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June 4, 2020

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

We have reviewed the audit report of Hendricks Regional Health which was opined upon by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2019 to December 31, 2019. Per the *Report of Independent Auditors*, the financial statements included in the report present fairly the financial condition of the Hendricks Regional Health as of December 31, 2019, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Blue & Co., LLC prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

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

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

Paul D. Joyce, CPA
State Examiner



Hendricks
Regional Health

CONSOLIDATED FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018

CPAs / ADVISORS



HENDRICKS REGIONAL HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Hendricks Regional Health
Danville, Indiana

We have audited the accompanying consolidated financial statements of Hendricks Regional Health (Hendricks), a component unit of Hendricks County, which comprise the consolidated balance sheets as of December 31, 2019 and 2018 and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements. We have also audited Hendricks' consolidated statement of fiduciary net position as of December 31, 2019 and the related consolidated statement of changes in fiduciary net position for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Trustees
Hendricks Regional Health
Danville, Indiana

Opinion

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Hendricks as of December 31, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on the 2018 Fiduciary Financial Statements

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

Change in Accounting Principle

As described in Note 2 to the consolidated financial statements, Hendricks adopted Governmental Accounting Standards Board Statement No. 84 – *Fiduciary Activities*. Our opinion and disclaimer of opinion are not modified with respect to this matter.

Report on Required Supplementary Information

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

Blue & Co., LLC

Indianapolis, Indiana
May 12, 2020

REQUIRED SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

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, 2019. This MD&A does include the activities and results of the Blended Component Units, Hendricks Regional Health Foundation, Inc., Hendricks Ambulatory Management Company, LLC., HRH Health Services Corporation and HRH Real Estate Holding Company, Inc. and should be read in conjunction with Hendricks' consolidated financial statements that follow this MD&A.

Financial Highlights

- Hendricks' net position increased approximately \$13,361,000 or 3.2% in 2019.
- Hendricks reported an operating loss of approximately \$14,176,000 for 2019, representing an increase of \$3,174,000 in operating loss in comparison to the 2018 results.
- Hendricks continued its expansion of facilities and equipment in 2019 by adding approximately \$14,917,000 in gross property and equipment. Hendricks disposed of capital assets with a net book value of \$16,319,000 during 2019 primarily related to long-term care activities. These items combined with depreciation expense of \$27,971,000 resulted in net capital assets decreasing \$29,373,000 from the prior year.
- Hendricks' assets whose use is limited increased approximately \$2,466,000 as a result of favorable investment returns.
- During 2019 and 2018, Hendricks recognized approximately \$411,272,000 and \$296,133,000, respectively, of patient service revenue related to long-term care.

Using This Annual Report

Hendricks' consolidated financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These consolidated financial statements and related notes provide information about the financial activities and the financial position of Hendricks.

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

All of the current year's revenue earned, expenses incurred and changes in net position are accounted for in the consolidated statement of revenues, expenses and changes in net position.

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, 2019 AND 2018

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

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

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

Table 1: Consolidated Balance Sheets

The significant change in Hendricks' assets and deferred outflows was in current assets which increased approximately \$40,483,000 in 2019 compared to 2018. The total asset and deferred outflows increase of \$19,004,000 in 2019 was 2.7% from 2018. Capital assets, prior to depreciation, decreased \$11,079,000 while accumulated depreciation increased \$18,294,000 for a net decrease in capital assets of \$29,373,000 in 2019. Current liabilities increased by \$10,220,000 mainly related to an increase in accounts payable of \$6,513,000 for 2019. Net position (or equity) increased by \$13,361,000 in 2019 compared to 2018. The increase relates to primarily favorable investment return. The following is a summary of the consolidated balance sheets for Hendricks.

	2019	2018	Change 2019 - 2018	2017	Change 2018 - 2017
Assets					
Current assets	\$ 205,657,955	\$ 165,175,272	\$ 40,482,683	\$ 166,232,060	\$ (1,056,788)
Capital assets, net	268,414,313	297,787,236	(29,372,923)	279,825,597	17,961,639
Assets whose use is limited, net	220,193,268	217,727,458	2,465,810	251,882,691	(34,155,233)
Other assets	11,178,271	5,019,342	6,158,929	14,537,422	(9,518,080)
Total assets	705,443,807	685,709,308	19,734,499	712,477,770	(26,768,462)
Deferred outflows	11,590,101	12,321,069	(730,968)	5,883,371	6,437,698
Total assets and deferred outflows	\$ 717,033,908	\$ 698,030,377	\$ 19,003,531	\$ 718,361,141	\$ (20,330,764)
Liabilities					
Current liabilities	\$ 158,736,638	\$ 148,516,817	\$ 10,219,821	\$ 138,226,938	\$ 10,289,879
Long-term debt, net	118,001,767	129,683,670	(11,681,903)	133,697,670	(4,014,000)
Total liabilities	276,738,405	278,200,487	(1,462,082)	271,924,608	6,275,879
Deferred inflows	11,449,046	4,344,920	7,104,126	5,650,451	(1,305,531)
Total liabilities and deferred inflows	288,187,451	282,545,407	5,642,044	277,575,059	4,970,348
Net position					
Net investment in capital assets	141,122,447	162,076,720	(20,954,273)	133,005,426	29,071,294
Restricted	16,139,839	7,487,989	8,651,850	7,386,400	101,589
Unrestricted	271,584,171	245,920,261	25,663,910	300,394,256	(54,473,995)
Total net position	428,846,457	415,484,970	13,361,487	440,786,082	(25,301,112)
Total liabilities, deferred inflows and net position	\$ 717,033,908	\$ 698,030,377	\$ 19,003,531	\$ 718,361,141	\$ (20,330,764)

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

Total assets and deferred outflows in 2018 compared to 2017 decreased approximately \$20,331,000. The majority of the change was in assets whose use is limited which decreased \$34,155,000 in 2018 from 2017. Net capital assets increased \$17,962,000 in 2018 from 2017. Current liabilities in 2018 increased \$10,290,000 mainly related to an increase in accounts payable of \$10,385,000 for 2018. The net position in 2018 decreased \$25,301,000 compared to 2017 based on unfavorable operations and investment return.

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

Hendricks' performance in 2019 showed a positive return on equity of 3.1% compared to negative 6.1% in 2018. Total operating revenue increased \$141,843,000 as net patient service revenue increased \$138,839,000 in 2019 over 2018. Acute care and long-term care services constituted the majority of the increase in 2019. Expenses increased by \$145,016,000 between 2018 and 2019. Salaries, wages and benefits increased \$14,907,000 in 2019. Purchased services increased \$83,876,000 in 2019 while facility and equipment leases increased \$11,823,000 in 2019. Nonoperating income (expense) increased by \$41,895,000 due to investment income of \$32,801,000 in 2019 compared to investment loss of \$7,780,000 in 2018 combined with interest expense increasing \$1,314,000 from 2018.

	2019	2018	Change 2019 - 2018	2017	Change 2018 - 2017
Operating revenue					
Net patient service revenue	\$ 735,524,784	\$ 596,685,946	\$ 138,838,838	\$ 541,893,318	\$ 54,792,628
Other operating revenue	12,027,188	9,023,458	3,003,730	8,342,498	680,960
Total operating revenue	747,551,972	605,709,404	141,842,568	550,235,816	55,473,588
Operating expenses					
Salaries and benefits	189,636,424	174,729,272	14,907,152	147,858,408	26,870,864
Medical supplies and drugs	55,039,634	45,349,061	9,690,573	41,663,896	3,685,165
Depreciation and amortization	28,199,568	25,125,879	3,073,689	20,176,823	4,949,056
Other operating expenses	488,852,999	371,508,116	117,344,883	322,673,253	48,834,863
Total operating expenses	761,728,625	616,712,328	145,016,297	532,372,380	84,339,948
Operating income (loss)	(14,176,653)	(11,002,924)	(3,173,729)	17,863,436	(28,866,360)
Nonoperating income (expense)					
Investment return	32,801,000	(7,780,454)	40,581,454	27,139,140	(34,919,594)
Interest expense	(4,563,233)	(5,877,006)	1,313,773	(5,005,194)	(871,812)
Total nonoperating income (expense), net	28,237,767	(13,657,460)	41,895,227	22,133,946	(35,791,406)
Change in net position before other items	14,061,114	(24,660,384)	38,721,498	39,997,382	(64,657,766)
Other items					
Dividends to non-controlling interest	(644,451)	(640,728)	(3,723)	(819,600)	178,872
Redemption of non-controlling shares	(55,176)	-0-	(55,176)	-0-	-0-
Change in net position	13,361,487	(25,301,112)	38,662,599	39,177,782	(64,478,894)
Net position					
Beginning of year	415,484,970	440,786,082	(25,301,112)	401,608,300	39,177,782
End of year	\$ 428,846,457	\$ 415,484,970	\$ 13,361,487	\$ 440,786,082	\$ (25,301,112)

