial strength of Hendricks?" The balance sheet and the statement of revenues, expenses and changes in net position report information about Hendricks' resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report Hendricks' net position and changes in it. Think of Hendricks' net position, the difference between assets and liabilities, as one way to measure Hendricks' financial health, or financial position. Over time, increases or decreases in Hendricks' net position are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in Hendricks' patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of Hendricks.

Table 1: Consolidated Balance Sheets

The significant change in Hendricks' assets and deferred outflows was in assets whose use is limited which increased approximately \$46,277,000 in 2016 compared to 2015. The total asset and deferred outflows increase of approximately \$80,603,000 in 2016 was 14.7% from 2015.

Capital assets, prior to depreciation, increased approximately \$36,416,000 while accumulated depreciation increased approximately \$16,687,000 for a net increase in capital assets of approximately \$19,729,000 in 2016.

Current liabilities increased by approximately \$27,213,000 mainly related to a line of credit borrowing of \$24,000,000 for 2016.

Net position (or equity) increased by approximately \$43,409,000 in 2016 compared to 2015. The increase relates to operating income and investment return.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2016 AND 2015

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

	2016	2015	Change 2016 - 2015	2014
Assets				
Current assets	\$ 155,142,338	\$ 140,080,125	\$ 15,062,213	\$ 107,964,350
Capital assets, net	235,513,450	215,784,814	19,728,636	206,095,940
Assets whose use is limited, net	222,575,137	176,298,339	46,276,798	159,430,416
Other assets	7,724,653	8,121,502	(396,849)	15,493,227
Total assets	<u>620,955,578</u>	<u>540,284,780</u>	<u>80,670,798</u>	<u>488,983,933</u>
Deferred outflows	<u>7,399,305</u>	<u>7,467,158</u>	<u>(67,853)</u>	<u>1,795,457</u>
Total assets and deferred outflows	<u>\$ 628,354,883</u>	<u>\$ 547,751,938</u>	<u>\$ 80,602,945</u>	<u>\$ 490,779,390</u>
Liabilities				
Current liabilities	\$ 113,900,614	\$ 86,587,811	\$ 27,312,803	\$ 62,519,168
Long-term debt, net	111,863,462	102,923,349	8,940,113	106,562,019
Total liabilities	<u>225,764,076</u>	<u>189,511,160</u>	<u>36,252,916</u>	<u>169,081,187</u>
Deferred inflows	<u>982,507</u>	<u>41,042</u>	<u>941,465</u>	<u>54,722</u>
Total liabilities and deferred inflows	<u>226,746,583</u>	<u>189,552,202</u>	<u>37,194,381</u>	<u>169,135,909</u>
Net position				
Net investment in capital assets	117,527,909	107,632,273	9,895,636	96,649,378
Restricted	7,336,138	10,240,469	(2,904,331)	24,825,100
Unrestricted	276,744,253	240,326,994	36,417,259	200,169,003
Total net position	<u>401,608,300</u>	<u>358,199,736</u>	<u>43,408,564</u>	<u>321,643,481</u>
Total liabilities, deferred inflows and net position	<u>\$ 628,354,883</u>	<u>\$ 547,751,938</u>	<u>\$ 80,602,945</u>	<u>\$ 490,779,390</u>

Total assets and deferred outflows in 2015 compared to 2014 increased approximately \$56,973,000. The majority of the change was in current assets which increased approximately \$32,116,000 in 2015 from 2014 and assets whose use is limited whose increase was approximately \$16,868,000 in 2015 from 2014. Net capital assets and other assets increased approximately a combined \$2,317,000 in 2015 from 2014.

Total liabilities in 2015 increased approximately \$20,430,000 mainly related current liabilities related to long-term care operations.

The net position in 2015 increased approximately \$36,556,000 over 2014 based on operating income and investment return.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2016 AND 2015

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

Hendricks' performance in 2016 was favorable with a return on equity of 10.8% compared to 10.2% in 2015.

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

Expenses increased by approximately \$39,490,000 between 2015 and 2016. Salaries, wages and benefits increased approximately \$8,739,000 while medical supplies and drugs increased approximately \$2,097,000 in 2016. Long-term care services contributed to the majority of the 2016 increase related to facility and equipment leases of approximately \$3,664,000, purchased services of approximately \$8,416,000 and other supplies and expenses of approximately \$9,470,000.

Nonoperating income (expense) increased by approximately \$10,774,000 due to investment income of approximately \$12,357,000 in 2016 compared to approximately \$1,593,000 in 2015 combined with interest expense decreasing approximately \$10,000 from 2015.

	2016	2015	Change 2016 - 2015	2014
Operating revenue				
Net patient service revenue	\$ 523,310,331	\$ 488,304,748	\$ 35,005,583	\$ 457,237,544
Other operating revenue	7,250,114	6,571,883	678,231	6,361,995
Total operating revenue	530,560,445	494,876,631	35,683,814	463,599,539
Operating expenses				
Salaries and benefits	130,889,262	122,150,217	8,739,045	109,085,398
Medical supplies and drugs	41,753,356	39,656,598	2,096,758	35,769,642
Depreciation and amortization	19,107,017	15,907,206	3,199,811	14,623,198
Other operating expenses	301,792,441	276,338,069	25,454,372	272,122,756
Total operating expenses	493,542,076	454,052,090	39,489,986	431,600,994
Operating income	37,018,369	40,824,541	(3,806,172)	31,998,545
Nonoperating income (expense)				
Investment income	12,357,393	1,592,974	10,764,419	7,854,345
Interest expense	(5,116,398)	(5,125,952)	9,554	(5,350,629)
Total nonoperating income (expense), net	7,240,995	(3,532,978)	10,773,973	2,503,716
Change in net position before other items	44,259,364	37,291,563	6,967,801	34,502,261
Other items				
Contributions from non-controlling interest	-0-	99,892	(99,892)	-0-
Dividends to non-controlling interest	(850,800)	(835,200)	(15,600)	(583,955)
Change in net position	43,408,564	36,556,255	6,852,309	33,918,306
Net position				
Beginning of year	358,199,736	321,643,481	36,556,255	287,725,175
End of year	\$ 401,608,300	\$ 358,199,736	\$ 43,408,564	\$ 321,643,481

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2016 AND 2015

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

Expenses increased by approximately \$22,451,000 between 2014 and 2015. Salaries, wages and benefits contributed to the majority of the 2015 increase which increased in by approximately \$13,065,000 in 2015.

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

Consolidated Statements of Cash Flows

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

Total cash and cash equivalents increased approximately \$3,095,000 in 2016. This was a decrease of approximately \$4,402,000 from 2015. Operating activities generated cash of \$51,685,000 during 2016 compared to \$63,260,000 in 2015. Capital and related financing decreased cash and cash equivalents by approximately \$33,548,000 during 2016 compared to a decrease of approximately \$32,365,000 in 2015, mainly as the result of expenditures for property and equipment additions. Investing activities decreased cash and cash equivalents by approximately \$15,042,000 in 2016 compared to approximately \$23,398,000 in 2015, due to investment activity and the purchase of investments with available cash equivalents.

	2016	2015	Change 2016 - 2015	2014
Cash flow from activities				
Operating	\$ 51,685,421	\$ 63,260,208	\$ (11,574,787)	\$ 50,376,590
Capital and related financing	(33,548,109)	(32,364,504)	(1,183,605)	(26,529,919)
Investing	(15,041,854)	(23,398,293)	8,356,439	(20,518,414)
Change in cash and cash equivalents	<u>\$ 3,095,458</u>	<u>\$ 7,497,411</u>	<u>\$ (4,401,953)</u>	<u>\$ 3,328,257</u>

Cash flows from operating activities in 2015 were approximately \$12,884,000 higher than 2014. Cash flows used in capital and related financing activities in 2015 were approximately \$5,835,000 more than 2014. Finally, cash flows used in investing activities in 2015 were approximately \$2,880,000 more than 2014. Cash and cash equivalents in total increased approximately \$7,497,000 in 2015.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2016 AND 2015

Sources of Revenue

During 2016, Hendricks derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 53% of gross revenues of the hospital operations in 2016 but only 33% of Hendricks' net patient service revenues. Following is a table of major sources of gross patient revenues for 2016:

Payor	% of Gross Revenues
Medicare	43%
Anthem/Blue Cross	23%
Commercial and other	20%
Medicaid	10%
Self-Pay	4%
Total	100%

Outpatient services represented approximately 75% of acute care gross patient revenue for both 2016 and 2015. According to the Indiana Hospital Association's IHA Databank, the State of Indiana's average outpatient percent of total charges was approximately 57% and 56% for 2016 and 2015, respectively.

