



**Hendricks**  
Regional Health

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2014 AND 2013**

CPAs / ADVISORS



# HENDRICKS REGIONAL HEALTH

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Hendricks Regional Health  
Danville, Indiana

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hendricks Regional Health (Hendricks) which comprise the consolidated balance sheets as of December 31, 2014 and 2013 and the related consolidated statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### Auditor's Responsibility

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

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

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

Board of Trustees  
Hendricks Regional Health  
Danville, Indiana

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hendricks as of December 31, 2014 and 2013, and the results of its operations, changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic 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, changes in net position and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**Blue & Co., LLC**

Indianapolis, Indiana  
April 27, 2015

**REQUIRED SUPPLEMENTARY INFORMATION**

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# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

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This section of Hendricks Regional Health's (Hendricks) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of Hendricks' consolidated financial performance during the year ended December 31, 2014. This MD&A does include a discussion and analysis of the activities and results of the Blended Component Units, Hendricks Regional Health Foundation, Inc. and Hendricks Ambulatory Management Company, LLC. Please read it in conjunction with Hendricks' consolidated financial statements that follow this MD&A.

### Financial Highlights

- Hendricks' net position increased approximately \$33,441,000 or 12% in 2014.
- Hendricks reported operating income of approximately \$31,522,000 for 2014, representing a decrease of approximately \$6,880,000 in comparison to the year 2013 results.
- Hendricks continued its expansion of facilities and equipment in 2014 by adding approximately \$16,932,000 in gross property and equipment. Hendricks disposed of capital assets with a net book value of approximately \$22,000 during 2014. These items combined with depreciation expense of approximately \$14,583,000 resulted in net capital assets increasing approximately \$2,327,000 from the prior year.
- Hendricks' assets whose use is limited increased approximately \$27,924,000 as a result of operating income and investment returns.
- During 2014 and 2013, Hendricks recognized approximately \$198,906,000 and \$162,012,000, respectively, of gross patient service revenue related to long-term care.

### Using This Annual Report

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

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

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

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.

# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

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

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

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

#### Table 1: Consolidated Balance Sheets

The significant change in Hendricks' assets and deferred outflows was in assets whose use is limited which increased approximately \$27,924,000 in 2014 compared to 2013. The total asset and deferred outflows increase of approximately \$29,550,000 in 2014 was 6.6% from 2013.

Capital assets, prior to depreciation, increased approximately \$7,449,000 while accumulated depreciation increased approximately \$5,123,000 for a net increase in capital assets of approximately \$2,326,000 in 2014.

Current liabilities increased by approximately \$1,025,000 mainly related to an increase in accrued expenses and other current liabilities of approximately \$4,542,000 for 2014 offset by decreases in accounts payable and accrued salaries and related liabilities.

Net position increased by approximately \$33,441,000 in 2014 compared to 2013. The increase relates to operating income and investment return.

## HENDRICKS REGIONAL HEALTH

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

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

	2014	2013	Change 2014 - 2013	2012
<b>Assets</b>				
Current assets	\$ 107,964,350	\$ 108,749,396	\$ (785,046)	\$ 73,805,598
Capital assets, net	206,095,940	203,769,763	2,326,177	204,298,812
Assets whose use is limited	159,430,416	131,506,649	27,923,767	117,142,916
Other assets	873,949	671,371	202,578	865,582
Total assets	474,364,655	444,697,179	29,667,476	396,112,908
<b>Deferred outflows</b>	1,795,457	1,913,192	(117,735)	2,030,927
Total assets and deferred outflows	<u>\$ 476,160,112</u>	<u>\$ 446,610,371</u>	<u>\$ 29,549,741</u>	<u>\$ 398,143,835</u>
<b>Liabilities</b>				
Current liabilities	\$ 63,513,481	\$ 62,488,637	\$ 1,024,844	\$ 46,914,511
Long-term debt	106,562,019	111,478,565	(4,916,546)	116,210,112
Total liabilities	170,075,500	173,967,202	(3,891,702)	163,124,623
<b>Net position</b>				
Net investment in capital assets	96,649,378	89,709,390	6,939,988	85,834,627
Restricted	10,260,544	10,258,670	1,874	10,443,096
Unrestricted	199,174,690	172,675,109	26,499,581	138,741,489
Total net position	306,084,612	272,643,169	33,441,443	235,019,212
Total liabilities and net position	<u>\$ 476,160,112</u>	<u>\$ 446,610,371</u>	<u>\$ 29,549,741</u>	<u>\$ 398,143,835</u>

Total assets and deferred outflows in 2013 compared to 2012 increased approximately \$48,467,000. The majority of the change was in current assets and assets whose use is limited whose combined increase was approximately \$49,308,000 in 2013 from 2012. Net capital assets and other assets decreased approximately a combined \$723,000 to offset the increase in current assets and assets whose use is limited for 2013. Net capital assets decreased in 2013 as depreciation expense outpaced property additions.

Total liabilities in 2013 increased approximately \$10,843,000 mainly related to accounts payable and accrued liabilities related to long-term care. There were no significant changes in long-term debt during 2013 other than scheduled principal payments.

The net position in 2013 increased approximately \$37,624,000 over 2012 based on operating income.

#### Table 2: Consolidated Statements of Revenues and Expenses

Hendricks' performance in 2014 was favorable with a return on equity of 10.9% compared to prior year's 13.8%.

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



## HENDRICKS REGIONAL HEALTH

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

Expenses increased by approximately \$53,806,000 between 2013 and 2014. Salaries, wages and benefits increased approximately \$324,000 while medical supplies and drugs increased approximately \$5,197,000 in 2014. Long-term care services contributed to the majority of the 2014 increase related to purchased services of approximately \$24,114,000, facility and equipment leases of approximately \$5,210,000 and other supplies and expenses of approximately \$6,299,000.

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

	2014	2013	Change 2013 - 2012	2012
<b>Operating revenue</b>				
Net patient service revenue	\$ 457,237,544	\$ 407,880,347	\$ 49,357,197	\$ 273,950,431
Other operating revenue	6,361,995	8,792,712	(2,430,717)	6,257,915
Total operating revenue	<u>463,599,539</u>	<u>416,673,059</u>	<u>46,926,480</u>	<u>280,208,346</u>
<b>Operating expenses</b>				
Salaries and benefits	109,562,261	109,238,561	323,700	104,707,582
Medical supplies and drugs	35,769,642	30,572,425	5,197,217	24,517,219
Depreciation and amortization	14,623,198	13,516,113	1,107,085	13,200,689
Other operating expenses	272,122,756	224,944,456	47,178,300	110,542,329
Total operating expenses	<u>432,077,857</u>	<u>378,271,555</u>	<u>53,806,302</u>	<u>252,967,819</u>
Operating income	31,521,682	38,401,504	(6,879,822)	27,240,527
<b>Nonoperating income (expense)</b>				
Investment income	7,854,345	5,559,776	2,294,569	7,166,880
Interest expense	(5,350,629)	(5,572,129)	221,500	(5,776,233)
Total nonoperating income (expense), net	<u>2,503,716</u>	<u>(12,353)</u>	<u>2,516,069</u>	<u>1,390,647</u>
Change in net position before other items	34,025,398	38,389,151	(4,363,753)	28,631,174
<b>Other items</b>				
Contributions from non-controlling interest	-0-	29,696	(29,696)	59,584
Dividends to non-controlling interest	(583,955)	(794,890)	210,935	(622,669)
<b>Change in net position</b>	<u>\$ 33,441,443</u>	<u>\$ 37,623,957</u>	<u>\$ (4,182,514)</u>	<u>\$ 28,068,089</u>

Total operating revenue increased approximately \$136,465,000 as net patient service revenue increased approximately \$133,930,000 in 2013 over 2012. Long-term care services constituted the majority of the increase in 2013.

Expenses increased by approximately \$125,304,000 between 2012 and 2013. Salaries, wages and benefits increased approximately \$4,531,000 while medical supplies and drugs increased approximately \$6,055,000 in 2013. Long-term care services contributed to the majority of the 2013 increase related to purchased services, facility and equipment leases and other supplies and expenses which increased in total by approximately \$114,402,000 in 2013.