Total operating revenue increased approximately \$55,474,000 as net patient service revenue increased \$54,793,000 in 2018 over 2017. Acute care services constituted the majority of the increase in 2018. Expenses increased by \$84,340,000 between 2017 and 2018. Salaries, wages and benefits increased by \$26,871,000 in 2018. Purchased services increased \$28,370,000 in 2018 while other supplies and expenses increased \$6,907,000 in 2018. Nonoperating income (expense) decreased by \$35,791,000 due to investment loss of \$7,780,000 in 2018 compared to investment return of \$27,139,000 in 2017 combined with interest expense increasing \$872,000 from 2017.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

Consolidated Statements of Cash Flows

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

Total cash and cash equivalents increased approximately \$37,108,000 in 2019. This was an increase of \$50,331,000 from 2018. Operating activities generated cash of \$18,633,000 during 2019 compared to \$10,702,000 in 2018. Capital and related financing decreased cash and cash equivalents by \$27,364,000 during 2019 compared to a decrease of \$57,431,000 in 2018, mainly as the result of expenditures for property and equipment additions. Investing activities increased cash and cash equivalents by \$45,838,000 in 2019 compared to \$33,506,000 in 2018, due to investment activity and the purchase of investments with available cash.

	2019	2018	Change 2019 - 2018	2017	Change 2018 - 2017
Cash flow from activities					
Operating	\$ 18,632,899	\$ 10,701,828	\$ 7,931,071	\$ 53,399,793	\$ (42,697,965)
Capital and related financing	(27,363,750)	(57,431,376)	30,067,626	(38,313,026)	(19,118,350)
Investing	45,838,389	33,506,102	12,332,287	(9,462,274)	42,968,376
Change in cash and cash equivalents	\$ 37,107,538	\$ (13,223,446)	\$ 50,330,984	\$ 5,624,493	\$ (18,847,939)

Cash flows from operating activities in 2018 were approximately \$42,698,000 less than 2017. Cash flows used in capital and related financing activities in 2018 were \$19,118,000 less than 2017. Finally, cash flows used in investing activities in 2018 were \$42,968,000 more than 2017. Cash and cash equivalents in total decreased \$18,848,000 in 2018.

Sources of Revenue

During 2019, 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 54% of gross revenues of operations in 2019 but only 37% of Hendricks' net patient service revenues. The following is a table of major sources of gross patient revenues for 2019:

Payor	% of Gross Revenues
Medicare	43%
Anthem/Blue Cross	21%
Commercial and other	22%
Medicaid	11%
Self-Pay	3%
Total	100%

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

Outpatient services represented approximately 76% of acute care gross patient revenue for 2019 and 2018.

Capital Assets

During 2019, Hendricks' total capital assets decreased by approximately \$11,079,000 compared to an increase of \$43,027,000 in 2018. The majority of the current year decrease was the result of the disposal of capital assets related to long-term care activities with a net book value of \$16,319,000.

	2019	2018	Change 2019 - 2018	2017	Change 2018 - 2017
Land and improvements	\$ 35,003,882	\$ 35,003,690	\$ 192	\$34,087,839	\$ 915,851
Buildings and fixed equipment	289,450,169	286,006,646	3,443,523	264,065,955	21,940,691
Major moveable equipment	139,607,162	153,329,908	(13,722,746)	81,210,781	72,119,127
Construction in progress	4,929,874	5,729,794	(799,920)	57,678,640	(51,948,846)
Total capital assets	468,991,087	480,070,038	(11,078,951)	437,043,215	43,026,823
Less accumulated depreciation	200,576,774	182,282,802	18,293,972	157,217,618	25,065,184
Capital assets - net	\$ 268,414,313	\$ 297,787,236	\$ (29,372,923)	\$ 279,825,597	\$ 17,961,639

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

Debt

Total long-term debt (including current portion) decreased from approximately \$135,711,000 to \$127,292,000 in 2019. The primary reasons for the decrease in long term debt was principal payments made during the year. More detailed information about Hendricks' long-term debt is presented in the Notes to the Consolidated Financial Statements.

Fiduciary Funds

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

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

Economic Outlook

Subsequent to December 31, 2019, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts Hendricks' operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines.

Management believes 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, COVID-19, uncertainty regarding health care reform, changes in payor and services mix, and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. In addition, the adoption of high-deductible health plans by employers continues to occur and patients are increasingly being held responsible for more of the cost of health care. Consequently, the health care market place has been increasingly more competitive. The ongoing challenge facing Hendricks is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant factor affecting Hendricks is finding the balance in maintaining and controlling labor costs in the face of pressures on volume and pricing for its services in this increasingly competitive, retail-like environment.

Contacting Hendricks' Financial Management

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

HENDRICKS REGIONAL HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS

	2019	2018
Current assets		
Cash and cash equivalents	\$ 20,722,418	\$ 20,095,862
Investments	56,422,844	38,708,314
Patient accounts receivable, less allowance for uncollectible accounts of \$34,876,000 in 2019 and \$36,213,000 in 2018	72,026,454	70,941,939
Inventories	3,368,601	3,243,901
Other current assets	43,827,539	26,158,410
Current portion of assets whose use is limited	9,290,099	6,026,846
Total current assets	205,657,955	165,175,272
Assets whose use is limited		
Board designated funded depreciation investments	210,341,004	217,337,687
Held by trustee	14,904,637	6,210,647
Other board designated investments	4,237,726	205,970
Total assets whose use is limited	229,483,367	223,754,304
Less current portion	9,290,099	6,026,846
Noncurrent assets whose use is limited	220,193,268	217,727,458
Capital assets		
Land	25,010,345	25,010,345
Depreciable capital assets	439,050,868	449,329,899
Construction in progress	4,929,874	5,729,794
	468,991,087	480,070,038
Less accumulated depreciation	200,576,774	182,282,802
Capital assets, net	268,414,313	297,787,236
Other assets		
Pension asset	9,420,967	3,000,566
Other	1,757,304	2,018,776
Total other assets	11,178,271	5,019,342
Total assets	705,443,807	685,709,308
Deferred outflows	11,590,101	12,321,069
Total assets and deferred outflows	\$ 717,033,908	\$ 698,030,377

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	2019	2018
Current liabilities		
Current portion of long-term debt	\$ 9,290,099	\$ 6,026,846
Line of credit	24,000,000	24,000,000
Accounts payable	43,645,246	37,132,735
Accrued salaries and related liabilities	19,116,877	16,722,817
Accrued expenses and other current liabilities	55,611,177	58,163,464
Accrued interest	1,668,428	1,682,388
Estimated third-party settlements	5,404,811	4,788,567
Total current liabilities	158,736,638	148,516,817
Long-term debt, net of current portion	118,001,767	129,683,670
Total liabilities	276,738,405	278,200,487
Deferred inflows	11,449,046	4,344,920
Total liabilities and deferred inflows	288,187,451	282,545,407
Net position		
Net investment in capital assets	141,122,447	162,076,720
Restricted		
Held by trustee	14,904,637	6,210,647
Non-expendable	1,235,202	1,277,342
Total restricted	16,139,839	7,487,989
Unrestricted	271,584,171	245,920,261
Total net position	428,846,457	415,484,970
Total liabilities, deferred inflows and net position	\$ 717,033,908	\$ 698,030,377