Capital Assets

During 2016, Hendricks invested approximately \$36,416,000 in capital assets net of asset disposals compared to \$16,869,000 in 2015. Capital assets net of asset disposals added during 2014 were \$7,449,000. The change in capital assets is outlined in the following table:

	2016	2015	Change 2016 - 2015	2014
Land and improvements	\$ 30,940,211	\$ 22,771,415	\$ 8,168,796	\$ 22,593,377
Buildings and fixed equipment	277,546,619	262,186,045	15,360,574	253,106,765
Major moveable equipment	87,279,345	86,565,487	713,858	76,974,775
Construction in progress	12,830,797	658,195	12,172,602	2,637,667
Total capital assets	408,596,972	372,181,142	36,415,830	355,312,584
Less accumulated depreciation	173,083,522	156,396,328	16,687,194	149,216,644
Capital assets - net	\$ 235,513,450	\$ 215,784,814	\$ 19,728,636	\$ 206,095,940

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2016 AND 2015

Hendricks continues to invest in its facilities to meet the needs of the community, and strives to replace, as well as upgrade, equipment as needed. More detailed information about Hendricks' capital assets is presented in the Notes to the Consolidated Financial Statements.

Debt

Total long-term debt (including current portion) increased from approximately \$108,153,000 to \$117,986,000 in 2016. During 2015, Hendricks issued long-term debt to construct a new ambulatory care facility and made additional draws in 2016 which was the primary reason for the increase in long-term debt. More detailed information about Hendricks' long-term debt is presented in the Notes to the Consolidated Financial Statements.

Economic Outlook

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

Contacting Hendricks' Financial Management

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

HENDRICKS REGIONAL HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2016 AND 2015

ASSETS AND DEFERRED OUTFLOWS

	2016	2015
Current assets		
Cash and cash equivalents	\$ 9,156,309	\$ 6,304,607
Investments	57,226,048	52,990,776
Patient accounts receivable, less allowance for uncollectible accounts of \$22,621,000 in 2016 and \$24,024,000 in 2015	52,988,573	42,884,899
Inventories	2,523,489	2,475,575
Other current assets	27,125,840	30,195,076
Current portion of assets whose use is limited	6,122,079	5,229,192
Total current assets	155,142,338	140,080,125
Assets whose use is limited		
Board designated funded depreciation investments	222,116,388	172,042,613
Held by trustee	6,074,663	8,979,257
Other board designated investments	506,165	505,661
Total assets whose use is limited	228,697,216	181,527,531
Less current portion	6,122,079	5,229,192
Noncurrent assets whose use is limited	222,575,137	176,298,339
Capital assets		
Land	20,928,211	16,574,202
Depreciable capital assets	374,837,964	354,948,745
Construction in progress	12,830,797	658,195
	408,596,972	372,181,142
Less accumulated depreciation	173,083,522	156,396,328
Capital assets, net	235,513,450	215,784,814
Other assets		
Pension asset	7,071,709	7,845,708
Other	652,944	275,794
Total other assets	7,724,653	8,121,502
Total assets	620,955,578	540,284,780
Deferred outflows	7,399,305	7,467,158
Total assets and deferred outflows	\$ 628,354,883	\$ 547,751,938

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2016 AND 2015

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	2016	2015
Current liabilities		
Current portion of long-term debt	\$ 6,122,079	\$ 5,229,192
Line of credit	24,000,000	-0-
Accounts payable	14,609,754	17,618,658
Accrued salaries and related liabilities	10,936,807	9,008,212
Accrued expenses and other current liabilities	55,121,980	52,028,900
Accrued interest	1,663,608	1,752,912
Estimated third-party settlements	1,446,386	949,937
Total current liabilities	<u>113,900,614</u>	<u>86,587,811</u>
Long-term debt, net of current portion	111,863,462	102,923,349
Total liabilities	<u>225,764,076</u>	<u>189,511,160</u>
Deferred inflows	982,507	41,042
Total liabilities and deferred inflows	<u>226,746,583</u>	<u>189,552,202</u>
Net position		
Net investment in capital assets	117,527,909	107,632,273
Restricted		
Held by trustee	6,074,663	8,979,257
Non-expendable	1,261,475	1,261,212
Total restricted	<u>7,336,138</u>	<u>10,240,469</u>
Unrestricted	<u>276,744,253</u>	<u>240,326,994</u>
Total net position	<u>401,608,300</u>	<u>358,199,736</u>
Total liabilities, deferred inflows and net position	<u>\$ 628,354,883</u>	<u>\$ 547,751,938</u>

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Operating revenue		
Net patient service revenue	\$ 523,310,331	\$ 488,304,748
Other operating revenue	7,250,114	6,571,883
Total operating revenue	530,560,445	494,876,631
Operating expenses		
Salaries and wages	102,265,201	93,606,250
Employee benefits	28,624,061	28,543,967
Professional medical fees	1,585,052	1,713,680
Other professional fees	28,243,103	24,968,237
Medical and surgical supplies	30,083,222	28,230,717
Drugs and intravenous solutions	11,670,134	11,425,881
Food	6,700,692	6,414,693
Purchased services	157,405,381	149,068,752
Equipment rental	3,074,859	3,192,471
HAF Program	4,320,405	3,106,589
Telephone and utilities	10,065,987	8,943,035
Depreciation and amortization	19,107,017	15,907,206
Insurance	4,804,086	6,437,465
Facility and equipment leases	33,624,172	29,960,580
Other supplies and expenses	51,968,704	42,532,567
Total operating expenses	493,542,076	454,052,090
Operating income	37,018,369	40,824,541
Nonoperating income (expense)		
Investment income	12,357,393	1,592,974
Interest expense	(5,116,398)	(5,125,952)
Total nonoperating income (expense), net	7,240,995	(3,532,978)
Change in net position before other items	44,259,364	37,291,563
Other items		
Contributions from non-controlling interest	-0-	99,892
Dividends to non-controlling interest	(850,800)	(835,200)
Change in net position	43,408,564	36,556,255
Net position		
Beginning of year	358,199,736	321,643,481
End of year	\$ 401,608,300	\$ 358,199,736

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Operating activities		
Cash received from patient services	\$ 513,703,106	\$ 482,472,826
Cash paid for salaries, wages and benefits	(127,177,350)	(120,566,358)
Cash paid to vendors and suppliers	(342,090,449)	(305,218,143)
Other receipts, net	7,250,114	6,571,883
Net cash flows from operating activities	51,685,421	63,260,208
Capital and related financing activities		
Acquisition and construction of capital assets	(37,577,895)	(23,822,011)
Contributions from non-controlling interest	-0-	99,892
Dividends to non-controlling interest	(850,800)	(835,200)
Loss of disposal of property and equipment	15,242	257,115
Interest on long-term debt	(5,205,702)	(5,209,869)
Proceeds from issuance of long-term debt	15,836,962	2,083,369
Principal payments for long-term debt	(5,765,916)	(4,937,800)
Net cash flows from capital and related financing activities	(33,548,109)	(32,364,504)
Investing activities		
Investment income	12,357,393	1,592,974
Purchase of investments	(43,062,399)	(46,542,382)
Proceeds from sale of investments	15,663,152	21,551,115
Net cash flows from investing activities	(15,041,854)	(23,398,293)
Net change in cash and cash equivalents	3,095,458	7,497,411
Cash and cash equivalents		
Beginning of year	62,605,101	55,107,690
End of year	\$ 65,700,559	\$ 62,605,101
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets - cash and cash equivalents	\$ 9,156,309	\$ 6,304,607
In investments	56,331,364	52,112,994
In board designated funds	212,886	4,187,500
Total cash and cash equivalents	\$ 65,700,559	\$ 62,605,101