Nonoperating income (expense) decreased by approximately \$1,403,000 due to investment income of approximately \$5,560,000 in 2013 compared to \$7,167,000 in 2012 and interest expense decreasing approximately \$204,000 from 2012.

# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

### Consolidated Statements of Changes in Net Position

Hendricks' net position increased approximately \$33,441,000 in 2014, \$37,624,000 in 2013 and \$28,068,000 in 2012 including contributions and distributions for non-controlling interest. The following is a net position progression:

	2014	2013	2012
Net position, beginning of year	\$ 272,643,169	\$ 235,019,212	\$ 206,951,123
Change in net position	33,441,443	37,623,957	28,068,089
Net position, end of year	<u>\$ 306,084,612</u>	<u>\$ 272,643,169</u>	<u>\$ 235,019,212</u>

### Consolidated Statements of Cash Flows

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

Total cash and cash equivalents increased approximately \$3,292,000 in 2014. This was a decrease of approximately \$20,820,000 from 2013. Operating activities generated cash and cash equivalents of approximately \$50,377,000 during 2014, a decrease of approximately \$9,204,000 from 2013. Capital and related financing decreased cash and cash equivalents by approximately \$26,530,000 during 2014, approximately \$3,301,000 more than 2013, mainly as the result of expenditures for property and equipment additions. Investing activities decreased cash and cash equivalents by approximately \$20,555,000 in 2014, approximately \$8,315,000 more than 2013, due to investment activity and the purchase of investments with available cash equivalents.

	2014	2013	Change 2014 - 2013	2012
<b>Cash flow from activities</b>				
Operating	\$ 50,376,590	\$ 59,580,817	\$ (9,204,227)	\$ 33,032,338
Capital and related financing	(26,529,919)	(23,229,128)	(3,300,791)	(19,406,961)
Investing	(20,555,120)	(12,240,126)	(8,314,994)	(14,473,620)
Change in cash and cash equivalents	<u>\$ 3,291,551</u>	<u>\$ 24,111,563</u>	<u>\$ (20,820,012)</u>	<u>\$ (848,243)</u>

Cash flows from operating activities in 2013 were approximately \$26,548,000 higher than 2012. Cash flows from capital and related financing activities in 2013 were approximately \$3,822,000 more than 2012. Finally, cash flows from investing activities in 2013 were approximately \$2,233,000 more than 2012. Cash and cash equivalents in total increased approximately \$24,112,000 in 2013 while decreasing in total by approximately \$848,000 in 2012.

# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

### Sources of Revenue

During 2014, 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 48% of gross revenues of the hospital operations in 2014 but only 27% of Hendricks' net patient service revenues. Following is a table of major sources of gross patient revenues for 2014:

Payor	% of Gross Revenues
Medicare	42%
Anthem/Blue Cross	27%
Commercial and other	19%
Medicaid	6%
Self-Pay	6%
Total	100%

Outpatient services represented approximately 75% of acute care gross patient revenue for both 2014 and 2013. According to the Indiana Hospital Association's IHA Databank, the State of Indiana's average outpatient percent of total charges was approximately 53% for both 2014 and 2013.

### Capital Assets

During 2014, Hendricks invested approximately \$7,449,000 in capital assets net of asset disposals compared to \$12,979,000 in 2013. Capital assets net of asset disposals added during 2012 were \$7,517,000. The change in capital assets is outlined in the following table:

	2014	2013	Change 2014 - 2013	2012
Land and improvements	\$ 22,593,377	\$ 22,318,268	\$ 275,109	\$ 22,313,268
Buildings and fixed equipment	253,106,765	245,289,973	7,816,792	238,028,720
Major moveable equipment	76,974,775	79,924,436	(2,949,661)	72,373,108
Construction in progress	2,637,667	331,097	2,306,570	2,169,916
Total capital assets	355,312,584	347,863,774	7,448,810	334,885,012
Less accumulated depreciation	149,216,644	144,094,011	5,122,633	130,586,200
Capital assets - net	\$ 206,095,940	\$ 203,769,763	\$ 2,326,177	\$ 204,298,812

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.

# HENDRICKS REGIONAL HEALTH

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

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### **Debt**

Total long-term debt decreased from \$112,150,000 to \$107,655,000 in 2014 due to normal principal payments. More detailed information about Hendricks' long-term debt is presented in the Notes to the Consolidated Financial Statements.

### **Economic Outlook**

Management believes that the health care industry's and Hendricks' operating margins will continue to be under pressure due to a variety of factors including, but not limited to, health care reform, changes in payor and services mix, and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. In addition, the adoption of high-deductible health plans by employers has accelerated 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 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, 2014 AND 2013

### ASSETS AND DEFERRED OUTFLOWS

	2014	2013
<b>Current assets</b>		
Cash and cash equivalents	\$ 8,437,544	\$ 36,303,869
Investments	36,170,168	4,870,196
Patient accounts receivable, less allowance for uncollectible accounts of \$28,584,000 in 2014 and \$21,542,000 in 2013	38,709,288	47,666,280
Inventories	2,544,405	2,076,596
Other current assets	17,422,945	13,337,455
Current portion of assets whose use is limited	4,680,000	4,495,000
Total current assets	<u>107,964,350</u>	<u>108,749,396</u>
<b>Assets whose use is limited</b>		
Board designated funded depreciation investments	154,530,628	126,457,383
Held by trustee for debt service	9,099,334	9,101,112
Other board designated investments	480,454	443,154
Total assets whose use is limited	<u>164,110,416</u>	<u>136,001,649</u>
Less current portion	4,680,000	4,495,000
Noncurrent assets whose use is limited	<u>159,430,416</u>	<u>131,506,649</u>
<b>Capital assets</b>		
Land	16,407,702	16,307,701
Depreciable capital assets	336,267,215	331,224,976
Construction in progress	2,637,667	331,097
	<u>355,312,584</u>	<u>347,863,774</u>
Less accumulated depreciation	149,216,644	144,094,011
Capital assets, net	<u>206,095,940</u>	<u>203,769,763</u>
<b>Other assets</b>	873,949	671,371
Total assets	<u>474,364,655</u>	<u>444,697,179</u>
<b>Deferred outflows - deferred loss on bond refunding</b>	<u>1,795,457</u>	<u>1,913,192</u>
Total assets and deferred outflows	<u><u>\$ 476,160,112</u></u>	<u><u>\$ 446,610,371</u></u>

See accompanying notes to consolidated financial statements.

# HENDRICKS REGIONAL HEALTH

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2014 AND 2013

### LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 4,680,000	\$ 4,495,000
Accounts payable	13,437,184	14,590,394
Accrued salaries and related liabilities	8,512,542	12,037,355
Accrued expenses and other current liabilities	32,440,678	27,898,683
Accrued interest	1,836,829	1,916,725
Estimated third-party settlements	2,606,248	1,550,480
Total current liabilities	<u>63,513,481</u>	<u>62,488,637</u>
<b>Long-term liabilities</b>		
Long-term debt, net of current portion	<u>106,562,019</u>	<u>111,478,565</u>
Total liabilities	<u>170,075,500</u>	<u>173,967,202</u>
<b>Net position</b>		
Net investment in capital assets	96,649,378	89,709,390
Restricted		
Debt service	9,099,334	9,101,112
Non-expendable	1,161,210	1,157,558
Total restricted	<u>10,260,544</u>	<u>10,258,670</u>
Unrestricted	<u>199,174,690</u>	<u>172,675,109</u>
Total net position	<u>306,084,612</u>	<u>272,643,169</u>
Total liabilities and net position	<u>\$ 476,160,112</u>	<u>\$ 446,610,371</u>

See accompanying notes to consolidated financial statements.