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

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

	2019	2018
Operating revenue		
Net patient service revenue	\$ 735,524,784	\$ 596,685,946
Other operating revenue	12,027,188	9,023,458
Total operating revenue	747,551,972	605,709,404
Operating expenses		
Salaries and wages	151,227,588	140,377,033
Employee benefits	38,408,836	34,352,239
Professional medical fees	1,736,505	1,449,668
Other professional fees	39,419,535	36,857,758
Medical and surgical supplies	41,134,773	33,080,456
Drugs and intravenous solutions	13,904,861	12,268,605
Food	10,190,458	7,397,966
Purchased services	277,167,065	193,291,235
Equipment rental	3,503,110	3,009,946
HAF and HIP program assessments	12,771,312	9,289,458
Telephone and utilities	16,383,735	13,559,337
Depreciation and amortization	28,199,568	25,125,879
Insurance	12,609,736	7,403,349
Facility and equipment leases	51,153,874	39,330,828
Other supplies and expenses	63,917,669	59,918,571
Total operating expenses	761,728,625	616,712,328
Operating loss	(14,176,653)	(11,002,924)
Nonoperating income (expense)		
Investment return	32,801,000	(7,780,454)
Interest expense	(4,563,233)	(5,877,006)
Total nonoperating income (expense), net	28,237,767	(13,657,460)
Change in net position before other items	14,061,114	(24,660,384)
Other items		
Dividends to non-controlling interest	(644,451)	(640,728)
Redemption of non-controlling shares	(55,176)	-0-
Change in net position	13,361,487	(25,301,112)
Net position		
Beginning of year	415,484,970	440,786,082
End of year	\$ 428,846,457	\$ 415,484,970

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

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

	2019	2018
Operating activities		
Cash received from patient services	\$ 735,056,513	\$ 582,817,172
Cash paid for salaries, wages and benefits	(185,827,671)	(168,558,106)
Cash paid to vendors and suppliers	(542,623,131)	(412,580,696)
Other receipts, net	12,027,188	9,023,458
Net cash flows from operating activities	18,632,899	10,701,828
Capital and related financing activities		
Acquisition and construction of capital assets	(14,063,003)	(41,329,345)
Dividends to non-controlling interest	(644,451)	(640,728)
Redemption of non-controlling shares	(55,176)	-0-
Loss of disposal of property and equipment	-0-	88,349
Interest on long-term debt	(4,577,193)	(5,776,543)
Borrowings on line of credit	30,000,000	24,000,000
Payments on line of credit	(30,000,000)	(22,900,000)
Proceeds from issuance of long-term debt	87,335,515	2,713,301
Principal payments for long-term debt	(95,359,442)	(13,586,410)
Net cash flows from capital and related financing activities	(27,363,750)	(57,431,376)
Investing activities		
Investment return	32,801,000	(7,780,454)
Purchase of investments	(25,160,932)	(8,644,217)
Proceeds from sale of investments	38,198,321	49,930,773
Net cash flows from investing activities	45,838,389	33,506,102
Net change in cash and cash equivalents	37,107,538	(13,223,446)
Cash and cash equivalents		
Beginning of year	57,597,778	70,821,224
End of year	\$ 94,705,316	\$ 57,597,778
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets - cash and cash equivalents	\$ 20,722,418	\$ 20,095,862
In investments	54,851,898	37,286,742
In board designated investments	19,131,000	215,174
Total cash and cash equivalents	\$ 94,705,316	\$ 57,597,778

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

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

	2019	2018
Reconciliation of operating loss to net cash flows from operating activities		
Operating loss	\$ (14,176,653)	\$ (11,002,924)
Adjustment to reconcile operating loss to net cash flows from operating activities		
Depreciation and amortization	28,199,568	25,125,879
Provision for bad debts	24,607,476	27,140,321
Changes in operating assets and liabilities		
Patient accounts receivable	(25,691,991)	(43,007,711)
Inventories	(124,700)	20,662
Other current assets	(17,669,129)	(3,451,253)
Pension asset	(6,420,401)	9,753,277
Other assets	(361,482)	(474,297)
Deferred outflows	730,968	(6,437,698)
Accounts payable	5,657,933	8,302,297
Accrued salaries and related liabilities	2,394,060	4,161,118
Accrued expenses and other current liabilities	13,766,880	(120,928)
Estimated third-party settlements	616,244	1,998,616
Deferred inflows	7,104,126	(1,305,531)
Net cash flows from operating activities	\$ 18,632,899	\$ 10,701,828
Supplemental disclosure of cash flows information		
Cash paid for interest	\$ 4,577,193	\$ 5,776,543
Noncash capital and related financing activities		
Capital asset purchases in accounts payable	\$ 854,578	\$ 2,083,068
Disposal of capital assets through release of liability	\$ 16,319,167	\$ -0-

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

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

	Pension Trust Funds	
	2019	Unaudited 2018
Assets		
Cash and cash equivalents	\$ 686,426	\$ 683,529
Investments at fair value		
Mutual funds	198,449,355	152,218,486
Fixed income obligations	4,593,107	4,097,478
Total investments	203,042,462	156,315,964
Employer contributions receivable	2,360,098	2,145,544
Accrued interest	201,982	28,914
Notes receivable from participants	1,521,017	1,296,740
Total assets	207,811,985	160,470,691
Net position restricted for penions	\$ 207,811,985	\$ 160,470,691

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

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

	Pension Trust Funds	
	2019	Unaudited 2018
Additions		
Contributions		
Participants	\$ 8,977,653	\$ 7,823,995
Employer	6,005,136	5,300,808
Rollover	3,762,673	2,647,585
Total contributions	18,745,462	15,772,388
Investment return		
Interest and dividends	14,625,651	8,727,484
Net change in fair value of investments	21,150,179	(19,936,634)
Total investment return	35,775,830	(11,209,150)
Interest on notes receivable from participants	87,748	66,642
Total additions	54,609,040	4,629,880
Deductions		
Benefits paid to participants	7,056,793	6,656,257
Administrative expenses	210,953	162,846
Total deductions	7,267,746	6,819,103
Net change in fiduciary net position	47,341,294	(2,189,223)
Net position		
Beginning of year	160,470,691	162,659,914
End of year	\$ 207,811,985	\$ 160,470,691

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

The consolidated financial statements of Hendricks are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of Hendricks and its component units. They do not purport to, and do not, present the financial position of the County as of December 31, 2019 and 2018, the changes in its net position or its cash flows for the years then ended.

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

Long-Term Care Operations

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

Hendricks has lease agreements for the long-term care facilities, collectively referred to as the lessors, to lease the facilities managed by the managers. Concurrently, Hendricks entered into agreements with the managers to manage the leased facilities. As part of the agreements, Hendricks pays the managers a management fee to continue managing the facilities on behalf of Hendricks in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire at various times through 2026. 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, 2019 AND 2018

Basis of Consolidation

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

HAMCO was formed to manage Hendricks' outpatient surgery center. As the sole Class B member of HAMCO, Hendricks maintains controlling interest in voting rights. Hendricks also maintains substantial participation in the operations of HAMCO in addition to an economic interest in HAMCO's financial position. HRH Health Services and HRH Real Estate are not-for-profit corporations with Hendricks as the sole corporate member.

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

Measurement Focus and Basis of Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include all cash held in checking, savings and money market deposit accounts available for operating purposes with original maturity dates of 90 days or less. Hendricks maintains its cash in accounts, which at times may exceed federally insured limits. Hendricks has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents. Included in cash and cash equivalents are amounts held by Hendricks under agreement with the State of Indiana relating to non-state government operated nursing facilities. These funds are required to be held through the end of Hendricks' fiscal year, at which time they are available for the general corporate purposes of Hendricks. As of December 31, 2019 and 2018, these amounts approximately \$49,400,000 and \$37,200,000, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Investments

Investments consist of cash and cash equivalents, certificates of deposit, mutual funds (including exchange traded funds), U.S. Government obligations and fixed income obligations. Investments other than certificates of deposit are reported at fair value. Certificates of deposit are reported at contract 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, 2016 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2017 through 2019 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2019 and 2018, Hendricks recognized an increase in net position in the consolidated statements of revenues, expenses and changes in net position of approximately \$-0- and \$70,000 during 2019 and 2018, respectively, 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.

Inventories

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

	2019	2018
Medical supplies and other	\$ 2,435,541	\$ 2,669,445
Pharmaceutical	933,060	574,456
	<u>\$ 3,368,601</u>	<u>\$ 3,243,901</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Other Current Assets

Other current assets consist of prepaid expenses, other receivables and various other current items. These assets are classified as current as they are expected to be utilized within the next fiscal year. Other receivables approximated \$34,618,000 and \$21,200,000 of the total as of December 31, 2019 and 2018, respectively.