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 37,018,369	\$ 40,824,541
Adjustment to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	19,107,017	15,907,206
Provision for bad debts	25,669,861	16,929,696
Changes in operating assets and liabilities		
Patient accounts receivable	(35,773,535)	(21,105,307)
Inventories	(47,914)	68,830
Other current assets	3,069,236	(12,772,131)
Pension asset	773,999	6,773,570
Other assets	(377,150)	598,155
Deferred outflows	67,853	(5,671,701)
Accounts payable	(4,281,904)	2,299,135
Accrued salaries and related liabilities	1,928,595	495,670
Accrued expenses and other current liabilities	3,093,080	20,582,535
Estimated third-party settlements	496,449	(1,656,311)
Deferred inflows	941,465	(13,680)
Net cash flows from operating activities	\$ 51,685,421	\$ 63,260,208
 Supplemental disclosure of cash flows information		
Cash paid for interest, net of capitalized interest of \$101,000 in 2016 and \$-0- in 2015	\$ 5,205,702	\$ 5,209,869
 Noncash capital and related financing activities		
Property purchases in accounts payable	\$ 1,273,000	\$ 1,882,339

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

The consolidated financial statements of Hendricks are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of Hendricks and its component units. They do not purport to, and do not, present the financial position of the County as of December 31, 2016 and 2015, the changes in its net position or its cash flows for the years then ended.

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

Long-Term Care Operations

Hendricks owns the operations of over twenty-five long-term care facilities by way of arrangements with the Managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of Hendricks, who is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the Managers shall be on behalf of Hendricks, who retains the authority and legal responsibility for the operation of the facilities.

Hendricks has lease agreements for the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, Hendricks entered into agreements with the Managers to manage the leased facilities. As part of the agreements, Hendricks pays the Managers a management fee to continue managing the facilities on behalf of Hendricks in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire at various times through 2019. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Basis of Consolidation

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

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

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

Measurement Focus and Basis of Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include all cash held in checking, savings and money market deposit accounts available for operating purposes with original maturity dates of 90 days or less. Hendricks maintains its cash in accounts, which at times may exceed federally insured limits. Hendricks has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents. Included in cash and cash equivalents are amounts held by Hendricks under agreement with the State of Indiana relating to non-state government operated nursing facilities. These funds are required to be held through the end of Hendricks' fiscal year, at which time they are available for the general corporate purposes of Hendricks. As of December 31, 2016, approximately \$55,600,000 of funds were available and were subsequently invested with assets whose use is limited – board designated funds.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Investments

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

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. Hendricks is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At year-end, a cost report for hospital-based services is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party programs. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2014 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2015 and 2016 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2016 and 2015, Hendricks recognized an increase in net position of approximately \$-0- and \$500,000, respectively, in the consolidated statements of revenues, expenses and changes in net position due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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

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

Electronic Health Records (EHR) Incentive Payments

Hendricks receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, Hendricks must meet "meaningful use" criteria that become more stringent over time. Hendricks periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in Hendricks' cost reports for hospital-based services.

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

Hendricks recognizes EHR incentive payments as grant income when there is reasonable assurance that Hendricks will comply with the conditions of the meaningful use objectives and any other specific agreement requirements. In addition, the financial statement effects of the income must be both recognizable and measurable. During 2016 and 2015, Hendricks recognized approximately \$744,000 and \$813,000, respectively, in EHR incentive payments as income. Under the ratable recognition method, Hendricks recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

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

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

Inventories

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

	2016	2015
Medical supplies and other	1,945,915	1,982,249
Pharmaceutical	577,574	493,326
	<u>\$ 2,523,489</u>	<u>\$ 2,475,575</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Other Current Assets

Other current assets consist of prepaid expenses, other reimbursement receivables and various other current items. These assets are classified as current as they are expected to be utilized within the next fiscal year. Reimbursement receivables approximated \$19,017,000 and \$16,317,000 of the total as of December 31, 2016 and 2015, respectively.

Assets Whose Use is Limited

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

Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed Hendricks' capitalization threshold and which substantially increase the useful lives of existing facilities. Maintenance, repairs and minor renewals are expensed as incurred.

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

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

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	15 years
Buildings and fixed equipment	3-50 years
Major movable equipment	5-15 years

Advertising and Community Relations

Hendricks records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was approximately \$1,970,000 and \$1,523,000 for 2016 and 2015, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Net Position

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

Consolidated Statements of Revenues, Expenses and Changes in Net Position

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

Charity Care and Assistance to the Uninsured

Hendricks provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care and financial assistance policy, including those patients who are uninsured. Because Hendricks does not collect amounts deemed to be charity care, revenue is adjusted for these amounts. Hendricks maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care and financial assistance policy. The charity care charges provided during 2016 and 2015 were approximately \$8,727,000 and \$8,034,000, respectively. Hendricks did not change its charity care and financial assistance policy during 2016 and 2015.

Of Hendricks' total expenses reported, including interest expense, in 2016 and 2015, an estimated \$3,627,000 and \$3,354,000 arose from providing services to charity patients during 2016 and 2015, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on Hendricks' total expenses including interest expense to gross patient service revenue.

Hendricks has a policy with discounted rates similar to contractual payors for uninsured patients. Uninsured self pay discounts provided to patients were approximately \$3,812,000 and \$4,504,000 for 2016 and 2015, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. During 2016 and 2015, capitalized interest was approximately \$101,000 and \$-0-, respectively.

Federal or State Income Taxes

Hendricks is a governmental instrumentality organized under Title 16, Article 22, of the Indiana statutes and, accordingly, is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, Hendricks is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

The Foundation is organized as a not-for-profit organization under Section 501(c)(3) of the United States IRC. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax. The Foundation has filed its federal and state income tax returns for periods through December 31, 2015. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

HAMCO is a Limited Liability Company (LLC) and profit and loss are passed through to the members of the LLC. HAMCO has filed its federal and state income tax returns for periods through December 31, 2015. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Hendricks, the Foundation, and HAMCO and recognize a tax liability if these organizations have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by these organizations, and has concluded that as of December 31, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Foundation and HAMCO are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Compensated Absences

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Pensions

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

Litigation

Hendricks is exposed to litigation arising in the normal course of business and during 2016 initiated certain litigation against the lessors, facility managers and others related to approximately 23 long-term care facilities. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Hendricks' financial position.

Risk Management

Hendricks is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident benefits. Except for health and dental benefits, commercial insurance coverage is purchased for claims arising from such matters and settled claims have not exceeded this commercial coverage in any of the three preceding years. Hendricks is self-insured for health and dental claims. Amounts are expensed as incurred and estimated accruals are made for incurred but not yet reported claims as of each balance sheet date.

Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, Hendricks has the option to purchase insurance for claims having occurred during its term but reported subsequently. The Indiana Medical Malpractice Act (the Act) provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) for professional liability, \$250,000 of which would be paid through Hendricks' malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. Changes to the Act have been made and will be effective for claims commencing July 1, 2017. The changes increase the maximum recovery to \$1,650,000 with the healthcare provider responsible for the first \$400,000.

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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

Reclassifications

Certain amounts from the 2015 consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications have no effect on previously reported net position or change in net position.

Subsequent Events

Hendricks evaluates events or transactions occurring subsequent to consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is May 24, 2017.

2. CHANGE IN ACCOUNTING PRINCIPLES

During 2016, Hendricks implemented Government Accounting Standards Board (GASB) Statement No. 72 *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. There was no impact to these consolidated financial statement disclosures as a result of adoption of this statement as these disclosures have been provided historically by Hendricks.

During 2016, Hendricks also implemented GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no impact to these consolidated financial statement disclosures as a result of adoption of this statement.