## HENDRICKS REGIONAL HEALTH

### CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<b>Operating revenue</b>		
Net patient service revenue	\$ 457,237,544	\$ 407,880,347
Other operating revenue	6,361,995	8,792,712
Total operating revenue	463,599,539	416,673,059
<b>Operating expenses</b>		
Salaries and wages	87,191,669	86,055,709
Employee benefits	22,370,592	23,182,852
Professional medical fees	2,342,882	3,233,923
Other professional fees	18,657,518	15,987,467
Medical and surgical supplies	26,575,459	22,649,587
Drugs and intravenous solutions	9,194,183	7,922,838
Food	6,557,509	4,935,648
Purchased services	148,915,943	124,802,195
Equipment rental	3,442,762	3,268,279
HAF Program	12,058,688	5,911,299
Telephone and utilities	9,450,183	8,023,558
Depreciation and amortization	14,623,198	13,516,113
Insurance	4,825,095	4,418,173
Facility and equipment leases	27,406,480	22,196,866
Other supplies and expenses	38,465,696	32,167,048
Total operating expenses	432,077,857	378,271,555
Operating income	31,521,682	38,401,504
<b>Nonoperating income (expense)</b>		
Investment income	7,854,345	5,559,776
Interest expense	(5,350,629)	(5,572,129)
Total nonoperating income (expense), net	2,503,716	(12,353)
Change in net position before other items	34,025,398	38,389,151
<b>Other items</b>		
Contributions from non-controlling interest	-0-	29,696
Dividends to non-controlling interest	(583,955)	(794,890)
<b>Change in net position</b>	\$ 33,441,443	\$ 37,623,957

See accompanying notes to consolidated financial statements.

## HENDRICKS REGIONAL HEALTH

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

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	Controlling Interest	Non-controlling Interest	Total
<b>Net position balances</b>			
December 31, 2012	\$ 233,675,241	\$ 1,343,971	\$ 235,019,212
Change in net position	37,810,370	(186,413)	37,623,957
December 31, 2013	271,485,611	1,157,558	272,643,169
Change in net position	33,437,791	3,652	33,441,443
December 31, 2014	<u>\$ 304,923,402</u>	<u>\$ 1,161,210</u>	<u>\$ 306,084,612</u>

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See accompanying notes to consolidated financial statements.



## HENDRICKS REGIONAL HEALTH

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

	2014	2013
<b>Operating activities</b>		
Cash received from patient services	\$ 467,250,304	\$ 403,275,596
Cash paid for salaries, wages and benefits	(113,087,074)	(106,885,595)
Cash paid to vendors and suppliers	(310,148,635)	(245,601,896)
Other receipts, net	6,361,995	8,792,712
Net cash flows from operating activities	50,376,590	59,580,817
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(16,042,527)	(12,535,659)
Contributions from non-controlling interest	-0-	29,696
Dividends to non-controlling interest	(583,955)	(794,890)
Loss of disposal of property and equipment	22,088	5,000
Interest on long-term debt	(5,430,525)	(5,648,275)
Principal payments for long-term debt	(4,495,000)	(4,285,000)
Net cash flows from capital and related financing activities	(26,529,919)	(23,229,128)
<b>Investing activities</b>		
Investment income	7,854,345	5,559,776
Purchase of investments	(52,764,577)	(37,368,453)
Proceeds from sale of investments	24,355,112	19,568,551
Net cash flows from investing activities	(20,555,120)	(12,240,126)
Net change in cash and cash equivalents	3,291,551	24,111,563
<b>Cash and cash equivalents</b>		
Beginning of year	51,779,433	27,667,870
End of year	\$ 55,070,984	\$ 51,779,433
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents		
In current assets - cash and cash equivalents	\$ 8,437,544	\$ 36,303,869
In investments	35,297,887	4,003,679
In board designated funds	11,335,553	11,471,885
Total cash and cash equivalents	\$ 55,070,984	\$ 51,779,433

See accompanying notes to consolidated financial statements.

## HENDRICKS REGIONAL HEALTH

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

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of operating income to net cash flows from operating activities</b>		
Operating income	\$ 31,521,682	\$ 38,401,504
Adjustment to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	14,623,198	13,516,113
Provision for bad debts	22,397,804	22,470,157
Changes in operating assets and liabilities		
Patient accounts receivable	(13,440,812)	(27,605,731)
Inventories	(467,809)	(861,478)
Other current assets	(4,085,490)	982,174
Other assets	(202,578)	194,211
Accounts payable	(2,042,355)	188,507
Accrued salaries and related liabilities	(3,524,813)	2,352,966
Accrued expenses and other current liabilities	4,541,995	9,411,571
Estimated third-party settlements	1,055,768	530,823
Net cash flows from operating activities	<u>\$ 50,376,590</u>	<u>\$ 59,580,817</u>
<b>Supplemental disclosure of cash flows information</b>		
Cash paid for interest	\$ 5,430,525	\$ 5,648,275
<b>Noncash capital and related financing activities</b>		
Property purchases in accounts payable	\$ 889,145	\$ 456,405

See accompanying notes to consolidated financial statements.

# HENDRICKS REGIONAL HEALTH

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

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

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

The consolidated financial statements of Hendricks are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of Hendricks and its component units. They do not purport to, and do not, present fairly the financial position of the County as of December 31, 2014 and 2013, the changes in its net position or its cash flows for the years then ended.

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

#### Long-Term Care Operations

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

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

# HENDRICKS REGIONAL HEALTH

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

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### Basis of Consolidation

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

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

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

### Enterprise Fund Accounting

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

### Use of Estimates

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

### Cash and Cash Equivalents

Cash and cash equivalents include all cash held in checking, savings and money market deposit accounts available for operating purposes with original maturity dates of 90 days or less. Hendricks maintains its cash in accounts, which at times may exceed federally insured limits. Hendricks has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents. Included in cash and cash equivalents are amounts held by Hendricks under agreement with the State of Indiana relating to non-state government operated nursing facilities. These funds are required to be held through the end of Hendricks' fiscal year, at which time they are available for the general corporate purposes of Hendricks. Subsequent to December 31, 2014, approximately \$23,400,000 of funds became available and was invested with assets whose use is limited – board designated funds.

## HENDRICKS REGIONAL HEALTH

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

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#### 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, 2012 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2013 and 2014 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2014 and 2013, Hendricks recognized an increase in net position of approximately \$200,000 and \$400,000, respectively, in the consolidated statements of revenues and expenses 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.

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.

# HENDRICKS REGIONAL HEALTH

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

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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 2014 and 2013, Hendricks recognized approximately \$1,240,000 and \$3,706,000, 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 and expenses. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

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

### Inventories

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

	<u>2014</u>	<u>2013</u>
Medical supplies and other	\$ 2,051,079	\$ 1,605,068
Pharmaceutical	493,326	471,528
	<u>\$ 2,544,405</u>	<u>\$ 2,076,596</u>

### Other Current Assets

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

# HENDRICKS REGIONAL HEALTH

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

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### Assets Whose Use is Limited

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

### Capital Assets and Depreciation

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

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

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

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

### Advertising and Community Relations

Hendricks records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was approximately \$1,976,000 and \$1,206,000 for 2014 and 2013, respectively.

### Net Position

Net position of Hendricks is classified in four components. (1) Net investment in capital assets consist of capital assets net of accumulated depreciation plus deferred outflows related to losses on bond refundings which are reduced by the balance of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Restricted expendable net position includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to Hendricks, including amounts deposited with trustees as required by revenue note indentures. (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 REGIONAL HEALTH

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

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### Consolidated Statements of Revenues and Expenses

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

### Charity Care

Hendricks provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because Hendricks does not collect amounts deemed to be charity care, they are not reported as revenue. 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 policy. The charity care charges provided during 2014 and 2013 were approximately \$4,200,000 and \$4,610,000, respectively.

Of Hendricks' total expenses reported (approximately \$437,428,000, including interest expense, in 2014 and \$383,844,000 including interest expense, in 2013), an estimated \$1,809,000 and \$2,008,000 arose from providing services to charity patients during 2014 and 2013, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on Hendricks' total expenses including interest expense to gross patient service revenue.

### Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

### Federal or State Income Taxes

Hendricks is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes and, accordingly, is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, Hendricks is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

The Foundation is organized as a not-for-profit organization under Section 501(c)(3) of the United States IRC. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only. The Foundation has filed its federal and state income tax returns for periods through December 31, 2013. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).



# HENDRICKS REGIONAL HEALTH

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

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HAMCO is a Limited Liability Company (LLC) and profit and loss are passed through to the members of the LLC. HAMCO has filed its federal and state income tax returns for periods through December 31, 2013. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Hendricks, 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, 2014 and 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Foundation and 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.