Assets Whose Use is Limited

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

Capital Assets and Depreciation

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

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

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

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	5-25 years
Buildings and fixed equipment	3-50 years
Major movable equipment	3-30 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 \$2,114,000 and \$2,153,000 for 2019 and 2018, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Net Position

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

Consolidated Statements of Revenues, Expenses and Changes in Net Position

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

Charity Care and Assistance to the Uninsured

Hendricks provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care and financial assistance policy, including those patients who are uninsured. Because Hendricks does not collect amounts deemed to be charity care, revenue is adjusted for these amounts. Hendricks maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care and financial assistance policy. The charity care charges provided during 2019 and 2018 were approximately \$10,948,000 and \$6,618,000, respectively. Hendricks did not change its charity care and financial assistance policy during 2019 and 2018.

Of Hendricks' total expenses reported, including interest expense, in 2019 and 2018, an estimated \$4,599,000 and \$2,887,000 arose from providing services to charity patients during 2019 and 2018, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on Hendricks' total expenses including interest expense to gross patient service revenue.

Hendricks has a policy with discounted rates similar to contractual payors for uninsured patients. Uninsured self-pay discounts provided to patients were approximately \$6,649,000 and \$7,987,000 for 2019 and 2018, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Federal or State Income Taxes

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

The Foundation, HRH Health Services and HRH Real Estate are organized as a not-for-profit organization under Section 501(c)(3) of the United States IRC. As such, these entities are generally exempt from income taxes. However, they are required to file Federal Form 990 – Return of Organization Exempt from Income Tax. The Foundation, HRH Health Services and HRH Real Estate have filed their federal and state income tax returns for periods through December 31, 2018. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

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, 2018. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

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

Compensated Absences

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

Pensions

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Litigation

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

Risk Management

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

Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, Hendricks has the option to purchase insurance for claims having occurred during its term but reported subsequently. The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act requires Hendricks to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence and \$12,000,000 in the annual aggregate until June 30, 2019. Starting July 1, 2019, the Act requires Hendricks to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence and \$15,000,000 in the annual aggregate. The Act also requires Hendricks to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 \$500,000 per incident and aggregate liability protection not to exceed \$15,000,000 per year. In addition, Hendricks maintains a commercial umbrella/excess liability policy with a limit of \$1,000,000 each occurrence, \$1,000,000 completed operations aggregate limit, \$1,000,000 personal and advertising injury, \$100,000 fire damage, and a \$3,000,000 total policy aggregate.

Fiduciary Funds

Following Hendricks' consolidated financial statements are separate consolidated financial statements for fiduciary funds. Fiduciary funds are excluded from Hendricks' consolidated financial statements as these assets are held in trust capacity for the various associates and cannot be used to support Hendricks' programs. These funds include the Hendricks Regional Health Employees' Retirement Plan and the Hendricks Regional Health 403(b) Tax Deferred Annuity Plan.

Reclassifications

Certain amounts from the 2018 consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications have no effect on previously reported net position or change in net position.

Subsequent Events

Hendricks evaluates events or transactions occurring subsequent to consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is May 12, 2020.

2. CHANGE IN ACCOUNTING PRINCIPLE

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

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

3. INVESTMENTS

Investments consist of cash and cash equivalents, certificates of deposit, mutual funds, U.S. Government obligations and fixed income obligations. Certificates of deposit are reported at contract value. Mutual funds, exchange traded funds, and U.S. Government and fixed income obligations are reported at fair value. Investments balances as of December 31, 2019 and 2018 were approximately \$56,423,000 and \$38,708,000, respectively.

4. ASSETS WHOSE USE IS LIMITED

Hendricks funds depreciation expense to meet its capital equipment needs. Depreciation is funded with expenditures for capital equipment and debt principal payments reducing the funded depreciation balance. Hendricks designates other investments to fund specific projects. All interest earned by the funded depreciation and other board designated investments accounts are left to accumulate as an addition to the funds. Hendricks maintains funds which are held by trustee for debt service, capital improvements, and other purposes. The following is a summary of assets whose use is limited as of December 31, 2019 and 2018:

	2019	2018
Assets whose use is limited		
Cash and cash equivalents	\$ 19,131,000	\$ 215,174
Investments	210,352,367	223,539,130
	<u>\$ 229,483,367</u>	<u>\$ 223,754,304</u>

5. DEPOSITS AND INVESTMENTS

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

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

	Hendricks	
	2019	2018
Carrying amount		
Deposits	\$ 94,705,316	\$ 57,597,778
Investments	211,923,313	224,960,702
	\$ 306,628,629	\$ 282,558,480
Included in the balance sheet captions		
Cash and cash equivalents	\$ 20,722,418	\$ 20,095,862
Investments	56,422,844	38,708,314
Board designated funded depreciation investments	210,341,004	217,337,687
Held by trustee	14,904,637	6,210,647
Other board designated investments	4,237,726	205,970
	\$ 306,628,629	\$ 282,558,480
	Pension Trust Funds	
	2019	Unaudited 2018
Carrying amount		
Deposits	\$ 686,426	\$ 683,529
Investments	203,042,462	156,315,964
	\$ 203,728,888	\$ 156,999,493

6. FAIR VALUE MEASUREMENTS

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

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

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

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

Assets and liabilities measured at fair value on a recurring basis for Hendricks as of December 31, 2019 and 2018 are as follows:

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - short term bond	\$ 924,720	\$ 924,720	\$ -0-	\$ -0-
Exchange traded funds	646,226	646,226	-0-	-0-
	1,570,946	<u>\$ 1,570,946</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Cash	54,851,898			
Total investments	<u>\$ 56,422,844</u>			
Assets whose use is limited				
Mutual funds				
Foreign large growth	\$ 6,873,542	\$ 6,873,542	\$ -0-	\$ -0-
Foreign large value	7,140,285	7,140,285	-0-	-0-
Intermediate-term bond	120,892,483	120,892,483	-0-	-0-
Large blend	52,874,599	52,874,599	-0-	-0-
Short-term bond	115,659	115,659	-0-	-0-
Small growth	7,479,631	7,479,631	-0-	-0-
Small value	6,704,373	6,704,373	-0-	-0-
Total mutual funds	202,080,572	202,080,572	-0-	-0-
U.S. Government obligations	1,161,795	-0-	1,161,795	-0-
Fixed income obligations	7,110,000	-0-	7,110,000	-0-
	210,352,367	<u>\$ 202,080,572</u>	<u>\$ 8,271,795</u>	<u>\$ -0-</u>
Cash	19,131,000			
Total assets whose use is limited	<u>\$ 229,483,367</u>			

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - short term bond	\$ 884,921	\$ 884,921	\$ -0-	\$ -0-
Exchange traded funds	536,651	536,651	-0-	-0-
	1,421,572	\$ 1,421,572	\$ -0-	\$ -0-
Cash	37,286,742			
Total investments	\$ 38,708,314			
Assets whose use is limited				
Mutual funds				
Foreign large growth	\$ 7,583,501	\$ 7,583,501	\$ -0-	\$ -0-
Foreign large value	7,878,655	7,878,655	-0-	-0-
Intermediate-term bond	102,104,064	102,104,064	-0-	-0-
Large blend	66,702,399	66,702,399	-0-	-0-
Large growth	10,992,911	10,992,911	-0-	-0-
Short-term bond	110,682	110,682	-0-	-0-
Small growth	6,872,197	6,872,197	-0-	-0-
Small value	6,853,908	6,853,908	-0-	-0-
Total mutual funds	209,098,317	209,098,317	-0-	-0-
U.S. Government obligations	7,110,813	-0-	7,110,813	-0-
Fixed income obligations	7,330,000	-0-	7,330,000	-0-
	223,539,130	\$ 209,098,317	\$ 14,440,813	\$ -0-
Cash	215,174			
Total assets whose use is limited	\$ 223,754,304			

Assets and liabilities measured at fair value on a recurring basis for Hendricks' pension trust funds as of December 31, 2019 and 2018 are as follows:

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Pension trust funds				
Investments				
Mutual funds				
Target-date retirement	\$ 91,903,644	\$ 91,903,644	\$ -0-	\$ -0-
Allocation	3,884,107	3,884,107	-0-	-0-
Foreign	14,291,637	14,291,637	-0-	-0-
Intermediate core-plus bond	24,240,298	24,240,298	-0-	-0-
Large blend	33,614,321	33,614,321	-0-	-0-
Large growth	3,446,629	3,446,629	-0-	-0-
Small growth	7,948,770	7,948,770	-0-	-0-
Small value	5,481,812	5,481,812	-0-	-0-
Other	13,638,137	13,638,137	-0-	-0-
Total mutual funds	198,449,355	198,449,355	-0-	-0-
Fixed income obligations	4,593,107	-0-	4,593,107	-0-
Total pension trust funds	\$ 203,042,462	\$ 198,449,355	\$ 4,593,107	\$ -0-

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

	December 31, 2018 (Unaudited)			
	Total	Level 1	Level 2	Level 3
Pension trust funds				
Investments				
Mutual funds				
Target-date retirement	\$ 66,055,352	\$ 66,055,352	\$ -0-	\$ -0-
Foreign	11,141,023	11,141,023	-0-	-0-
Intermediate core-plus bond	21,620,240	21,620,240	-0-	-0-
Large blend	27,068,404	27,068,404	-0-	-0-
Large growth	2,539,796	2,539,796	-0-	-0-
Small growth	5,682,500	5,682,500	-0-	-0-
Small value	4,997,699	4,997,699	-0-	-0-
Other	13,113,472	13,113,472	-0-	-0-
Total mutual funds	152,218,486	152,218,486	-0-	-0-
Fixed income obligations	4,097,478	-0-	4,097,478	-0-
Total pension trust funds	\$ 156,315,964	\$ 152,218,486	\$ 4,097,478	\$ -0-

Hendricks' policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2019 and 2018. Realized gains and losses included in earnings are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment return. Differences between market value and cost of investments are classified as unrealized gains or losses. Unrealized gains or losses are included in earnings for the period attributable to the change in unrealized gains relating to assets held as of December 31, 2019 and 2018 and are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment return.

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.

7. CAPITAL ASSETS

Progressions for capital assets for 2019 and 2018 follow:

	December 31,				December 31,
	2018	Additions	Disposals	Transfers	2019
Land	\$ 25,010,345	\$ -0-	\$ -0-	\$ -0-	\$ 25,010,345
Land improvements	9,993,345	192	-0-	-0-	9,993,537
Buildings and fixed equipment	286,006,646	2,578,792	-0-	864,731	289,450,169
Major movable equipment	153,329,908	10,636,735	(25,996,532)	1,637,051	139,607,162
Construction in progress	5,729,794	1,701,862	-0-	(2,501,782)	4,929,874
Total capital assets	480,070,038	14,917,581	(25,996,532)	-0-	468,991,087
Less accumulated depreciation					
Land improvements	6,134,777	649,860	-0-	-0-	6,784,637
Buildings and fixed equipment	108,425,854	9,998,360	-0-	-0-	118,424,214
Major movable equipment	67,722,171	17,323,117	(9,677,365)	-0-	75,367,923
Total accumulated depreciation	182,282,802	27,971,337	(9,677,365)	-0-	200,576,774
Capital assets, net	\$ 297,787,236	\$ (13,053,756)	\$ (16,319,167)	\$ -0-	\$ 268,414,313

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

	December 31, 2017	Additions	Disposals	Transfers	December 31, 2018
Land	\$ 24,094,494	\$ -0-	\$ -0-	\$ 915,851	\$ 25,010,345
Land improvements	9,993,345	-0-	-0-	-0-	9,993,345
Buildings and fixed equipment	264,065,955	9,539,256	-0-	12,401,435	286,006,646
Major movable equipment	81,210,781	30,022,648	(385,590)	42,482,069	153,329,908
Construction in progress	57,678,640	3,850,509	-0-	(55,799,355)	5,729,794
Total capital assets	437,043,215	43,412,413	(385,590)	-0-	480,070,038
Less accumulated depreciation					
Land improvements	5,477,702	657,075	-0-	-0-	6,134,777
Buildings and fixed equipment	98,857,563	9,568,291	-0-	-0-	108,425,854
Major movable equipment	52,882,353	15,137,059	(297,241)	-0-	67,722,171
Total accumulated depreciation	157,217,618	25,362,425	(297,241)	-0-	182,282,802
Capital assets, net	\$ 279,825,597	\$ 18,049,988	\$ (88,349)	\$ -0-	\$ 297,787,236

During 2019, Hendricks disposed of capital assets with a net book value of approximately \$16,319,000 related to long-term care activities. Significant outstanding commitments on capital assets as of December 31, 2019 were \$5,486,000, primarily related to the medical office building and other project renovations.

8. LONG-TERM DEBT

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

In 2009, Hendricks issued Indiana Taxable Economic Development Revenue Bonds, Series 2009 in the amount of \$5,000,000. These Series 2009 Bonds bear interest at 5% through February 2030 and are unsecured. Hendricks is also the sole bond holder of the Series 2009 Bonds. In 2016, Hendricks issued Indiana Taxable Economic Development Revenue Bonds, Series 2016 in the amount of \$2,600,000. These Series 2016 Bonds bear interest at 2% through April 2036 and are unsecured. Hendricks is also the sole bond holder of the Series 2016 Bonds.

In 2019, Hendricks borrowed from the Indiana Finance Authority (the Authority), the Health Facility Revenue Refunding Bonds, Series 2019A Bonds for \$43,530,000, Series 2019B Bonds for \$12,835,000, Series 2019C Bonds for \$27,255,000, and Series 2019D Bonds for \$1,500,000 to refinance the existing Series 2009A, Series 2015A Bonds and Series 2015B Bonds. Hendricks, the Authority, Fifth Third Commercial Funding, Inc. (Fifth Third), First Merchants Bank (First Merchants), BMO Harris Investment Company, LLC (BMO Investment), and BMO Harris Bank N.A. (BMO) then entered into Bond Purchase and Loan Agreements (the Agreements). Fifth Third, First Merchants, BMO Investment, and BMO purchased from the Authority all of the Series 2019A, 2019B, 2019C, and 2019c Bonds, respectively, in private placements.

The Agreements run through the maturity dates of the Series 2019A, 2019B, 2019C, and 2019D Bonds which are January 2029, January 2039, January 2034, and January 2020, respectively. The 2019A Bonds bear interest at a fixed rate of 2.92%, the Series 2019B Bonds bear interest at a fixed rate of 4.00%, the Series 2019C Bonds bear interest at a fixed rate of 2.74%, and the Series 2019D Bonds bear interest at a fixed rate of 3.32%. Principal payments for these 2019 bonds are through July 2034. The Series 2019A, 2019B, 2019C, and 2019D Bonds are secured by Hendricks' net revenues.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

The Series 2007A, 2019A, 2019B, 2019C, and 2019D Bonds are covered under a Master Trust Indenture and are secured by an interest in the gross revenues of Hendricks. The Series 2007A, 2019A, 2019B, 2019C, and 2019D Bonds require Hendricks to comply with certain financial covenants. As of December 31, 2019 and 2018, Hendricks believed it was in compliance with these financial covenants.

The Series 2009A, Series 2015A and Series 2015B Bonds were defeased with the issuance of the Series 2019 Bonds in January 2019. The loss recognized on the defeasement of these bonds was approximately \$176,000.

Hendricks has a line of credit agreement with Fifth Third with a maximum amount of \$24,000,000 to fund working capital. The amount outstanding as of December 31, 2019 and 2018 was \$24,000,000. The line of credit bears interest at the floating 30 day LIBOR rate plus 125 basis points (2.8% at December 31, 2019) and is secured by Hendricks net revenues. The line of credit is renewable annually expires in February 2021.

Included in deferred outflows as of December 31, 2019 and 2018 is a loss on bond refunding of approximately \$1,207,000 and \$1,325,000, respectively, related to the refunding of Series 2002 Bonds during 2007. Annual amortization of the loss is approximately \$118,000 through April 2030.