3. INVESTMENTS

Investments consist of cash and cash equivalents, certificates of deposit, mutual funds, U.S. Government obligations and fixed income obligations. Certificates of deposit are reported at contract value. Mutual funds and U.S. Government and fixed income obligations are reported at fair value. Investments balances as of December 31, 2016 and 2015 were approximately \$57,226,000 and \$52,991,000, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

4. ASSETS WHOSE USE IS LIMITED

Hendricks funds depreciation expense to meet the capital equipment needs of the facility. Depreciation is funded totally, with expenditures for capital equipment and debt principal payments reducing the funded depreciation balance. Hendricks designates other investments to fund specific projects. All interest earned by the funded depreciation and other board designated investments accounts are left to accumulate as an addition to the funds. Hendricks maintains funds which are held by trustee for debt service, capital improvements, and other purposes. The following represents assets whose use is limited as of December 31, 2016 and 2015:

	2016	2015
Assets whose use is limited		
Cash and cash equivalents	\$ 212,886	\$ 4,187,500
Certificates of deposit	302,113	300,000
Investments	228,182,217	177,040,031
	\$ 228,697,216	\$ 181,527,531

5. DEPOSITS AND INVESTMENTS

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

Investments are carried at fair market value except for certificates of deposits which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents, mutual funds and U.S. Government and fixed income obligations.

As of December 31, 2016 and 2015, Hendricks had the following investments and maturities, all of which were held in Hendricks' name by custodial banks that are agents of Hendricks:

	December 31, 2016				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 302,113	\$ 302,113	\$ -0-	\$ -0-	\$ -0-
Mutual funds	215,306,700	215,306,700	-0-	-0-	-0-
U.S. Government obligations	6,170,201	6,170,201	-0-	-0-	-0-
Fixed income obligations	7,600,000	-0-	-0-	-0-	7,600,000
	\$ 229,379,014	\$ 221,779,014	\$ -0-	\$ -0-	\$ 7,600,000

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

	December 31, 2015				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 300,000	\$ 300,000	\$ -0-	\$ -0-	\$ -0-
Mutual funds	166,657,032	166,657,032	-0-	-0-	-0-
U.S. Government obligations	6,133,281	6,133,281	-0-	-0-	-0-
Fixed income obligations	5,127,500	-0-	-0-	-0-	5,127,500
	<u>\$ 178,217,813</u>	<u>\$ 166,957,032</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 5,127,500</u>

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

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

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

Deposits and investments consist of the following as of December 31, 2016 and 2015:

	2016	2015
Carrying amount		
Deposits	\$ 65,700,559	\$ 62,605,101
Investments	229,379,014	178,217,813
	<u>\$ 295,079,573</u>	<u>\$ 240,822,914</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 9,156,309	\$ 6,304,607
Investments	57,226,048	52,990,776
Board designated funded depreciation investments	222,116,388	172,042,613
Held by trustee	6,074,663	8,979,257
Other board designated investments	506,165	505,661
	<u>\$ 295,079,573</u>	<u>\$ 240,822,914</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

6. FAIR VALUE MEASUREMENTS

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

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

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

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, 2016 and 2015:

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015 are as follows:

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - total return bond	\$ 878,633	\$ 878,633	\$ -0-	\$ -0-
U.S. Government obligations	16,051	-0-	16,051	-0-
	894,684	\$ 878,633	\$ 16,051	\$ -0-
Cash and cash equivalents	56,331,364			
	\$ 57,226,048			
Assets whose use is limited				
Mutual funds				
Foreign large growth	\$ 6,001,968	\$ 6,001,968	\$ -0-	\$ -0-
Foreign large value	6,236,030	6,236,030	-0-	-0-
Intermediate-term bond	113,250,063	113,250,063	-0-	-0-
Large blend	58,988,098	58,988,098	-0-	-0-
Large growth	12,842,477	12,842,477	-0-	-0-
Short-term bond	3,970,326	3,970,326	-0-	-0-
Small growth	6,423,161	6,423,161	-0-	-0-
Small value	6,715,944	6,715,944	-0-	-0-
Total mutual funds	214,428,067	214,428,067	-0-	-0-
U.S. Government obligations	6,154,150	-0-	6,154,150	-0-
Fixed income obligations	7,600,000	-0-	7,600,000	-0-
	228,182,217	\$ 214,428,067	\$ 13,754,150	\$ -0-
Cash and cash equivalents	212,886			
Certificates of deposit	302,113			
Total assets whose use is limited	\$ 228,697,216			

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - total return bond	\$ 877,782	\$ 877,782	\$ -0-	\$ -0-
Cash and cash equivalents	52,112,994			
	<u>\$ 52,990,776</u>			
Assets whose use is limited				
Mutual funds				
Foreign large growth	\$ 5,008,958	\$ 5,008,958	\$ -0-	\$ -0-
Intermediate-term bond	84,318,570	84,318,570	-0-	-0-
Large blend	41,891,550	41,891,550	-0-	-0-
Large growth	25,524,625	25,524,625	-0-	-0-
Short-term bond	3,897,263	3,897,263	-0-	-0-
Small growth	2,842,152	2,842,152	-0-	-0-
Small value	2,296,132	2,296,132	-0-	-0-
Total mutual funds	165,779,250	165,779,250	-0-	-0-
U.S. Government obligations	6,133,281	-0-	6,133,281	-0-
Fixed income obligations	5,127,500	-0-	5,127,500	-0-
	177,040,031	<u>\$ 165,779,250</u>	<u>\$ 11,260,781</u>	<u>\$ -0-</u>
Cash and cash equivalents	4,187,500			
Certificates of deposit	300,000			
Total assets whose use is limited	<u>\$ 181,527,531</u>			

Hendricks' policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2016 and 2015.

Realized gains and losses included in earnings are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment income. The market value of investments exceeded cost by approximately \$13,872,000 and \$8,674,000 as of December 31, 2016 and 2015, respectively. The gains and losses included in earnings for the years are attributable to the change in unrealized gains and losses relating to assets held as of December 31, 2016 and 2015 and are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment income.

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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

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

Long-term debt: Fair value of Hendricks' fixed rate revenue bonds is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2016, the carrying value of the fixed rate long-term debt was approximately \$114,872,000 with a fair value of approximately \$121,941,000.

7. CAPITAL ASSETS

Progressions for capital assets for 2016 and 2015 follow:

	December 31, 2015	Additions	Disposals	Transfers	December 31, 2016
Land	\$ 16,574,202	\$ 4,354,009	\$ -0-	\$ -0-	\$ 20,928,211
Land improvements	6,197,213	208,445	-0-	3,606,342	10,012,000
Buildings and fixed equipment	262,186,045	8,222,839	(1,828,754)	8,966,489	277,546,619
Major movable equipment	86,565,487	8,951,951	(606,311)	(7,631,782)	87,279,345
Construction in progress	658,195	17,113,651	-0-	(4,941,049)	12,830,797
Total capital assets	372,181,142	38,850,895	(2,435,065)	-0-	408,596,972
Less accumulated depreciation					
Land improvements	4,180,536	638,464	-0-	-0-	4,819,000
Buildings and fixed equipment	97,554,372	9,988,738	(1,826,154)	-0-	105,716,956
Major movable equipment	54,661,420	8,479,815	(593,669)	-0-	62,547,566
Total accumulated depreciation	156,396,328	19,107,017	(2,419,823)	-0-	173,083,522
Capital assets, net	<u>\$ 215,784,814</u>	<u>\$ 19,743,878</u>	<u>\$ (15,242)</u>	<u>\$ -0-</u>	<u>\$ 235,513,450</u>
	December 31, 2014	Additions	Disposals	Transfers	December 31, 2015
Land	\$ 16,407,702	\$ 166,500	\$ -0-	\$ -0-	\$ 16,574,202
Land improvements	6,185,675	11,538	-0-	-0-	6,197,213
Buildings and fixed equipment	253,106,765	9,382,331	(2,477,220)	2,174,169	262,186,045
Major movable equipment	76,974,775	15,946,598	(6,355,886)	-0-	86,565,487
Construction in progress	2,637,667	197,383	(2,686)	(2,174,169)	658,195
Total capital assets	355,312,584	25,704,350	(8,835,792)	-0-	372,181,142
Less accumulated depreciation					
Land improvements	3,862,065	318,471	-0-	-0-	4,180,536
Buildings and fixed equipment	90,719,348	9,259,815	(2,424,791)	-0-	97,554,372
Major movable equipment	54,635,231	6,180,075	(6,153,886)	-0-	54,661,420
Total accumulated depreciation	149,216,644	15,758,361	(8,578,677)	-0-	156,396,328
Capital assets, net	<u>\$ 206,095,940</u>	<u>\$ 9,945,989</u>	<u>\$ (257,115)</u>	<u>\$ -0-</u>	<u>\$ 215,784,814</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Significant outstanding commitments on capital assets as of December 31, 2016 were approximately \$36,000,000 mainly related to the new ambulatory care facility financed principally through long-term debt.