### Reclassifications

Certain amounts from the 2013 consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications have no effect on previously reported net position or change in net position.

### Litigation

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

### Risk Management

Hendricks is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

# HENDRICKS REGIONAL HEALTH

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

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### Medical Malpractice

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

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

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

### Subsequent Events

Hendricks evaluates events or transactions occurring subsequent to consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is April 27, 2015.

## 2. INVESTMENTS

Investments consist of cash and cash equivalents. Mutual funds are reported at fair value. Investments balances as of December 31, 2014 and 2013 were approximately \$36,170,000 and \$4,870,000, respectively. Certificates of deposit are reported at contract value.

## 3. ASSETS WHOSE USE IS LIMITED

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

## HENDRICKS REGIONAL HEALTH

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

The following represents assets whose use is limited as of December 31, 2014 and 2013:

	2014	2013
Assets whose use is limited		
Cash and cash equivalents	\$ 11,335,553	\$ 11,471,885
Certificate of deposit	300,753	1,423,417
Investments	152,474,110	123,106,347
	\$ 164,110,416	\$ 136,001,649

#### 4. DEPOSITS AND INVESTMENTS

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

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

As of December 31, 2014 and 2013, 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, 2014					
Investment Maturities (in years)					
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 300,753	\$ 300,753	\$ -0-	\$ -0-	\$ -0-
Mutual funds	148,346,391	148,346,391	-0-	-0-	-0-
Fixed income obligations	5,000,000	-0-	-0-	-0-	5,000,000
	\$ 153,647,144	\$ 148,647,144	\$ -0-	\$ -0-	\$ 5,000,000

  

December 31, 2013					
Investment Maturities (in years)					
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 1,423,417	\$ 842,386	\$ 581,031	\$ -0-	\$ -0-
Mutual funds	118,972,864	118,972,864	-0-	-0-	-0-
Fixed income obligations	5,000,000	-0-	-0-	-0-	5,000,000
	\$ 125,396,281	\$ 119,815,250	\$ 581,031	\$ -0-	\$ 5,000,000

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

# HENDRICKS REGIONAL HEALTH

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

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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.

Deposits and investments consist of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Carrying amount		
Deposits	\$ 55,070,984	\$ 51,779,433
Investments	<u>153,647,144</u>	<u>125,396,281</u>
	<u>\$ 208,718,128</u>	<u>\$ 177,175,714</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 8,437,544	\$ 36,303,869
Investments	36,170,168	4,870,196
Board designated funded depreciation investments	154,530,628	126,457,383
Held by trustee for debt service	9,099,334	9,101,112
Other board designated investments	<u>480,454</u>	<u>443,154</u>
	<u>\$ 208,718,128</u>	<u>\$ 177,175,714</u>

### 5. FAIR VALUE MEASUREMENTS

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

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

## HENDRICKS REGIONAL HEALTH

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2014 and 2013:

- *Money market mutual funds:* Valued based at the subscription and redemption activity at a \$1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of securities.
- *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 NAV and to transact at that price. The mutual funds held by Hendricks are deemed to be actively traded.
- *Fixed income obligations:* Valued at the closing price reported on the active market on which the individual securities are traded, when available. The fair value of fixed income obligations for which quoted market price is not available are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013 are as follows:

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments				
Cash equivalents				
Money market mutual funds	\$ 35,297,887	\$ -0-	\$ 35,297,887	\$ -0-
Mutual funds - total return bond	872,281	872,281	-0-	-0-
Total investments	<u>\$ 36,170,168</u>	<u>\$ 872,281</u>	<u>\$ 35,297,887</u>	<u>\$ -0-</u>
Assets whose use is limited				
Cash equivalents				
Money market mutual funds	\$ 11,335,553	\$ -0-	\$ 11,335,553	\$ -0-
Mutual funds				
Total return bond	96,940,002	96,940,002	-0-	-0-
Small-cap value	5,255,921	5,255,921	-0-	-0-
Growth	17,229,833	17,229,833	-0-	-0-
Large blend and large value	28,048,354	28,048,354	-0-	-0-
Total mutual funds	147,474,110	147,474,110	-0-	-0-
Fixed income obligations	5,000,000	-0-	5,000,000	-0-
	163,809,663	<u>\$ 147,474,110</u>	<u>\$ 16,335,553</u>	<u>\$ -0-</u>
Certificates of deposit	300,753			
Total assets whose use is limited	<u>\$ 164,110,416</u>			

## HENDRICKS REGIONAL HEALTH

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

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Cash equivalents				
Money market mutual funds	\$ 4,003,679	\$ -0-	\$ 4,003,679	\$ -0-
Mutual funds - total return bond	866,517	866,517	-0-	-0-
Total investments	<u>\$ 4,870,196</u>	<u>\$ 866,517</u>	<u>\$ 4,003,679</u>	<u>\$ -0-</u>
Assets whose use is limited				
Cash equivalents				
Money market mutual funds	\$ 11,471,885	\$ -0-	\$ 11,471,885	\$ -0-
Mutual funds				
Total return bond	92,547,565	92,547,565	-0-	-0-
Small-cap value	5,043,168	5,043,168	-0-	-0-
Growth	4,801,566	4,801,566	-0-	-0-
Large blend	15,714,048	15,714,048	-0-	-0-
Total mutual funds	118,106,347	118,106,347	-0-	-0-
Fixed income obligations	5,000,000	-0-	5,000,000	-0-
	134,578,232	<u>\$ 118,106,347</u>	<u>\$ 16,471,885</u>	<u>\$ -0-</u>
Certificates of deposit	1,423,417			
Total assets whose use is limited	<u>\$ 136,001,649</u>			

Hendricks' policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2014 and 2013.

Realized gains of approximately \$1,410,000 and \$689,000 included in earnings are reported in the consolidated statements of revenues and expenses as a component of investment income. The market value of investments exceeded cost by approximately \$10,206,000 and \$9,701,000 as of December 31, 2014 and 2013, respectively. The gains included in earnings for the years are attributable to the change in unrealized gains relating to assets held as of December 31, 2014 and 2013 and are reported in the consolidated statements of revenues and expenses as a component of investment income.

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

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.

## HENDRICKS REGIONAL HEALTH

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

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, 2014, the carrying value of the fixed rate long-term debt was \$107,655,000 with a fair value of approximately \$121,477,000.

#### 6. CAPITAL ASSETS

Progressions for capital assets for 2014 and 2013 follow:

	December 31, 2013	Additions	Disposals	Transfers	December 31, 2014
Land	\$ 16,307,701	\$ 100,001	\$ -0-	\$ -0-	\$ 16,407,702
Land improvements	6,010,567	175,108	-0-	-0-	6,185,675
Buildings and fixed equipment	245,289,973	4,248,120	(393,837)	3,962,509	253,106,765
Major movable equipment	79,924,436	9,161,446	(9,088,377)	(3,022,730)	76,974,775
Construction in progress	331,097	3,246,997	(648)	(939,779)	2,637,667
Total capital assets	347,863,774	16,931,672	(9,482,862)	-0-	355,312,584
Less accumulated depreciation					
Land improvements	3,588,934	273,131	-0-	-0-	3,862,065
Buildings and fixed equipment	82,820,294	8,291,021	(391,967)	-0-	90,719,348
Major movable equipment	57,684,783	6,019,255	(9,068,807)	-0-	54,635,231
Total accumulated depreciation	144,094,011	14,583,407	(9,460,774)	-0-	149,216,644
Capital assets, net	<u>\$ 203,769,763</u>	<u>\$ 2,348,265</u>	<u>\$ (22,088)</u>	<u>\$ -0-</u>	<u>\$ 206,095,940</u>

  

	December 31, 2012	Additions	Disposals	Transfers	December 31, 2013
Land	\$ 16,307,701	\$ -0-	\$ -0-	\$ -0-	\$ 16,307,701
Land improvements	6,005,567	5,000	-0-	-0-	6,010,567
Buildings and fixed equipment	238,028,720	2,402,241	-0-	4,859,012	245,289,973
Major movable equipment	72,373,108	7,564,630	(13,302)	-0-	79,924,436
Construction in progress	2,169,916	3,020,193	-0-	(4,859,012)	331,097
Total capital assets	334,885,012	12,992,064	(13,302)	-0-	347,863,774
Less accumulated depreciation					
Land improvements	3,292,612	296,322	-0-	-0-	3,588,934
Buildings and fixed equipment	75,306,196	7,514,098	-0-	-0-	82,820,294
Major movable equipment	51,987,392	5,705,693	(8,302)	-0-	57,684,783
Total accumulated depreciation	130,586,200	13,516,113	(8,302)	-0-	144,094,011
Capital assets, net	<u>\$ 204,298,812</u>	<u>\$ (524,049)</u>	<u>\$ (5,000)</u>	<u>\$ -0-</u>	<u>\$ 203,769,763</u>

There were no significant outstanding commitments on capital assets as of December 31, 2014.