Progressions for long-term debt for 2019 and 2018 include the following:

	December 31, 2018	Additional Borrowings	Payments	December 31, 2019	Current Portion
Direct borrowings					
Indiana Bond Bank					
Special Program Refunding					
Bonds Series 2007A	\$ 34,215,000	\$ -0-	\$ (2,120,000)	\$ 32,095,000	\$ 2,230,000
Special Hospital Program					
Bonds Series 2009A	48,105,000	-0-	(48,105,000)	-0-	-0-
Indiana Taxable Economic					
Development Revenue Bonds					
Series 2009	5,000,000	-0-	(110,000)	4,890,000	330,000
Series 2016	2,330,000	-0-	(110,000)	2,220,000	115,000
Indiana Finance Authority					
Health Facility Revenue					
Bonds, Series 2015A & B	41,142,856	-0-	(41,142,856)	-0-	-0-
Indiana Finance Authority					
Health Facility Revenue					
Refunding Bonds, Series 2019	-0-	85,120,000	(2,850,000)	82,270,000	5,445,000
Total direct borrowings	130,792,856	85,120,000	(94,437,856)	121,475,000	8,120,000
Other borrowings	2,276,827	2,215,515	(921,586)	3,570,756	1,170,099
	133,069,683	<u>\$ 87,335,515</u>	<u>\$ (95,359,442)</u>	125,045,756	<u>\$ 9,290,099</u>
Unamortized bond premium	2,640,833			2,246,110	
	<u>\$ 135,710,516</u>			<u>\$ 127,291,866</u>	

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

	December 31, 2017	Additional Borrowings	Payments	December 31, 2018	Current Portion
Direct borrowings					
Indiana Bond Bank					
Special Program Refunding					
Bonds Series 2007A	\$ 36,230,000	\$ -0-	\$ (2,015,000)	\$ 34,215,000	\$ 2,120,000
Special Hospital Program					
Bonds Series 2009A	51,540,000	-0-	(3,435,000)	48,105,000	3,575,000
Indiana Taxable Economic					
Development Revenue Bonds					
Series 2009	5,000,000	-0-	-0-	5,000,000	110,000
Series 2016	2,440,000	-0-	(110,000)	2,330,000	110,000
Indiana Finance Authority					
Health Facility Revenue					
Bonds, Series 2015A & B	48,000,000	-0-	(6,857,144)	41,142,856	6,857,144
Total direct borrowings	143,210,000	-0-	(12,417,144)	130,792,856	12,772,144
Other borrowings	732,792	2,713,301	(1,169,266)	2,276,827	836,846
	143,942,792	<u>\$ 2,713,301</u>	<u>\$ (13,586,410)</u>	133,069,683	13,608,990
Unamortized bond premium	2,877,379			2,640,833	
	<u>\$ 146,820,171</u>			<u>\$ 135,710,516</u>	
				Effect of 2019 refinancing	(7,582,144)
					<u>\$ 6,026,846</u>

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Direct Borrowings		Other Borrowings		Total
	Principal	Interest	Principal	Interest	
2020	\$ 8,119,100	\$ 4,173,696	\$ 1,170,999	\$ 142,831	\$ 13,606,626
2021	8,420,000	3,924,297	813,062	96,027	13,253,386
2022	8,725,000	3,650,485	634,989	63,504	13,073,978
2023	9,040,000	3,357,333	634,989	38,105	13,070,427
2024	9,370,900	3,051,419	316,717	12,705	12,751,741
2025-2029	49,860,000	9,852,991	-0-	-0-	59,712,991
2030-2034	16,040,000	3,366,298	-0-	-0-	19,406,298
2035-2039	11,900,000	1,197,200	-0-	-0-	13,097,200
	<u>\$ 121,475,000</u>	<u>\$ 32,573,719</u>	<u>\$ 3,570,756</u>	<u>\$ 353,172</u>	<u>\$ 157,972,647</u>

9. NET PATIENT SERVICE REVENUE

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Medicare

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

Medicaid and Hospital Assessment Fee and Healthy Indiana Programs

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

Hendricks participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF Program expense reported in the consolidated statements of revenues, expenses and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Beginning July 1, 2017, hospitals also started funding the Healthy Indiana Plan (HIP), the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program but the funding includes physician, state administration, and certain non-hospital expenditures. During 2019 and 2018, Hendricks recognized HAF and HIP program assessments of approximately \$12,771,000 and \$9,289,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP assessments are included in the consolidated statements of revenues, expenses and changes in net position as operating expenses. The Medicaid rate increases under the HAF Program and the HIP payments are included in patient service revenue in the consolidated statements revenues, expenses and changes in net position.

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 \$5,605,000 and \$4,356,000 during 2019 and 2018, 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.

HENDRICKS REGIONAL HEALTH

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

	2019	2018
Inpatient	\$ 201,373,747	\$ 174,015,374
Outpatient	651,770,616	578,807,468
Long-term care services	411,272,147	296,133,256
Gross patient service revenue	1,264,416,510	1,048,956,098
Contractual allowances	486,687,904	410,524,702
Uninsured self pay discounts	6,648,735	7,987,382
Charity care	10,947,611	6,617,747
Provision for bad debts	24,607,476	27,140,321
Deductions from revenue	528,891,726	452,270,152
Net patient service revenue	\$ 735,524,784	\$ 596,685,946

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

10. DEFINED BENEFIT PENSION PLAN

Plan Description

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Benefits Provided

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

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

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

Funding Policy

The contribution requirements of plan members are established by the written agreement between Hendricks Board of Trustees and the plan administrator. plan members' contributions are not required by the plan agreement. Hendricks is required to contribute at an actuarially determined rate. No contributions were required in 2019 and 2018 and Hendricks does not expect to be required to contribute to the Plan in 2020.

Employees Covered by Benefit Terms

As of December 31, 2019 and 2018, the following employees were covered by the benefit terms of the Plan:

	<u>2019</u>	<u>2018</u>
Active plan members, including		
terminated but vested participants	762	829
Inactive plan members and		
beneficiaries receiving benefits	364	338
Inactive plan members entitled to but		
not yet receiving benefits	294	268
	<u>1,420</u>	<u>1,435</u>

HENDRICKS REGIONAL HEALTH

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Contributions

The annual required contributions for 2019 and 2018 and estimated liabilities as of January 1, 2019 and 2018 were determined as part of the actuarial valuations using the Entry Age Normal cost method.

Net Pension Asset

The total pension liability was measured as of December 31, 2019 and 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of January 1, 2019 and 2018.

Actuarial assumptions

The total pension liability in the December 31, 2019 and 2018 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.00%
Investment rate of return	7.00%

Mortality rates were based on the Social Security Administration’s assumptions to RP-2014 Sex Distinct Mortality with generational improvements beginning in 2006 based on the Social Security Administration’s assumptions. During 2019, the mortality assumption has been updated from the RP-2014 Sex Distinct Mortality Table with generational improvements based on assumptions developed from the 2018 Social Security Trustees Report to the PubG-2010 Sex Distinct Mortality Table with generational improvements beginning in 2010 based on improvement scale MP-2019. This results in an increase in the total pension liability.

The actuarial value of assets was based on market value of assets. The same actuarial assumptions were used to determine the actuarial value required contributions for 2019 and 2018.

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00% and 7.25% for 2019 and 2018, respectively. The projection of cash flows used to determine the discount rate assumed that Hendricks' contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension (Asset) Liability

The following presents the net pension (asset) liability of Hendricks, calculated using the discount rate of 7.00%, as well as what Hendricks' net pension (asset) liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension (asset) liability	\$ (1,039,992)	\$ (9,420,967)	\$ (16,400,701)

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Changes in the Net Pension (Asset) Liability

The changes in the net pension (asset) liability during 2019 and 2018 were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balance, 12/31/2018	\$ 62,107,903	\$ 65,108,469	\$ (3,000,566)
Service cost	348,219	-0-	348,219
Interest	4,433,857	-0-	4,433,857
Differences between expected and actual experience	249,765	-0-	249,765
Changes of assumptions	3,641,039	-0-	3,641,039
Benefit payments	(2,598,951)	(2,598,951)	-0-
Net investment income	-0-	15,258,882	(15,258,882)
Administrative expenses	-0-	(177,008)	177,008
Other	-0-	11,407	(11,407)
Net change	6,073,929	12,494,330	(6,420,401)
Balance, 12/31/2019	\$ 68,181,832	\$ 77,602,799	\$ (9,420,967)
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balance, 12/31/2017	\$ 59,047,848	\$ 71,801,691	\$ (12,753,843)
Service cost	354,904	-0-	354,904
Interest	4,222,130	-0-	4,222,130
Differences between expected and actual experience	940,439	-0-	940,439
Changes of assumptions	(124,468)	-0-	(124,468)
Benefit payments	(2,332,950)	(2,332,950)	-0-
Net investment loss	-0-	(4,241,637)	4,241,637
Administrative expenses	-0-	(135,542)	135,542
Other	-0-	16,907	(16,907)
Net change	3,060,055	(6,693,222)	9,753,277
Balance, 12/31/2018	\$ 62,107,903	\$ 65,108,469	\$ (3,000,566)