8. LONG-TERM DEBT

Hendricks issued Indiana Bond Bank Special Program Refunding Bonds, Series 2007A dated May 24, 2007 in the amount of \$44,915,000. The Series 2007A bonds mature serially on an annual basis starting in April 2013 through April 2030 at interest rates ranging from 5.00% to 5.25%. Interest is due semi-annually on April 1 and October 1.

Hendricks issued Indiana Bond Bank Special Program Bonds, Series 2009A dated March 12, 2009 in the amount of \$75,000,000. The Series 2009A bonds mature serially on a semi-annual basis (February 1 and August 1) through February 2029 at interest rates ranging from 4.0% to 5.5%.

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

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

The Agreement runs through the maturity date of the Series 2015A and 2015B Bonds which is October 2022. The 2015A Bonds bear interest at a fixed rate of 1.87% and Series 2015B Bonds bear interest at a fixed rate of 2.83%. The 2015A and 2015B Bonds have a draw down period through December 31, 2017 with scheduled principal payments beginning in January 2018 through October 2022. The Series 2015A and 2015B Bonds are secured by Hendricks' net revenues. Approximately \$12,699,000 had been drawn down on the Series 2015A and 2015B Bonds as of December 31, 2016.

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

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

During 2016, Hendricks entered into a line of credit agreement with Fifth Third with a maximum amount of \$24,000,000 to fund working capital. The amount outstanding as of December 31, 2016 and 2015 was \$24,000,000 and \$-0-, respectively. The line of credit bears interest at the floating 30 day LIBOR rate plus 125 basis points (2% at December 31, 2016) and is secured by Hendricks net revenues. The line of credit is renewable annually and was renewed during 2016 for another year through January 2018.

Subsequent to December 31, 2016, Hendricks was authorized to enter into an equipment lease financing with BMO Harris Bank for approximately \$15,000,000. This financing is expected to close during the second quarter of 2017 with term options, at Hendricks' discretion, of 3 to 5 years at interest rates commensurate with term options. The equipment will serve as collateral for the financing.

Included in deferred outflows as of December 31, 2016 and 2015 is a loss on bond refunding of approximately \$1,560,000 and \$1,678,000, respectively, related to the refunding of Series 2002 Bonds during 2007. Annual amortization of the loss is approximately \$118,000 through April 2030.

Progressions for long-term debt for 2016 and 2015 include the following:

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Principal	Interest	Total
2017	\$ 6,122,079	\$ 4,708,825	\$ 10,830,904
2018	11,418,327	4,470,556	15,888,883
2019	11,737,144	4,214,488	15,951,632
2020	7,799,065	3,919,300	11,718,365
2021	6,630,000	3,623,344	10,253,344
2022-2026	38,685,000	12,877,331	51,562,331
2027-2030	32,480,000	2,668,044	35,148,044
	<u>\$ 114,871,615</u>	<u>\$ 36,481,888</u>	<u>\$ 151,353,503</u>

The maturity schedule above includes principal payments of approximately \$12,699,000 on the draws made on the Series 2015A and 2015B Bonds through December 31, 2016. Subsequent draws are expected aggregating \$36,000,000 which under terms of the applicable agreements require ratable principal payments through 2022 not yet reflected above.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

9. NET PATIENT SERVICE REVENUE

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

Medicare

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

Medicaid and Hospital Assessment Fee Program

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

In 2012, Hospital Assessment Fee (HAF) Program was approved by Centers for Medicare & Medicaid Services (CMS). The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates.

During 2016 and 2015, Hendricks recognized HAF Program expense of approximately \$4,320,000 and \$3,107,000, respectively, which resulted in Medicaid rate increases. The HAF Program expense is included in operating expenses in the consolidated statements of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program are included in patient service revenue in the consolidated statements of revenues, expenses and changes in net position and amounted to approximately \$5,730,000 in 2016 and \$4,142,000 in 2015. The HAF Program is approved for extension through June 30, 2017.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

As a governmental entity, Hendricks is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. Hendricks recognized reimbursement from these programs within net patient service revenue of approximately \$3,090,000 and \$4,882,000 during 2016 and 2015, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

Other Payors

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

Patient service revenue for 2016 and 2015 consists of the following:

	2016	2015
Inpatient routine services	\$ 25,818,464	\$ 26,091,711
Inpatient ancillary services	122,511,687	110,209,506
Outpatient ancillary services	454,195,429	419,295,377
Long-term care services	273,418,605	254,659,059
Gross patient service revenue	875,944,185	810,255,653
Contractual allowances	314,425,342	292,482,558
Uninsured self pay discounts	3,811,833	4,504,336
Charity care	8,726,818	8,034,315
Provision for bad debts	25,669,861	16,929,696
Deductions from revenue	352,633,854	321,950,905
Net patient service revenue	\$ 523,310,331	\$ 488,304,748

Hendricks also participates in a Medicare Shared Savings program through an Accountable Care Organization with several other hospitals, and shares in savings related to the cost of care provided to Medicare beneficiaries. Hendricks share amounted to approximately \$700,000 in both 2016 and 2015 and is included in the consolidated statements of revenues, expenses and changes in net position.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

10. DEFINED BENEFIT PENSION PLAN

Plan Description

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

Benefits Provided

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

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

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

Funding Policy

The contribution requirements of Plan members are established by the written agreement between Hendricks Board of Trustees and the Plan Administrator. Plan members' contributions are not required by the Plan agreement. Hendricks is required to contribute at an actuarially determined rate. No contributions were required in 2016 and 2015 and Hendricks does not expect to be required to contribute to the Plan in 2017.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Employees Covered by Benefit Terms

As of December 31, 2016 and 2015, the following employees were covered by the benefit terms of the Plan:

	<u>2016</u>	<u>2015</u>
Active plan members, including terminated but vested participants	977	1,091
Inactive plan members and beneficiaries receiving benefits	293	265
Inactive plan members entitled to but not yet receiving benefits	341	769
	<u>1,611</u>	<u>2,125</u>

Contributions

The annual required contributions for 2016 and 2015 and estimated liabilities as of January 1, 2016 and 2015 were determined as part of the actuarial valuations using the Entry Age Normal cost method.

Net Pension Liability

The total pension liability was measured as of December 31, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 and 2015.

Actuarial assumptions

The total pension liability in the December 31, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.5%- 6.0%
Investment rate of return	7.25%

Mortality rates were changed during 2016 from the RP-2015 Sex Distinct Mortality Table with generational improvements beginning in 2006 based on the Social Security Administration's assumptions to RP-2014 Sex Distinct Mortality with generational improvements based on the Social Security Administration's assumptions. This change resulted in a decrease in the liability and normal cost.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

The actuarial value of assets was based on market value of assets. The same actuarial assumptions were used to determine the actuarial value required contributions for 2016 and 2015.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.25 and 7.50% for 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumed that Hendricks' contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension (Asset) Liability

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension (asset) liability	\$ 430,688	\$ (7,071,709)	\$ (13,695,455)

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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

Changes in the Net Pension (Asset) Liability

The changes in the net pension (asset) liability during 2016 and 2015 were as follows:

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balance, 12/31/2014	\$ 51,456,381	\$ 66,075,659	\$ (14,619,278)
Service cost	466,554	-0-	466,554
Interest	3,737,349	-0-	3,737,349
Differences between expected and actual experience	659,468	-0-	659,468
Changes of assumptions	1,893,100	-0-	1,893,100
Benefit payments	(4,183,243)	(4,183,243)	-0-
Net investment income	-0-	203,831	(203,831)
Administrative expenses	-0-	(229,428)	229,428
Other	-0-	8,498	(8,498)
Net change	<u>2,573,228</u>	<u>(4,200,342)</u>	<u>6,773,570</u>
Balance, 12/31/2015	<u>\$ 54,029,609</u>	<u>\$ 61,875,317</u>	<u>\$ (7,845,708)</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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

For 2016 and 2015, Hendricks recognized pension expense of approximately \$1,666,000 and \$970,000, respectively. As of December 31, 2016 and 2015, Hendricks reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, December 31, 2015	\$ 5,789,436	\$ (41,042)
Differences between expected and actual experience	-0-	(1,146,174)
Amortization of expected versus actual	(109,911)	191,029
Changes in assumptions	1,389,220	-0-
Amortization of changes in assumptions	(547,054)	-0-
Differences between projected and actual earnings on plan investments	291,503	-0-
Amortization of projected versus actual earnings on plan investments	(973,875)	13,680
Balance, December 31, 2016	5,839,319	\$ (982,507)
Deferred outflows - loss on bond refunding	1,559,986	
Total deferred outflows, December 31, 2016	\$ 7,399,305	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, December 31, 2014	\$ -0-	\$ (54,722)
Differences between expected and actual experience	659,468	-0-
Amortization of expected versus actual	(109,911)	-0-
Changes in assumptions	1,893,100	-0-
Amortization of changes in assumptions	(315,517)	-0-
Differences between projected and actual earnings on plan investments	4,577,870	-0-
Amortization of projected versus actual earnings on plan investments	(915,574)	13,680
Balance, December 31, 2015	5,789,436	\$ (41,042)
Deferred outflows - loss on bond refunding	1,677,722	
Total deferred outflows, December 31, 2015	\$ 7,467,158	

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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

Year Ending December 31,	
2017	\$ 1,426,131
2018	1,426,129
2019	1,439,811
2020	524,235
2021	40,506
	<u>\$ 4,856,812</u>

11. TAX DEFERRED ANNUITY PLAN AND OTHER BENEFIT PLANS

Plan Description

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

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

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Board of Trustees and the Plan Administrator. Plan members may elect to contribute to the plan. Hendricks will contribute to each plan members' elective deferrals a matching amount up to a maximum percentage of each participant's annual compensation, to be determined at the discretion of the Board of Trustees. In 2016 and 2015, the discretionary match was 50% of the plan member's deferral up to 10% of the eligible compensation. The discretionary employer contribution was 2% of eligible compensation for 2016 and 2015.

Hendricks' contributions to the plans for 2016 and 2015 were approximately \$3,738,000 and \$4,073,000, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

12. RENTAL EXPENSE

Hendricks has leases expiring at various times through 2019. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total rent expense, including cancelable and non-cancelable leases, for 2016 and 2015 was approximately \$3,075,000 and \$3,192,000, respectively.

Minimum future payments on non-cancelable leases for the years following December 31, 2016 are:

Year Ending December 31,	
2017	\$ 154,938
2018	58,054
2019	8,270
	<u>\$ 221,262</u>

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$33,624,000 and \$29,961,000 for 2016 and 2015, respectively. Annual rent expense through 2019 is scheduled to approximate \$30,000,000 under these leases.

13. CONCENTRATION OF CREDIT RISK

Hendricks corporate office and its hospital facilities are located in Danville, Indiana. Other outpatient, ambulatory care and physician services are located in Avon, Plainfield, Lizton, Bainbridge, Greencastle and Brownsburg, Indiana. Hendricks grants credit without collateral to its patients, most of who are residents of the County and are insured under third-party payor agreements. The mix of receivables and revenue from patients and third-party payors as of December 31, 2016 and 2015 was as follows:

	Receivables		Revenues	
	2016	2015	2016	2015
Medicare	28%	24%	43%	43%
Medicaid	13%	12%	10%	7%
Anthem/Blue Cross	11%	13%	23%	25%
Commercial and other	21%	21%	20%	21%
Self-Pay	27%	30%	4%	4%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Under the long-term care leases, Hendricks recorded expenses related to purchased services from the Managers of the facilities of approximately \$138,659,000 and \$133,143,000 during 2016 and 2015, respectively. Amounts due to the Managers included in current liabilities as of December 31, 2016 and 2015 approximated \$50,879,000 and \$51,242,000, respectively.

14. BLENDED COMPONENT UNITS

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

	2016		
	Foundation	HAMCO	Total
Balance sheet			
Assets			
Current assets	\$ 1,187,180	\$ 2,536,790	\$ 3,723,970
Capital assets	-0-	679,358	679,358
Total assets	<u>\$ 1,187,180</u>	<u>\$ 3,216,148</u>	<u>\$ 4,403,328</u>
Liabilities			
Other current liabilities	\$ 113,508	\$ 693,199	\$ 806,707
Total liabilities	113,508	693,199	806,707
Net position			
Net investment in capital assets	-0-	679,358	679,358
Unrestricted	1,073,672	1,843,591	2,917,263
Total net position	<u>1,073,672</u>	<u>2,522,949</u>	<u>3,596,621</u>
Total liabilities and net position	<u>\$ 1,187,180</u>	<u>\$ 3,216,148</u>	<u>\$ 4,403,328</u>
Statement of Revenues and Expenses and Changes in Net Position			
Revenues			
Net patient service revenue	\$ -0-	\$ 4,195,533	\$ 4,195,533
Total revenues	-0-	4,195,533	4,195,533
Expenses			
Depreciation	-0-	269,768	269,768
Other expenses	344,344	2,241,474	2,585,818
Total expenses	<u>344,344</u>	<u>2,511,242</u>	<u>2,855,586</u>
Operating income (loss)	(344,344)	1,684,291	1,339,947
Nonoperating revenues (expenses)	533,050	17,834	550,884
Excess revenues over expenses	188,706	1,702,125	1,890,831
Dividends	-0-	(1,701,600)	(1,701,600)
Change in net position	188,706	525	189,231
Net position, beginning of year	884,966	2,522,424	3,407,390
Net position, end of year	<u>\$ 1,073,672</u>	<u>\$ 2,522,949</u>	<u>\$ 3,596,621</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

	2016		
	Foundation	HAMCO	Total
Statement of cash flows			
Cash provided by (used in)			
Operating activities	\$ 298,598	\$ (114,391)	\$ 184,207
Capital and related financing activities	-0-	(16,523)	(16,523)
Investing activities	-0-	932	932
	298,598	(129,982)	168,616
Cash and cash equivalents, beginning of year	830,660	602,267	1,432,927
Cash and cash equivalents, end of year	\$ 1,129,258	\$ 472,285	\$ 1,601,543

Condensed component unit information for all of its blended as of and for the year ended December 31, 2015 is as follows:

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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

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

15. SELF INSURANCE

Hendricks is self-insured for employee health claims. A third party administrator processes the claims for Hendricks who maintains an estimated liability for the amount of claims incurred but not reported. Hendricks also maintains reinsurance including a stop loss for individual employees over \$300,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$14,363,000 and \$15,724,000 for 2016 and 2015, respectively.