#### 7. LONG-TERM DEBT

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

## HENDRICKS REGIONAL HEALTH

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

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 3% to 5.5%. Net revenues and certain assets held by the trustee secure the tax-exempt revenue bonds. The net book value of the collateral approximated the carrying value of the Series 2009A bonds as of December 31, 2014 and 2013.

The Series 2007A and 2009A Bonds require Hendricks to maintain certain financial debt coverage ratios. As of December 31, 2014 and 2013, Hendricks believed it was in compliance with the debt coverage ratios.

In 2009, Hendricks issued Indiana Taxable Economic Development Revenue Bonds, Series 2009 in the amount of \$5,000,000. The 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.

Progressions for long-term debt for 2014 and 2013 include the following:

	December 31, 2013	Additional Borrowings	Payments	December 31, 2014	Current Portion
Indiana Bond Bank					
Special Program Refunding Bonds Series 2007A	\$ 43,340,000	\$ -0-	(1,650,000)	\$ 41,690,000	\$ 1,730,000
Special Hospital Program Bonds Series 2009A	63,810,000	-0-	(2,845,000)	60,965,000	2,950,000
Indiana Taxable Economic Development Revenue Bonds, Series 2009	5,000,000	-0-	-0-	5,000,000	-0-
	<u>112,150,000</u>	<u>\$ -0-</u>	<u>\$ (4,495,000)</u>	107,655,000	<u>\$ 4,680,000</u>
Unamortized bond premium	<u>3,823,565</u>			<u>3,587,019</u>	
	<u>\$ 115,973,565</u>			<u>\$ 111,242,019</u>	
	December 31, 2012	Additional Borrowings	Payments	December 31, 2013	Current Portion
Indiana Bond Bank					
Special Program Refunding Bonds Series 2007A	\$ 44,915,000	\$ -0-	(1,575,000)	\$ 43,340,000	\$ 1,650,000
Special Hospital Program Bonds Series 2009A	66,520,000	-0-	(2,710,000)	63,810,000	2,845,000
Indiana Taxable Economic Development Revenue Bonds, Series 2009	5,000,000	-0-	-0-	5,000,000	-0-
	<u>116,435,000</u>	<u>\$ -0-</u>	<u>\$ (4,285,000)</u>	112,150,000	<u>\$ 4,495,000</u>
Unamortized bond premium	<u>4,060,112</u>			<u>3,823,565</u>	
	<u>\$ 120,495,112</u>			<u>\$ 115,973,565</u>	



## HENDRICKS REGIONAL HEALTH

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

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Aggregate maturities of long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 4,680,000	\$ 5,457,025	\$ 10,137,025
2016	4,960,000	5,214,625	10,174,625
2017	5,245,000	4,963,825	10,208,825
2018	5,450,000	4,725,556	10,175,556
2019	5,905,000	4,464,238	10,369,238
2020-2024	34,925,000	17,433,975	52,358,975
2025-2029	42,300,000	7,020,394	49,320,394
2030	4,190,000	111,900	4,301,900
	<u>\$ 107,655,000</u>	<u>\$ 49,391,538</u>	<u>\$ 157,046,538</u>

#### 8. NET PATIENT SERVICE REVENUE

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

##### Medicare

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

##### Medicaid and Hendricks Assessment Fee Program

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

# HENDRICKS REGIONAL HEALTH

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

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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 2014 and 2013, Hendricks recognized HAF Program expense of approximately \$12,059,000 and \$5,911,000, respectively, which resulted in Medicaid rate increases. The HAF Program expense is included in operating expenses in the consolidated statements of revenues and expenses. The Medicaid rate increases under the HAF Program are included in patient service revenue in the consolidated statements of revenues and expenses. The HAF Program is approved for extension through June 30, 2017.

As a governmental entity, Hendricks is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. Hendricks recognized reimbursement from these programs within net patient service revenue of approximately \$2,928,000 and \$5,488,000 during 2014 and 2013, 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 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
Inpatient routine services	\$ 23,303,836	\$ 22,518,888
Inpatient ancillary services	94,126,287	90,016,259
Outpatient ancillary services	356,611,624	338,391,347
Long-term care services	198,906,472	162,012,048
Gross patient service revenue	<u>672,948,219</u>	<u>612,938,542</u>
Contractual allowances	189,112,871	177,978,038
Charity care	4,200,000	4,610,000
Provision for bad debts	22,397,804	22,470,157
Deductions from revenue	<u>215,710,675</u>	<u>205,058,195</u>
Net patient service revenue	<u>\$ 457,237,544</u>	<u>\$ 407,880,347</u>

## HENDRICKS REGIONAL HEALTH

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

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#### 9. DEFINED BENEFIT PENSION PLAN

##### Plan Description

Hendricks has a defined benefit pension plan (the Plan) administered by National Bank of Indianapolis as authorized by IC 16-22-3-11. The Plan provides retirement, disability and death benefits to Plan members and beneficiaries. The Plan was established by written agreement between Hendricks Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the Plan. During 2013, Hendricks froze benefits to a majority of plan participants. Participants who meet certain age and service requirements continue to accrue benefits under the plan.

##### Funding Policy

The contribution requirements of Plan members are established by the written agreement between Hendricks Board of Trustees and the Plan Administrator. Plan members' contributions are not required by the plan agreement. Hendricks is required to contribute at an actuarially determined rate. Hendricks does not expect to contribute to the Plan in 2015.

The following is a summary of the Plan as of December 31, 2014 (based on actuarial valuation date of January 1, 2014) and December 31, 2013 (based on actuarial valuation date of January 1, 2013):

	2014	2013
Annual required contribution	\$ -0-	\$ -0-
Interest on net pension obligation	76,879	79,323
Adjustment to annual required contribution	108,071	111,458
Annual pension cost	(31,192)	(32,135)
Contributions made	-0-	-0-
Change in net pension obligation	(31,192)	(32,135)
Net pension (benefit) obligation, beginning of year	1,025,505	1,057,640
Net pension obligation, end of year	\$ 994,313	\$ 1,025,505
Actuarial valuation date	1/1/2014	
Actuarial cost method	Entry Age actuarial cost	
Amortization method	Average remaining service	
Asset valuation method	Market	

## HENDRICKS REGIONAL HEALTH

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

	January 1, 2014	January 1, 2013
Actuarial value of assets	\$ 57,019,730	\$ 51,279,960
Accrued actuarial liability	48,689,255	46,361,020
Excess of actuarial value of assets over accrued actuarial liability	\$ 8,330,475	\$ 4,918,940
Funded ratio of assets to accrued liability	117.1%	110.6%
Covered payroll	\$ 17,051,344	\$ 17,062,098
Ratio of excess assets to covered payroll	-48.9%	-28.8%
<u>Actuarial assumptions</u>		
Investment rate of return	7.5%	7.5%
Projected salary increases - average	5.0%	5.0%

Three Year Trend Information			
Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2012	\$ 1,906,784	0.0%	\$ 1,057,640
December 31, 2013	\$ (32,135)	0.0%	\$ 1,025,505
December 31, 2014	\$ (31,192)	0.0%	\$ 994,313

#### 10. TAX DEFERRED ANNUITY PLAN

##### 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 written agreement between the Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan.