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

For 2019 and 2018, Hendricks recognized pension expense of approximately \$1,297,000 and \$1,892,000, respectively. As of December 31, 2019 and 2018, Hendricks reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, December 31, 2018	\$ 10,996,553	\$ (4,344,920)
Differences between expected and actual experience	249,765	-0-
Amortization of expected versus actual	(386,726)	191,029
Changes in assumptions	3,641,039	-0-
Amortization of changes in assumptions	(1,275,262)	60,433
Differences between projected and actual earnings on plan investments	-0-	(10,650,554)
Amortization of projected versus actual earnings on plan investments	(2,842,049)	3,294,966
Balance, December 31, 2019	10,383,320	\$ (11,449,046)
Deferred outflows - loss on bond refunding	1,206,781	
Total deferred outflows, December 31, 2019	\$ 11,590,101	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, December 31, 2017	\$ 4,441,120	\$ (5,650,451)
Differences between expected and actual experience	940,439	-0-
Amortization of expected versus actual	(336,773)	191,029
Changes in assumptions	-0-	(124,468)
Amortization of changes in assumptions	(547,054)	60,433
Differences between projected and actual earnings on plan investments	9,340,870	-0-
Amortization of projected versus actual earnings on plan investments	(2,842,049)	1,178,537
Balance, December 31, 2018	10,996,553	\$ (4,344,920)
Deferred outflows - loss on bond refunding	1,324,516	
Total deferred outflows, December 31, 2018	\$ 12,321,069	

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

Year Ending December 31,	
2020	\$ 42,033
2021	(441,694)
2022	682,654
2023	<u>(1,348,719)</u>
	<u>\$ (1,065,726)</u>

11. TAX DEFERRED ANNUITY PLAN AND OTHER BENEFIT PLANS

Plan Description

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

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

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 2019 and 2018, 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 2019 and 2018.

Hendricks' contributions to the plans for 2019 and 2018 were approximately \$6,583,000 and \$6,031,000, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

12. RENTAL EXPENSE

Hendricks has leases expiring at various times through 2026. 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 2019 and 2018 was approximately \$3,503,000 and \$3,007,000, respectively.

Minimum future payments on non-cancelable leases for the years following December 31, 2019 are:

Year Ending December 31,		
2020	\$	323,909
2021		150,407
2022		74,067
2023		53,096
2024		40,151
Thereafter		70,155
	\$	<u>711,785</u>

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$51,154,000 and \$39,331,000 for 2019 and 2018, respectively. Annual rent expense through 2026 is scheduled to approximate \$50,000,000 under these leases.

13. CONCENTRATION OF CREDIT RISK

Hendricks corporate office and its hospital facilities are located in Danville, Indiana. Other outpatient, ambulatory care and physician services are located in Avon, Plainfield, Lizton, Bainbridge, Greencastle and Brownsburg, Indiana. Hendricks grants credit without collateral to its patients, most of who are residents of the County and are insured under third-party payor agreements.

The mix of receivables and revenue from patients and third-party payors as of December 31, 2019 and 2018 was as follows:

	Receivables		Revenues	
	2019	2018	2019	2018
Medicare	29%	28%	43%	44%
Medicaid	10%	15%	11%	10%
Anthem/Blue Cross	14%	17%	21%	22%
Commercial and other	29%	23%	22%	20%
Self-Pay	18%	17%	3%	4%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Under the long-term care leases, Hendricks recorded expenses related to purchased services from the managers of the facilities of approximately \$246,014,000 and \$168,096,000 during 2019 and 2018, respectively. Amounts due to the managers included in current liabilities as of December 31, 2019 and 2018 approximated \$73,005,000 and \$70,081,000, respectively.

14. BLENDED COMPONENT UNITS

Hendricks includes its blended component units in its reporting entity. Condensed component unit information for all of its blended component units as of and for the years ended December 31, 2019 and 2018 is as follows:

	2019			
	Foundation	HAMCO	HRH Health Services	HRH Real Estate
Balance sheet				
Assets				
Current assets	\$ 2,627,799	\$ 2,277,760	\$ 5,981,002	\$ 174,600
Capital assets	-0-	931,847	-0-	6,084,139
Total assets	\$ 2,627,799	\$ 3,209,607	\$ 5,981,002	\$ 6,258,739
Liabilities				
Due to Hendricks	\$ 16,105	\$ 19,384	\$ 1,600	\$ 25,049
Other current liabilities	121,331	664,006	56,987	-0-
Total liabilities	137,436	683,390	58,587	25,049
Net position				
Net investment in capital assets	-0-	931,847	-0-	6,084,139
Unrestricted	2,490,363	1,594,370	5,922,415	149,551
Total net position	2,490,363	2,526,217	5,922,415	6,233,690
Total liabilities and net position	\$ 2,627,799	\$ 3,209,607	\$ 5,981,002	\$ 6,258,739
Statement of Revenues and Expenses and Changes in Net Position				
Revenues	\$ -0-	\$ 4,566,885	\$ 193,933	\$ 78,300
Expenses				
Depreciation	-0-	306,324	-0-	-0-
Other expenses	250,122	2,953,870	337,473	26,770
Total expenses	250,122	3,260,194	337,473	26,770
Operating income (loss)	(250,122)	1,306,691	(143,540)	51,530
Nonoperating revenues (expenses)	729,891	40,362	28,180	-0-
Excess revenues over expenses	479,769	1,347,053	(115,360)	51,530
Contributions (distributions) and other, net	-0-	(1,375,521)	-0-	-0-
Change in net position	479,769	(28,468)	(115,360)	51,530
Net position, beginning of year	2,010,594	2,554,685	6,037,775	6,182,160
Net position, end of year	\$ 2,490,363	\$ 2,526,217	\$ 5,922,415	\$ 6,233,690

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

	2019			
	Foundation	HAMCO	HRH Health Services	HRH Real Estate
Statement of cash flows				
Cash provided by (used in)				
Operating activities	\$ 424,338	\$ 517,642	\$ (85,655)	\$ 76,579
Capital and related financing activities	-0-	(502,066)	-0-	-0-
Investing activities	(116,501)	(1)	(4,028,180)	-0-
Change	307,837	15,575	(4,113,835)	76,579
Cash and cash equivalents, beginning of year	1,433,019	-0-	6,019,308	98,021
Cash and cash equivalents, end of year	<u>\$ 1,740,856</u>	<u>\$ 15,575</u>	<u>\$ 1,905,473</u>	<u>\$ 174,600</u>
2018				
	Foundation	HAMCO	HRH Health Services	HRH Real Estate
Balance sheet				
Assets				
Current assets	\$ 2,037,516	\$ 2,534,843	\$ 6,047,858	\$ 98,021
Capital assets	-0-	736,104	-0-	6,084,139
Total assets	<u>\$ 2,037,516</u>	<u>\$ 3,270,947</u>	<u>\$ 6,047,858</u>	<u>\$ 6,182,160</u>
Liabilities				
Due to Hendricks	\$ 4,674	\$ 11,065	\$ 649	\$ -0-
Other current liabilities	22,248	705,197	9,434	-0-
Total liabilities	26,922	716,262	10,083	-0-
Net position				
Net investment in capital assets	-0-	736,104	-0-	6,084,139
Unrestricted	2,010,594	1,818,581	6,037,775	98,021
Total net position	<u>2,010,594</u>	<u>2,554,685</u>	<u>6,037,775</u>	<u>6,182,160</u>
Total liabilities and net position	<u>\$ 2,037,516</u>	<u>\$ 3,270,947</u>	<u>\$ 6,047,858</u>	<u>\$ 6,182,160</u>
Statement of Revenues and Expenses and Changes in Net Position				
Revenues	\$ -0-	\$ 4,477,863	\$ 195,147	\$ 78,479
Expenses				
Depreciation	-0-	154,047	-0-	-0-
Other expenses	443,993	3,038,945	208,537	33
Total expenses	<u>443,993</u>	<u>3,192,992</u>	<u>208,537</u>	<u>33</u>
Operating income (loss)	(443,993)	1,284,871	(13,390)	78,446
Nonoperating revenues (expenses)	929,346	3,573	-0-	-0-
Excess revenues over expenses	485,353	1,288,444	(13,390)	78,446
Dividends	-0-	(1,282,147)	3,000,000	-0-
Change in net position	485,353	6,297	2,986,610	78,446
Net position, beginning of year	1,525,241	2,548,388	3,051,165	6,103,714
Net position, end of year	<u>\$ 2,010,594</u>	<u>\$ 2,554,685</u>	<u>\$ 6,037,775</u>	<u>\$ 6,182,160</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Statement of cash flows	2018			
	Foundation	HAMCO	HRH Health Services	HRH Real Estate
	Cash provided by (used in)			
Operating activities	\$ 264,244	\$ 154,217	\$ (31,021)	\$ 78,446
Capital and related financing activities	-0-	(172,148)	3,000,000	-0-
Investing activities	7,704	1	-0-	-0-
Change	271,948	(17,930)	2,968,979	78,446
Cash equivalents, beginning of year	1,161,071	17,930	3,050,329	19,575
Cash equivalents, end of year	\$ 1,433,019	\$ -0-	\$ 6,019,308	\$ 98,021