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

	2016	2015
Unpaid claims, beginning of year	\$ 3,049,225	\$ 1,087,127
Incurred claims and changes in estimates	14,362,922	15,723,843
Claim payments	(15,149,085)	(13,761,745)
Unpaid claims, end of year	\$ 2,263,062	\$ 3,049,225

As of December 31, 2016 and 2015, Hendricks had \$-0- of reinsurance recovery receivables for stop loss claims netted against the unpaid claims liability.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

16. RESTRICTED NON-EXPENDABLE NET POSITION

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

	2016	2015
Non-controlling interests	\$ 1,261,475	\$ 1,261,212

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

	Controlling Interest	Non-controlling Interest	Total
Net position, December 31, 2014	\$ 1,360,994	\$ 1,161,210	\$ 2,522,204
Operating income	824,555	824,555	1,649,110
Nonoperating income	10,755	10,755	21,510
Purchase (sale) of stock	(99,892)	99,892	-0-
Dividends	(835,200)	(835,200)	(1,670,400)
Change in net position	(99,782)	100,002	220
Net position, December 31, 2015	1,261,212	1,261,212	2,522,424
Operating income	842,145	842,146	1,684,291
Nonoperating income	8,917	8,917	17,834
Dividends	(850,800)	(850,800)	(1,701,600)
Change in net position	262	263	525
Net position, December 31, 2016	\$ 1,261,474	\$ 1,261,475	\$ 2,522,949

REQUIRED SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2016

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

	2016	2015	2014
Total pension liability			
Service cost	\$ 405,170	\$ 466,554	\$ 452,071
Interest	3,994,066	3,737,349	3,636,062
Change of benefit terms	246,372	-0-	-0-
Differences between expected and actual experience	(1,146,174)	659,468	-0-
Changes of assumptions	1,389,220	1,893,100	-0-
Benefit payments	(2,361,119)	(4,183,243)	(1,321,007)
Net change in pension liability	2,527,535	2,573,228	2,767,126
Total pension liability - beginning	54,029,609	51,456,381	48,689,255
Total pension liability - ending (a)	\$ 56,557,144	\$ 54,029,609	\$ 51,456,381
Plan fiduciary net position			
Benefit payments	\$ (2,361,119)	\$ (4,183,243)	\$ (1,321,007)
Net investment income	4,239,435	203,831	4,722,125
Administrative expenses	(140,674)	(229,428)	(71,215)
Other	15,894	8,498	-0-
Net change in plan fiduciary net position	1,753,536	(4,200,342)	3,329,903
Plan fiduciary net position - beginning	61,875,317	66,075,659	62,745,756
Plan fiduciary net position - ending (b)	\$ 63,628,853	\$ 61,875,317	\$ 66,075,659
Net pension (asset) liability (a) - (b)	\$ (7,071,709)	\$ (7,845,708)	\$ (14,619,278)
Plan fiduciary net position as a % of total pension liability	112.50%	114.52%	128.41%
Covered employee payroll	\$ 16,057,360	\$ 16,766,172	\$ 17,051,344
Net pension liability as a % of covered employee payroll	-44.04%	-46.79%	-85.74%

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

See report of independent auditors on pages 1 through 3.

HENDRICKS REGIONAL HEALTH

REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016

SCHEDULE OF CONTRIBUTIONS

	Actuarially Determined Contribution	Employer Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as % of Covered Employee Payroll
12/31/2016	\$ -0-	\$ -0-	\$ -0-	\$ 16,057,360	0.00%
12/31/2015	\$ -0-	\$ -0-	\$ -0-	\$ 16,766,172	0.00%
12/31/2014	\$ -0-	\$ -0-	\$ -0-	\$ 17,051,344	0.00%
12/31/2013	\$ -0-	\$ -0-	\$ -0-	\$ 17,062,098	0.00%
12/31/2012	\$ 1,862,492	\$ -0-	\$ 1,862,492	\$ 76,121,054	0.00%
12/31/2011	\$ 1,613,170	\$ 750,000	\$ 863,170	\$ 74,645,517	1.00%
12/31/2010	\$ 1,737,544	\$ 3,165,000	\$ (1,427,456)	\$ 72,800,013	4.35%
12/31/2009	\$ 2,235,559	\$ 3,000,000	\$ (764,441)	\$ 67,826,899	4.42%
12/31/2008	\$ 2,194,715	\$ 2,284,964	\$ (90,249)	\$ 64,044,390	3.57%
12/31/2007	\$ 1,824,368	\$ 1,681,875	\$ 142,493	\$ 57,069,326	2.95%

Notes to Schedule

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	15 year level dollar
Remaining amortization period	15 year period
Asset valuation method	Market value of assets
Salary increases	Ranging from 3.5% to 6.0%
Investment rate of return	7.25%
Retirement age	65 and 5 years of participation
Mortality	RP-2014 Sex Distinct Mortality with generational improvements beginning in 2006 based on the Social Security Administration's assumptions included in the 2016 Trustee's Report

SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2016

Assets and deferred outflows	Hendricks	Foundation	HAMCO	Eliminations	Consolidated
Current assets					
Cash and cash equivalents	\$ 7,554,766	\$ 1,129,258	\$ 472,285	\$ -0-	\$ 9,156,309
Investments	56,331,363	-0-	894,685	-0-	57,226,048
Patient accounts receivable, net	52,978,573	10,000	-0-	-0-	52,988,573
Inventories	2,159,737	-0-	363,752	-0-	2,523,489
Other current assets	26,353,448	47,922	806,068	(81,598)	27,125,840
Current portion of assets whose use is limited	6,122,079	-0-	-0-	-0-	6,122,079
Total current assets	151,499,966	1,187,180	2,536,790	(81,598)	155,142,338
Assets whose use is limited					
Board designated funded depreciation investments	222,116,388	-0-	-0-	-0-	222,116,388
Held by trustee for debt service	6,074,663	-0-	-0-	-0-	6,074,663
Other board designated investments	506,165	-0-	-0-	-0-	506,165
Total assets whose use is limited	228,697,216	-0-	-0-	-0-	228,697,216
Less current portion	6,122,079	-0-	-0-	-0-	6,122,079
Noncurrent assets whose use is limited	222,575,137	-0-	-0-	-0-	222,575,137
Capital assets					
Land	20,928,211	-0-	-0-	-0-	20,928,211
Depreciable capital assets	372,154,355	-0-	3,747,462	(1,063,853)	374,837,964
Construction in progress	12,830,797	-0-	-0-	-0-	12,830,797
	405,913,363	-0-	3,747,462	(1,063,853)	408,596,972
Less accumulated depreciation	171,079,271	-0-	3,068,104	(1,063,853)	173,083,522
Capital assets, net	234,834,092	-0-	679,358	-0-	235,513,450
Other assets					
Pension asset	7,071,709	-0-	-0-	-0-	7,071,709
Other	1,914,418	-0-	-0-	(1,261,474)	652,944
Total other assets	8,986,127	-0-	-0-	(1,261,474)	7,724,653
Total assets	617,895,322	1,187,180	3,216,148	(1,343,072)	620,955,578
Deferred outflows	7,399,305	-0-	-0-	-0-	7,399,305
Total assets and deferred outflows	\$ 625,294,627	\$ 1,187,180	\$ 3,216,148	\$ (1,343,072)	\$ 628,354,883

See report of independent auditors on pages 1 through 3.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2016

Liabilities and net position	Hendricks	Foundation	HAMCO	Eliminations	Consolidated
Current liabilities					
Current portion of long-term debt	\$ 6,122,079	\$ -0-	\$ -0-	\$ -0-	\$ 6,122,079
Line of credit	24,000,000	-0-	-0-	-0-	24,000,000
Accounts payable	13,885,258	113,508	692,586	(81,598)	14,609,754
Accrued salaries and related liabilities	10,936,758	-0-	49	-0-	10,936,807
Accrued expenses and other current liabilities	55,121,416	-0-	564	-0-	55,121,980
Accrued interest	1,663,608	-0-	-0-	-0-	1,663,608
Estimated third-party settlements	1,446,386	-0-	-0-	-0-	1,446,386
Total current liabilities	113,175,505	113,508	693,199	(81,598)	113,900,614
Long-term debt, net of current portion	111,863,462	-0-	-0-	-0-	111,863,462
Total liabilities	225,038,967	113,508	693,199	(81,598)	225,764,076
Deferred inflows	982,507	-0-	-0-	-0-	982,507
Total liabilities and deferred inflows	226,021,474	113,508	693,199	(81,598)	226,746,583
Net position					
Net investment in capital assets	116,848,551	-0-	679,358	-0-	117,527,909
Restricted					
Debt service	6,074,663	-0-	-0-	-0-	6,074,663
Non-expendable	-0-	-0-	-0-	1,261,475	1,261,475
Total restricted	6,074,663	-0-	-0-	1,261,475	7,336,138
Unrestricted	276,349,939	1,073,672	1,843,591	(2,522,949)	276,744,253
Total net position	399,273,153	1,073,672	2,522,949	(1,261,474)	401,608,300
Total liabilities and net position	\$ 625,294,627	\$ 1,187,180	\$ 3,216,148	\$ (1,343,072)	\$ 628,354,883