##### Funding Policy

The contribution requirements of plan members are established by the written agreement between the 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 2014 and 2013, 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 2014 and 2013. Hendricks' contributions to the plan for 2014 and 2013 were approximately \$3,053,000 and \$1,299,000, respectively.

## HENDRICKS REGIONAL HEALTH

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

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#### 11. RENTAL EXPENSE

Hendricks has leases expiring at various times through 2018. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total rent expense, including cancelable and non-cancelable leases, for 2014 and 2013 was approximately \$3,443,000 and \$3,268,000, respectively.

Minimum future payments on non-cancelable leases for the years following December 31, 2014 are:

Year Ending December 31,	
2015	\$ 484,000
2016	311,000
2017	201,000
2018	107,000
	<u>\$ 1,103,000</u>

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$27,406,000 and \$22,197,000 for 2014 and 2013, respectively. Annual rent expense through 2019 will approximate \$23,000,000 under these leases.

#### 12. CONCENTRATION OF CREDIT RISK

Hendricks corporate office and its hospital facilities are located in Danville, Indiana. Other outpatient, ambulatory care and physician services are located in Avon, Plainfield, Lizton, Bainbridge 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, 2014 and 2013 was as follows:

	Receivables		Revenues	
	2014	2013	2014	2013
Medicare	26%	24%	42%	41%
Medicaid	7%	4%	6%	6%
Anthem/Blue Cross	9%	14%	27%	27%
Commercial and other	18%	19%	19%	19%
Self-Pay	40%	39%	6%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Under the long-term care leases, Hendricks recorded expenses related to purchased services from the Managers of the facilities of approximately \$134,572,000 and \$112,116,000 during 2014 and 2013, respectively. Amounts due to the Managers, included in current liabilities, as of December 31, 2014 and 2013 approximated \$31,605,000 and \$28,973,000, respectively.

## HENDRICKS REGIONAL HEALTH

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

#### 13. 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, 2014 is as follows:

	2014		
	Foundation	HAMCO	Total
<b>Balance sheet</b>			
Assets and deferred outflows			
Current assets	\$ 837,865	\$ 2,326,112	\$ 3,163,977
Capital assets	-0-	698,599	698,599
Total assets and deferred outflows	\$ 837,865	\$ 3,024,711	\$ 3,862,576
Liabilities			
Other current liabilities	\$ 3,110	\$ 502,507	\$ 505,617
Total liabilities	3,110	502,507	505,617
Net position			
Net investment in capital assets	-0-	698,599	698,599
Unrestricted	834,755	1,823,605	2,658,360
Total net position	834,755	2,522,204	3,356,959
Total liabilities and net position	\$ 837,865	\$ 3,024,711	\$ 3,862,576
<b>Statement of Revenues and Expenses and Changes in Net Position</b>			
Revenues			
Net patient service revenue	\$ -0-	\$ 3,269,068	\$ 3,269,068
Total revenues	-0-	3,269,068	3,269,068
Expenses			
Depreciation	-0-	182,881	182,881
Other expenses	434,704	1,940,420	2,375,124
Total expenses	434,704	2,123,301	2,558,005
Operating income (loss)	(434,704)	1,145,767	711,063
Nonoperating revenues (expenses)	516,381	31,551	547,932
Excess revenues over expenses	81,677	1,177,318	1,258,995
Other items	-0-	(1,170,000)	(1,170,000)
Change in net position	81,677	7,318	88,995
Net position, beginning of year	753,078	2,514,886	3,267,964
Net position, end of year	\$ 834,755	\$ 2,522,204	\$ 3,356,959
<b>Statement of cash flows</b>			
Cash provided by (used in)			
Operating activities	\$ 69,266	\$ 117,488	\$ 186,754
Capital and related financing activities	-0-	(470,147)	(470,147)
Investing activities	-0-	511	511
Change	69,266	(352,148)	(282,882)
Cash and cash equivalents, beginning of year	715,799	1,040,130	1,755,929
Cash and cash equivalents, end of year	\$ 785,065	\$ 687,982	\$ 1,473,047

# HENDRICKS REGIONAL HEALTH

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

Condensed component unit information for all of its blended as of and for the year ended December 31, 2013 is as follows

	2013		
	Foundation	HAMCO	Total
<b>Balance sheet</b>			
Assets and deferred outflows			
Current assets	\$ 768,869	\$ 2,722,017	\$ 3,490,886
Capital assets	-0-	391,333	391,333
Total assets and deferred outflows	<u>\$ 768,869</u>	<u>\$ 3,113,350</u>	<u>\$ 3,882,219</u>
Liabilities			
Other current liabilities	\$ 15,791	\$ 598,464	\$ 614,255
Total liabilities	15,791	598,464	614,255
Net position			
Net investment in capital assets	-0-	391,333	391,333
Unrestricted	753,078	2,123,553	2,876,631
Total net position	<u>753,078</u>	<u>2,514,886</u>	<u>3,267,964</u>
Total liabilities and net position	<u>\$ 768,869</u>	<u>\$ 3,113,350</u>	<u>\$ 3,882,219</u>
<b>Statement of Revenues and Expenses and Changes in Net Position</b>			
Revenues			
Net patient service revenue	\$ -0-	\$ 3,423,312	\$ 3,423,312
Total revenues	-0-	3,423,312	3,423,312
Expenses			
Depreciation	-0-	185,184	185,184
Other expenses	304,547	2,012,088	2,316,635
Total expenses	<u>304,547</u>	<u>2,197,272</u>	<u>2,501,819</u>
Operating income (loss)	(304,547)	1,226,040	921,493
Nonoperating revenues (expenses)	480,751	15,339	496,090
Excess revenues over expenses	176,204	1,241,379	1,417,583
Other items	-0-	(1,660,500)	(1,660,500)
Change in net position	176,204	(419,121)	(242,917)
Net position, beginning of year	576,874	2,934,007	3,510,881
Net position, end of year	<u>\$ 753,078</u>	<u>\$ 2,514,886</u>	<u>\$ 3,267,964</u>
<b>Statement of cash flows</b>			
Cash provided by (used in)			
Operating activities	\$ 84,629	\$ 117,488	\$ 202,117
Capital and related financing activities	-0-	(110,163)	(110,163)
Investing activities	1,933	427	2,360
Change	86,562	7,752	94,314
Cash equivalents, beginning of year	629,237	1,032,378	1,661,615
Cash equivalents, end of year	<u>\$ 715,799</u>	<u>\$ 1,040,130</u>	<u>\$ 1,755,929</u>

## HENDRICKS REGIONAL HEALTH

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

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#### 14. SELF INSURANCE

Hendricks is self-insured for employee health claims. A third party administrator processes the claims for Hendricks who maintains an estimated liability for the amount of claims incurred but not reported. Hendricks also maintains reinsurance including a stop loss for individual employees over \$300,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$12,795,000 and \$13,331,000 for 2014 and 2013, 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:

	<u>2014</u>	<u>2013</u>
Unpaid claims, beginning of year	\$ 1,332,126	\$ 2,190,167
Incurred claims and changes in estimates	12,795,145	13,330,918
Claim payments	<u>(13,040,144)</u>	<u>(14,188,959)</u>
Unpaid claims, end of year	<u>\$ 1,087,127</u>	<u>\$ 1,332,126</u>

As of December 31, 2014 and 2013, Hendricks had approximately \$-0- and \$350,000 of reinsurance recovery receivables for stop loss claims netted against the unpaid claims liability.