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

15. SELF INSURANCE

Hendricks is self-insured for employee health claims. A third party administrator processes the claims for Hendricks who maintains an estimated liability for the amount of claims incurred but not reported. Hendricks also maintains reinsurance including a stop loss for individual employees over \$300,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$18,045,000 and \$14,719,000 for 2019 and 2018, 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:

	2019	2018
Unpaid claims, beginning of year	\$ 2,074,548	\$ 2,795,475
Incurred claims and changes in estimates	18,044,585	14,718,635
Claim payments	(16,256,466)	(15,439,562)
Unpaid claims, end of year	\$ 3,862,667	\$ 2,074,548

As of December 31, 2019 and 2018, Hendricks had \$-0- of reinsurance recovery receivables for stop loss claims netted against the unpaid claims liability.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

16. RESTRICTED NON-EXPENDABLE NET POSITION

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

	2019	2018
Non-controlling interests	\$ 1,235,202	\$ 1,277,342

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

	Controlling Interest	Non-controlling Interest	Total
Net position, December 31, 2017	\$ 1,274,193	\$ 1,274,195	\$ 2,548,388
Operating income	642,782	642,089	1,284,871
Nonoperating income	1,787	1,786	3,573
Dividends	(641,419)	(640,728)	(1,282,147)
Change in net position	3,150	3,147	6,297
Net position, December 31, 2018	1,277,343	1,277,342	2,554,685
Operating income	668,904	637,787	1,306,691
Nonoperating income	20,662	19,700	40,362
Dividends	(675,894)	(644,451)	(1,320,345)
Redemption of non-controlling shares	-0-	(55,176)	(55,176)
Change in net position	13,672	(42,140)	(28,468)
Net position, December 31, 2019	\$ 1,291,015	\$ 1,235,202	\$ 2,526,217

17. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2017, GASB issued GASB Statement No. 87, *Leases*, which will be effective for periods beginning after June 15, 2021. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

In June 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for periods beginning after December 15, 2020. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

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

18. SUBSEQUENT EVENTS

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

Additionally, Hendricks entered into new line of credit agreements with local lenders totaling \$50,000,000 to meet liquidity demands as needed. As of May 12, 2020, no amounts had been drawn on these new lines of credit.

REQUIRED SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2019

SCHEDULE OF CHANGES IN NET PENSION (ASSET) LIABILITY AND RELATED RATIOS

	2019	2018	2017	2016	2015	2014
Total pension liability						
Service cost	\$ 348,219	\$ 354,904	\$ 449,870	\$ 405,170	\$ 466,554	\$ 452,071
Interest	4,433,857	4,222,130	4,059,028	3,994,066	3,737,349	3,636,062
Change of benefit terms	-0-	-0-	-0-	246,372	-0-	-0-
Differences between expected and actual experience	249,765	940,439	271,415	(1,146,174)	659,468	-0-
Changes of assumptions	3,641,039	(124,468)	(248,774)	1,389,220	1,893,100	-0-
Benefit payments	(2,598,951)	(2,332,950)	(2,040,835)	(2,361,119)	(4,183,243)	(1,321,007)
Net change in pension liability	6,073,929	3,060,055	2,490,704	2,527,535	2,573,228	2,767,126
Total pension liability - beginning	62,107,903	59,047,848	56,557,144	54,029,609	51,456,381	48,689,255
Total pension liability - ending (a)	<u>\$ 68,181,832</u>	<u>\$ 62,107,903</u>	<u>\$ 59,047,848</u>	<u>\$ 56,557,144</u>	<u>\$ 54,029,609</u>	<u>\$ 51,456,381</u>
Plan fiduciary net position						
Benefit payments	\$ (2,598,951)	\$ (2,332,950)	\$ (2,040,835)	\$ (2,361,119)	\$ (4,183,243)	\$ (1,321,007)
Net investment income	15,258,882	(4,241,637)	10,340,867	4,239,435	203,831	4,722,125
Administrative expenses	(177,008)	(135,542)	(144,474)	(140,674)	(229,428)	(71,215)
Other	11,407	16,907	17,280	15,894	8,498	-0-
Net change in plan fiduciary net position	12,494,330	(6,693,222)	8,172,838	1,753,536	(4,200,342)	3,329,903
Plan fiduciary net position - beginning	65,108,469	71,801,691	63,628,853	61,875,317	66,075,659	62,745,756
Plan fiduciary net position - ending (b)	<u>\$ 77,602,799</u>	<u>\$ 65,108,469</u>	<u>\$ 71,801,691</u>	<u>\$ 63,628,853</u>	<u>\$ 61,875,317</u>	<u>\$ 66,075,659</u>
Net pension (asset) liability (a) - (b)	<u>\$ (9,420,967)</u>	<u>\$ (3,000,566)</u>	<u>\$ (12,753,843)</u>	<u>\$ (7,071,709)</u>	<u>\$ (7,845,708)</u>	<u>\$ (14,619,278)</u>
Plan fiduciary net position as a % of total pension liability	113.82%	104.83%	121.60%	112.50%	114.52%	128.41%
Covered payroll	\$ 15,262,335	\$ 15,261,212	\$ 15,572,358	\$ 16,057,360	\$ 16,766,172	\$ 17,051,344
Net pension (asset) liability as a % of covered payroll	-61.73%	-19.66%	-81.90%	-44.04%	-46.79%	-85.74%

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

HENDRICKS REGIONAL HEALTH

REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2019

SCHEDULE OF CONTRIBUTIONS

	Actuarially Determined Contribution	Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as % of Covered Payroll
12/31/2019	\$ -0-	\$ -0-	\$ -0-	\$ 15,262,335	0.00%
12/31/2018	\$ -0-	\$ -0-	\$ -0-	\$ 15,261,212	0.00%
12/31/2017	\$ -0-	\$ -0-	\$ -0-	\$ 15,572,358	0.00%
12/31/2016	\$ -0-	\$ -0-	\$ -0-	\$ 16,057,360	0.00%
12/31/2015	\$ -0-	\$ -0-	\$ -0-	\$ 16,766,172	0.00%
12/31/2014	\$ -0-	\$ -0-	\$ -0-	\$ 17,051,344	0.00%
12/31/2013	\$ -0-	\$ -0-	\$ -0-	\$ 17,062,098	0.00%
12/31/2012	\$ 1,862,492	\$ -0-	\$ 1,862,492	\$ 76,121,054	0.00%
12/31/2011	\$ 1,613,170	\$ 750,000	\$ 863,170	\$ 74,645,517	1.00%
12/31/2010	\$ 1,737,544	\$ 3,165,000	\$ (1,427,456)	\$ 72,800,013	4.35%

Notes to Schedule

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

Changes in the methods and assumptions used in since the prior measurement date include:

Investment rate of return was lowered 25 basis points to 7.00%

Mortality table was changed from RP-2014 to PubG-2010 Sex Distinct Mortality

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	15 year level dollar
Remaining amortization period	15 year period
Asset valuation method	Market value of assets
Salary increases	3.00%
Investment rate of return	7.00%
Retirement age	65 and 5 years of participation
Mortality	PubG-2010 Sex Distinct Mortality with generational improvements beginning in 2010 based on improvement scale MP-2019