See report of independent auditors on pages 1 through 3.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2016

	Hendricks	Foundation	HAMCO	Eliminations	Consolidated
Operating revenue					
Net patient service revenue	\$ 523,310,331	\$ -0-	\$ 4,195,533	\$ (4,195,533)	523,310,331
Other revenue	7,250,114	-0-	-0-	-0-	7,250,114
Total operating revenue	530,560,445	-0-	4,195,533	(4,195,533)	530,560,445
Operating expenses					
Salaries and wages	102,226,120	-0-	39,081	-0-	102,265,201
Employee benefits	28,621,010	-0-	3,051	-0-	28,624,061
Professional medical fees	1,585,052	-0-	-0-	-0-	1,585,052
Other professional fees	32,438,636	-0-	-0-	(4,195,533)	28,243,103
Medical and surgical supplies	28,707,694	-0-	1,375,528	-0-	30,083,222
Drugs and intravenous solutions	11,490,992	-0-	179,142	-0-	11,670,134
Food	6,700,692	-0-	-0-	-0-	6,700,692
Purchased services	157,089,737	-0-	315,644	-0-	157,405,381
Equipment rental	2,932,136	-0-	142,723	-0-	3,074,859
Hospital Assessment Fee	4,320,405	-0-	-0-	-0-	4,320,405
Telephone and utilities	10,065,987	-0-	-0-	-0-	10,065,987
Depreciation and amortization	18,837,249	-0-	269,768	-0-	19,107,017
Insurance	4,795,336	-0-	8,750	-0-	4,804,086
Facility and equipment leases	33,624,172	-0-	-0-	-0-	33,624,172
Other supplies and expenses	51,446,805	344,344	177,555	-0-	51,968,704
Total operating expenses	494,882,023	344,344	2,511,242	(4,195,533)	493,542,076
Operating income (loss)	35,678,422	(344,344)	1,684,291	-0-	37,018,369
Nonoperating income (expense)					
Investment income (loss) and other	12,657,571	533,050	17,834	(851,062)	12,357,393
Interest expense	(5,116,398)	-0-	-0-	-0-	(5,116,398)
Total non operating income (expense), net	7,541,173	533,050	17,834	(851,062)	7,240,995
Change in net position before other items	43,219,595	188,706	1,702,125	(851,062)	44,259,364
Other items					
Contributions	-0-	-0-	-0-	-0-	-0-
Dividends	-0-	-0-	(1,701,600)	850,800	(850,800)
Change in net position	43,219,595	188,706	525	(262)	43,408,564
Net position					
Beginning of year	356,053,558	884,966	2,522,424	(1,261,212)	358,199,736
End of year	\$ 399,273,153	\$ 1,073,672	\$ 2,522,949	\$ (1,261,474)	\$ 401,608,300

See report of independent auditors on pages 1 through 3.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2015

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

See report of independent auditors on pages 1 through 3.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2015

Liabilities, deferred inflows and net position	Hendricks	Foundation	HAMCO	Eliminations	Consolidated
Current liabilities					
Current portion of long-term debt	\$ 5,229,192	\$ -0-	\$ -0-	\$ -0-	\$ 5,229,192
Accounts payable	17,186,397	8,233	656,228	(232,200)	17,618,658
Accrued salaries and related liabilities	9,008,222	-0-	(10)	-0-	9,008,212
Accrued expenses and other current liabilities	52,028,757	-0-	143	-0-	52,028,900
Accrued interest	1,752,912	-0-	-0-	-0-	1,752,912
Estimated third-party settlements	949,937	-0-	-0-	-0-	949,937
Total current liabilities	<u>86,155,417</u>	<u>8,233</u>	<u>656,361</u>	<u>(232,200)</u>	<u>86,587,811</u>
Long-term debt, net of current portion	<u>102,923,349</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>102,923,349</u>
Total liabilities	<u>189,078,766</u>	<u>8,233</u>	<u>656,361</u>	<u>(232,200)</u>	<u>189,511,160</u>
Deferred inflows	<u>41,042</u>				<u>41,042</u>
Total liabilities and deferred inflows	<u>189,119,808</u>	<u>8,233</u>	<u>656,361</u>	<u>(232,200)</u>	<u>189,552,202</u>
Net position					
Net investment in capital assets	106,699,670	-0-	932,603	-0-	107,632,273
Restricted					
For debt service	8,979,257	-0-	-0-	-0-	8,979,257
Non-expendable	-0-	-0-	-0-	1,261,212	1,261,212
Total restricted	<u>8,979,257</u>	<u>-0-</u>	<u>-0-</u>	<u>1,261,212</u>	<u>10,240,469</u>
Unrestricted	<u>240,374,631</u>	<u>884,966</u>	<u>1,589,821</u>	<u>(2,522,424)</u>	<u>240,326,994</u>
Total net position	<u>356,053,558</u>	<u>884,966</u>	<u>2,522,424</u>	<u>(1,261,212)</u>	<u>358,199,736</u>
Total liabilities, deferred inflows and net position	<u>\$ 545,173,366</u>	<u>\$ 893,199</u>	<u>\$ 3,178,785</u>	<u>\$ (1,493,412)</u>	<u>\$ 547,751,938</u>

See report of independent auditors on pages 1 through 3.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2015

	Hendricks	Foundation	HAMCO	Eliminations	Consolidated
Operating revenue					
Net patient service revenue	\$ 488,304,748	\$ -0-	\$ 4,136,589	\$ (4,136,589)	488,304,748
Other revenue	6,571,883	-0-	-0-	-0-	6,571,883
Total operating revenue	494,876,631	-0-	4,136,589	(4,136,589)	494,876,631
Operating expenses					
Salaries and wages	93,570,159	-0-	36,091	-0-	93,606,250
Employee benefits	28,540,466	-0-	3,501	-0-	28,543,967
Professional medical fees	1,713,680	-0-	-0-	-0-	1,713,680
Other professional fees	29,104,826	-0-	-0-	(4,136,589)	24,968,237
Medical and surgical supplies	26,930,030	-0-	1,300,687	-0-	28,230,717
Drugs and intravenous solutions	11,234,430	-0-	191,451	-0-	11,425,881
Food	6,414,693	-0-	-0-	-0-	6,414,693
Purchased services	148,673,264	-0-	395,488	-0-	149,068,752
Equipment rental	3,184,565	-0-	7,906	-0-	3,192,471
Hospital Assessment Fee	3,106,589	-0-	-0-	-0-	3,106,589
Telephone and utilities	8,943,035	-0-	-0-	-0-	8,943,035
Depreciation and amortization	15,585,870	-0-	321,336	-0-	15,907,206
Insurance	6,428,715	-0-	8,750	-0-	6,437,465
Facility and equipment leases	29,960,580	-0-	-0-	-0-	29,960,580
Other supplies and expenses	41,976,481	579,221	222,269	(245,404)	42,532,567
Total operating expenses	455,367,383	579,221	2,487,479	(4,381,993)	454,052,090
Operating income (loss)	39,509,248	(579,221)	1,649,110	245,404	40,824,541
Nonoperating income (expense)					
Investment income (loss) and other	2,022,746	629,432	21,510	(1,080,714)	1,592,974
Interest expense	(5,125,952)	-0-	-0-	-0-	(5,125,952)
Total non operating income (expense), net	(3,103,206)	629,432	21,510	(1,080,714)	(3,532,978)
Change in net position before other items	36,406,042	50,211	1,670,620	(835,310)	37,291,563
Other items					
Contributions	-0-	-0-	-0-	99,892	99,892
Dividends	-0-	-0-	(1,670,400)	835,200	(835,200)
Change in net position	36,406,042	50,211	220	99,782	36,556,255
Net position					
Beginning of year	319,647,516	834,755	2,522,204	(1,360,994)	321,643,481
End of year	\$ 356,053,558	\$ 884,966	\$ 2,522,424	\$ (1,261,212)	\$ 358,199,736

See report of independent auditors on pages 1 through 3.