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

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

	<u>2014</u>	<u>2013</u>
Restricted non-expendable net position		
Non-controlling interests	<u>\$ 1,161,210</u>	<u>\$ 1,157,558</u>

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:



## HENDRICKS REGIONAL HEALTH

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

	Controlling Interest	Non-controlling Interest	Total
Net position, December 31, 2012	\$ 1,590,036	\$ 1,343,971	\$ 2,934,007
Operating income	654,468	571,572	1,226,040
Nonoperating income	8,130	7,209	15,339
Purchase (sale) of stock	(29,696)	29,696	-0-
Distributions	(865,610)	(794,890)	(1,660,500)
Change in net position	(232,708)	(186,413)	(419,121)
Net position, December 31, 2013	1,357,328	1,157,558	2,514,886
Operating income	573,907	571,860	1,145,767
Nonoperating income	15,804	15,747	31,551
Distributions	(586,045)	(583,955)	(1,170,000)
Change in net position	3,666	3,652	7,318
Net position, December 31, 2014	\$ 1,360,994	\$ 1,161,210	\$ 2,522,204

#### 16. UPCOMING GASB PRONOUNCEMENTS

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

*GASB Statement No. 68, Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

*GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68 making it effective for periods beginning after June 15, 2014. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

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

**SUPPLEMENTARY INFORMATION**

## HENDRICKS REGIONAL HEALTH

### CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2014

<b>Assets and deferred outflows</b>	Hospital	Foundation	HAMCO	Eliminations	Total
<b>Current assets</b>					
Cash and cash equivalents	\$ 6,987,326	\$ 785,065	\$ 665,153	\$ -0-	\$ 8,437,544
Investments	35,260,799	-0-	909,369	-0-	36,170,168
Patient accounts receivable, net	38,682,494	26,794	-0-	-0-	38,709,288
Inventories	2,114,680	-0-	429,725	-0-	2,544,405
Other current assets	17,307,849	26,006	321,865	(232,775)	17,422,945
Current portion of assets whose use is limited	4,680,000	-0-	-0-	-0-	4,680,000
<b>Total current assets</b>	<b>105,033,148</b>	<b>837,865</b>	<b>2,326,112</b>	<b>(232,775)</b>	<b>107,964,350</b>
<b>Assets whose use is limited</b>					
Board designated funded depreciation investments	154,530,628	-0-	-0-	-0-	154,530,628
Held by trustee for debt service	9,099,334	-0-	-0-	-0-	9,099,334
Other board designated investments	480,454	-0-	-0-	-0-	480,454
<b>Total assets whose use is limited</b>	<b>164,110,416</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>164,110,416</b>
Less current portion	4,680,000	-0-	-0-	-0-	4,680,000
<b>Noncurrent assets whose use is limited</b>	<b>159,430,416</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>159,430,416</b>
<b>Capital assets</b>					
Land	16,407,702	-0-	-0-	-0-	16,407,702
Depreciable capital assets	334,155,469	-0-	3,175,599	(1,063,853)	336,267,215
Construction in progress	2,637,667	-0-	-0-	-0-	2,637,667
	353,200,838	-0-	3,175,599	(1,063,853)	355,312,584
Less accumulated depreciation	147,803,497	-0-	2,477,000	(1,063,853)	149,216,644
<b>Capital assets, net</b>	<b>205,397,341</b>	<b>-0-</b>	<b>698,599</b>	<b>-0-</b>	<b>206,095,940</b>
<b>Other assets</b>	<b>2,234,943</b>	<b>-0-</b>	<b>-0-</b>	<b>(1,360,994)</b>	<b>873,949</b>
<b>Total assets</b>	<b>472,095,848</b>	<b>837,865</b>	<b>3,024,711</b>	<b>(1,593,769)</b>	<b>474,364,655</b>
<b>Deferred outflows - deferred loss on bond refunding</b>	<b>1,795,457</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>1,795,457</b>
<b>Total assets and deferred outflows</b>	<b>\$ 473,891,305</b>	<b>\$ 837,865</b>	<b>\$ 3,024,711</b>	<b>\$ (1,593,769)</b>	<b>\$ 476,160,112</b>

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## HENDRICKS REGIONAL HEALTH

### CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2014

<b>Liabilities and net position</b>	Hospital	Foundation	HAMCO	Eliminations	Total
<b>Current liabilities</b>					
Current portion of long-term debt	\$ 4,680,000	\$ -0-	\$ -0-	\$ -0-	\$ 4,680,000
Accounts payable	13,164,589	3,110	502,260	(232,775)	13,437,184
Accrued salaries and related liabilities	8,512,333	-0-	209	-0-	8,512,542
Accrued expenses and other current liabilities	32,440,640	-0-	38	-0-	32,440,678
Accrued interest	1,836,829	-0-	-0-	-0-	1,836,829
Estimated third-party settlements	2,606,248	-0-	-0-	-0-	2,606,248
<b>Total current liabilities</b>	<b>63,240,639</b>	<b>3,110</b>	<b>502,507</b>	<b>(232,775)</b>	<b>63,513,481</b>
<b>Long-term liabilities</b>					
Long-term debt, net of current portion	106,562,019	-0-	-0-	-0-	106,562,019
<b>Total liabilities</b>	<b>169,802,658</b>	<b>3,110</b>	<b>502,507</b>	<b>(232,775)</b>	<b>170,075,500</b>
<b>Net position</b>					
Net investment in capital assets	95,950,779	-0-	698,599	-0-	96,649,378
<b>Restricted</b>					
Debt service	9,099,334	-0-	-0-	-0-	9,099,334
Non-expendable	-0-	-0-	-0-	1,161,210	1,161,210
<b>Total restricted</b>	<b>9,099,334</b>	<b>-0-</b>	<b>-0-</b>	<b>1,161,210</b>	<b>10,260,544</b>
<b>Unrestricted</b>	<b>199,038,534</b>	<b>834,755</b>	<b>1,823,605</b>	<b>(2,522,204)</b>	<b>199,174,690</b>
<b>Total net position</b>	<b>304,088,647</b>	<b>834,755</b>	<b>2,522,204</b>	<b>(1,360,994)</b>	<b>306,084,612</b>
<b>Total liabilities and net position</b>	<b>\$ 473,891,305</b>	<b>\$ 837,865</b>	<b>\$ 3,024,711</b>	<b>\$ (1,593,769)</b>	<b>\$ 476,160,112</b>

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## HENDRICKS REGIONAL HEALTH

### CONSOLIDATING STATEMENTS OF REVENUES AND EXPENSES YEAR ENDED DECEMBER 31, 2014

	Hospital	Foundation	HAMCO	Eliminations	Total
<b>Operating revenue</b>					
Net patient service revenue	\$ 457,237,544	\$ -0-	\$ 3,269,068	\$ (3,269,068)	457,237,544
Other revenue	6,361,995	-0-	-0-	-0-	6,361,995
Total operating revenue	463,599,539	-0-	3,269,068	(3,269,068)	463,599,539
<b>Operating expenses</b>					
Salaries and wages	87,128,917	-0-	62,752	-0-	87,191,669
Employee benefits	22,356,274	-0-	14,318	-0-	22,370,592
Professional medical fees	2,342,882	-0-	-0-	-0-	2,342,882
Other professional fees	21,926,586	-0-	-0-	(3,269,068)	18,657,518
Medical and surgical supplies	25,301,406	-0-	1,274,053	-0-	26,575,459
Drugs and intravenous solutions	9,023,348	-0-	170,835	-0-	9,194,183
Food	6,557,509	-0-	-0-	-0-	6,557,509
Purchased services	148,709,694	-0-	206,249	-0-	148,915,943
Equipment rental	3,431,248	-0-	11,514	-0-	3,442,762
Hospital Assessment Fee	12,058,688	-0-	-0-	-0-	12,058,688
Telephone and utilities	9,450,183	-0-	-0-	-0-	9,450,183
Depreciation and amortization	14,440,317	-0-	182,881	-0-	14,623,198
Insurance	4,816,665	-0-	8,430	-0-	4,825,095
Facility and equipment leases	27,406,480	-0-	-0-	-0-	27,406,480
Other supplies and expenses	37,838,723	434,704	192,269	-0-	38,465,696
Total operating expenses	432,788,920	434,704	2,123,301	(3,269,068)	432,077,857
Operating income (loss)	30,810,619	(434,704)	1,145,767	-0-	31,521,682
<b>Nonoperating income (expense)</b>					
Investment income (loss) and other	7,896,124	516,381	31,551	(589,711)	7,854,345
Interest expense	(5,350,629)	-0-	-0-	-0-	(5,350,629)
Total non operating income (expense), net	2,545,495	516,381	31,551	(589,711)	2,503,716
Change in net position before other items	33,356,114	81,677	1,177,318	(589,711)	34,025,398
<b>Other items</b>					
Contributions	-0-	-0-	-0-	-0-	-0-
Dividends	-0-	-0-	(1,170,000)	586,045	(583,955)
<b>Change in net position</b>	<b>\$ 33,356,114</b>	<b>\$ 81,677</b>	<b>\$ 7,318</b>	<b>\$ (3,666)</b>	<b>\$ 33,441,443</b>

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## HENDRICKS REGIONAL HEALTH

### CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2013

<b>Assets and deferred outflows</b>	<u>Hospital</u>	<u>Foundation</u>	<u>HAMCO</u>	<u>Eliminations</u>	<u>Total</u>
<b>Current assets</b>					
Cash and cash equivalents	\$ 34,547,940	\$ 715,799	\$ 1,040,130	\$ -0-	\$ 36,303,869
Investments	3,991,867	-0-	878,329	-0-	4,870,196
Patient accounts receivable, net	47,625,691	40,589	-0-	-0-	47,666,280
Inventories	1,600,409	-0-	476,187	-0-	2,076,596
Other current assets	12,997,603	12,481	327,371	-0-	13,337,455
Current portion of assets whose use is limited	4,495,000	-0-	-0-	-0-	4,495,000
<b>Total current assets</b>	<b>105,258,510</b>	<b>768,869</b>	<b>2,722,017</b>	<b>-0-</b>	<b>108,749,396</b>
<b>Assets whose use is limited</b>					
Board designated funded depreciation investments	126,457,383	-0-	-0-	-0-	126,457,383
Held by trustee for debt service	9,101,112	-0-	-0-	-0-	9,101,112
Other board designated investments	443,154	-0-	-0-	-0-	443,154
<b>Total assets whose use is limited</b>	<b>136,001,649</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>136,001,649</b>
Less current portion	4,495,000	-0-	-0-	-0-	4,495,000
<b>Noncurrent assets whose use is limited</b>	<b>131,506,649</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>131,506,649</b>
<b>Capital assets</b>					
Land	16,307,701	-0-	-0-	-0-	16,307,701
Depreciable capital assets	329,583,377	-0-	2,705,452	(1,063,853)	331,224,976
Construction in progress	331,097	-0-	-0-	-0-	331,097
	<b>346,222,175</b>	<b>-0-</b>	<b>2,705,452</b>	<b>(1,063,853)</b>	<b>347,863,774</b>
Less accumulated depreciation	142,843,745	-0-	2,314,119	(1,063,853)	144,094,011
<b>Capital assets, net</b>	<b>203,378,430</b>	<b>-0-</b>	<b>391,333</b>	<b>-0-</b>	<b>203,769,763</b>
<b>Other assets</b>	2,226,645	-0-	-0-	(1,555,274)	671,371
<b>Total assets</b>	<b>442,370,234</b>	<b>768,869</b>	<b>3,113,350</b>	<b>(1,555,274)</b>	<b>444,697,179</b>
<b>Deferred outflows - deferred loss on bond refunding</b>	1,913,192	-0-	-0-	-0-	1,913,192
<b>Total assets and deferred outflows</b>	<b>\$ 444,283,426</b>	<b>\$ 768,869</b>	<b>\$ 3,113,350</b>	<b>\$ (1,555,274)</b>	<b>\$ 446,610,371</b>

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## HENDRICKS REGIONAL HEALTH

### CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2013

<b>Liabilities and net position</b>	<u>Hospital</u>	<u>Foundation</u>	<u>HAMCO</u>	<u>Eliminations</u>	<u>Total</u>
<b>Current liabilities</b>					
Current portion of long-term debt	\$ 4,495,000	\$ -0-	\$ -0-	\$ -0-	\$ 4,495,000
Accounts payable	14,176,078	15,791	596,471	(197,946)	14,590,394
Accrued salaries and related liabilities	12,035,362	-0-	1,993	-0-	12,037,355
Accrued expenses and other current liabilities	27,898,683	-0-	-0-	-0-	27,898,683
Accrued interest	1,916,725	-0-	-0-	-0-	1,916,725
Estimated third-party settlements	1,550,480	-0-	-0-	-0-	1,550,480
<b>Total current liabilities</b>	<b>62,072,328</b>	<b>15,791</b>	<b>598,464</b>	<b>(197,946)</b>	<b>62,488,637</b>
<b>Long-term liabilities</b>					
Long-term debt, net of current portion	111,478,565	-0-	-0-	-0-	111,478,565
<b>Total liabilities</b>	<b>173,550,893</b>	<b>15,791</b>	<b>598,464</b>	<b>(197,946)</b>	<b>173,967,202</b>
<b>Net position</b>					
Net investment in capital assets	89,318,057	-0-	391,333	-0-	89,709,390
Restricted					
For debt service	9,101,112	-0-	-0-	-0-	9,101,112
Non-expendable	-0-	-0-	-0-	1,157,558	1,157,558
<b>Total restricted</b>	<b>9,101,112</b>	<b>-0-</b>	<b>-0-</b>	<b>1,157,558</b>	<b>10,258,670</b>
Unrestricted	172,313,364	753,078	2,123,553	(2,514,886)	172,675,109
<b>Total net position</b>	<b>270,732,533</b>	<b>753,078</b>	<b>2,514,886</b>	<b>(1,357,328)</b>	<b>272,643,169</b>
<b>Total liabilities and net position</b>	<b>\$ 444,283,426</b>	<b>\$ 768,869</b>	<b>\$ 3,113,350</b>	<b>\$ (1,555,274)</b>	<b>\$ 446,610,371</b>

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## HENDRICKS REGIONAL HEALTH

### CONSOLIDATING STATEMENTS OF REVENUES AND EXPENSES YEAR ENDED DECEMBER 31, 2013

	Hospital	Foundation	HAMCO	Eliminations	Total
<b>Operating revenue</b>					
Net patient service revenue	\$ 407,880,347	\$ -0-	\$ 3,423,312	\$ (3,423,312)	407,880,347
Other revenue	8,792,712	-0-	-0-	-0-	8,792,712
Total operating revenue	416,673,059	-0-	3,423,312	(3,423,312)	416,673,059
<b>Operating expenses</b>					
Salaries and wages	85,963,850	-0-	91,859	-0-	86,055,709
Employee benefits	23,164,116	-0-	18,736	-0-	23,182,852
Professional medical fees	3,233,923	-0-	-0-	-0-	3,233,923
Other professional fees	19,410,779	-0-	-0-	(3,423,312)	15,987,467
Medical and surgical supplies	21,401,156	-0-	1,248,431	-0-	22,649,587
Drugs and intravenous solutions	7,782,516	-0-	140,322	-0-	7,922,838
Food	4,935,648	-0-	-0-	-0-	4,935,648
Purchased services	124,538,661	-0-	263,534	-0-	124,802,195
Equipment rental	3,251,737	-0-	16,542	-0-	3,268,279
Hospital Assessment Fee	5,911,299	-0-	-0-	-0-	5,911,299
Telephone and utilities	8,023,558	-0-	-0-	-0-	8,023,558
Depreciation and amortization	13,330,929	-0-	185,184	-0-	13,516,113
Insurance	4,409,743	-0-	8,430	-0-	4,418,173
Facility and equipment leases	22,196,866	-0-	-0-	-0-	22,196,866
Other supplies and expenses	31,638,267	304,547	224,234	-0-	32,167,048
Total operating expenses	379,193,048	304,547	2,197,272	(3,423,312)	378,271,555
Operating income (loss)	37,480,011	(304,547)	1,226,040	-0-	38,401,504
<b>Nonoperating income (expense)</b>					
Investment income (loss) and other	5,726,284	480,751	15,339	(662,598)	5,559,776
Interest expense	(5,572,129)	-0-	-0-	-0-	(5,572,129)
Total non operating income (expense), net	154,155	480,751	15,339	(662,598)	(12,353)
Change in net position before other items	37,634,166	176,204	1,241,379	(662,598)	38,389,151
<b>Other items</b>					
Contributions	-0-	-0-	-0-	29,696	29,696
Dividends	-0-	-0-	(1,660,500)	865,610	(794,890)
<b>Change in net position</b>	<b>\$ 37,634,166</b>	<b>\$ 176,204</b>	<b>\$ (419,121)</b>	<b>\$ 232,708</b>	<b>\$ 37,623,957</b>

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