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November 17, 2021

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, 2020 to December 31, 2020. 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, 2020, 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, 2020 AND 2019

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, 2020 and 2019 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, 2020 and 2019 and the related consolidated statements of changes in fiduciary net position for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our 2020 audit in accordance with auditing standards generally accepted in the United States of America, 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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The 2019 consolidated financial statements were not audited under *Government Auditing Standards* and were audited 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 present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary activities of Hendricks as of December 31, 2020 and 2019, and the respective changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Notes 2 and 3 to the consolidated financial statements, Hendricks early adopted Governmental Accounting Standards Board Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Our opinion is 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2021 on our consideration of Hendricks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hendricks' internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
May 21, 2021

REQUIRED SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 AND 2019

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, 2020. 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 \$27,722,000 or 6.5% in 2020.
- Hendricks reported an operating loss of approximately \$31,916,000 for 2020, representing an unfavorable change of \$17,739,000 in operating loss in comparison to the 2019 results.
- Hendricks continued its expansion of facilities and equipment in 2020 by adding approximately \$17,756,000 in gross property and equipment. Hendricks disposed of capital assets with a net book value of \$4,055,000 during 2020 primarily related to long-term care activities. These items combined with depreciation expense of \$26,991,000 resulted in net capital assets decreasing \$13,290,000 from the prior year.
- Hendricks' assets whose use is limited increased approximately \$27,561,000 as a result of favorable investment returns.
- During 2020 and 2019, Hendricks recognized approximately \$433,780,000 and \$411,272,000, 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, 2020 AND 2019

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

The balance sheet and the statement of revenues, expenses and changes in net position report information about Hendricks' resources and its activities. 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. Hendricks' net position, the difference between assets and liabilities, is a measure of Hendricks' financial health, or financial position.

Table 1: Consolidated Balance Sheets

The significant changes in Hendricks' total assets and deferred outflows were in current assets and assets whose use is limited which increased approximately \$27,955,000 and \$27,561,000, respectively, in 2020 compared to 2019. The total assets and deferred outflows increase of \$43,149,000 in 2020 was 6.0% from 2019. Capital assets, prior to depreciation, increased \$12,673,000 while accumulated depreciation increased \$25,963,000 for a net decrease in capital assets of \$13,290,000 in 2020. Current liabilities increased by \$22,115,000 and mainly related to an increase in estimated third-party settlements of \$17,089,000 for 2020. Net position (or equity) increased by \$27,722,000 in 2020 compared to 2019. The increase relates primarily to an overall favorable investment return. The following is a summary of the consolidated balance sheets for Hendricks.

	2020	2019	Change 2020 - 2019	2018	Change 2019 - 2018
Assets					
Current assets	\$ 233,613,059	\$ 205,657,955	\$ 27,955,104	\$ 165,175,272	\$ 40,482,683
Capital assets, net	255,124,394	268,414,313	(13,289,919)	297,787,236	(29,372,923)
Assets whose use is limited, net	247,754,342	220,193,268	27,561,074	217,727,458	2,465,810
Other assets	5,714,437	11,178,271	(5,463,834)	5,019,342	6,158,929
Total assets	742,206,232	705,443,807	36,762,425	685,709,308	19,734,499
Deferred outflows	17,976,987	11,590,101	6,386,886	12,321,069	(730,968)
Total assets and deferred outflows	<u>\$ 760,183,219</u>	<u>\$ 717,033,908</u>	<u>\$ 43,149,311</u>	<u>\$ 698,030,377</u>	<u>\$ 19,003,531</u>
Liabilities					
Current liabilities	\$ 180,851,368	\$ 158,736,638	\$ 22,114,730	\$ 148,516,817	\$ 10,219,821
Long-term debt, net	108,589,016	118,001,767	(9,412,751)	129,683,670	(11,681,903)
Total liabilities	289,440,384	276,738,405	12,701,979	278,200,487	(1,462,082)
Deferred inflows	14,174,701	11,449,046	2,725,655	4,344,920	7,104,126
Total liabilities and deferred inflows	303,615,085	288,187,451	15,427,634	282,545,407	5,642,044
Net position					
Net investment in capital assets	137,302,316	141,122,447	(3,820,131)	162,076,720	(20,954,273)
Restricted	16,154,197	16,139,839	14,358	7,487,989	8,651,850
Unrestricted	303,111,621	271,584,171	31,527,450	245,920,261	25,663,910
Total net position	456,568,134	428,846,457	27,721,677	415,484,970	13,361,487
Total liabilities, deferred inflows and net position	<u>\$ 760,183,219</u>	<u>\$ 717,033,908</u>	<u>\$ 43,149,311</u>	<u>\$ 698,030,377</u>	<u>\$ 19,003,531</u>

Total assets and deferred outflows in 2019 compared to 2018 increased approximately \$19,004,000. The majority of the change was in current assets which increased \$40,483,000 in 2019 from 2018. Net capital assets decreased \$29,373,000 in 2019 from 2018 as a result of depreciation and asset disposals exceeding capital purchases. Current liabilities in 2019 increased \$10,220,000 due primarily to an increase in accounts payable of \$6,513,000 for 2019. Hendricks' net position in 2019 increased \$13,361,000 compared to 2018 based on favorable operations and investment return.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 AND 2019

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

Hendricks' performance in 2020 showed a positive return on equity of 6.1% compared to 3.1% in 2019. Total operating revenue increased \$23,064,000 as net patient service revenue increased \$23,135,000 in 2020 over 2019. Acute care and long-term care services constituted the majority of the increase in 2020. Expenses increased by \$40,803,000 between 2019 and 2020. Medical supplies and drugs increased \$12,420,000 in 2020 despite lower volumes due to the price pressures and equipment needs associated with the COVID-19 pandemic. Purchased services increased \$36,709,000 in 2020 while other supplies and expenses increased \$19,114,000 in 2020. Nonoperating revenue (expense) increased by \$31,945,000 due to COVID-19 grant funds of \$40,785,000 in 2020 compared to \$-0- in 2019, investment return of \$23,700,000 in 2020 compared to investment return of \$32,801,000 in 2019, combined with interest expense decreasing \$262,000 from 2019.

	2020	2019	Change 2020 - 2019	2018	Change 2019 - 2018
Operating revenue					
Net patient service revenue	\$ 758,660,138	\$ 735,524,784	\$ 23,135,354	\$ 596,685,946	\$ 138,838,838
Other operating revenue	11,955,416	12,027,188	(71,772)	9,023,458	3,003,730
Total operating revenue	770,615,554	747,551,972	23,063,582	605,709,404	141,842,568
Operating expenses					
Salaries and benefits	191,759,857	189,636,424	2,123,433	174,729,272	14,907,152
Medical supplies and drugs	67,459,522	55,039,634	12,419,888	45,349,061	9,690,573
Depreciation and amortization	27,219,045	28,199,568	(980,523)	25,125,879	3,073,689
Other operating expenses	516,093,246	488,852,999	27,240,247	371,508,116	117,344,883
Total operating expenses	802,531,670	761,728,625	40,803,045	616,712,328	145,016,297
Operating loss	(31,916,116)	(14,176,653)	(17,739,463)	(11,002,924)	(3,173,729)
Nonoperating revenue (expense)					
Investment return	23,699,789	32,801,000	(9,101,211)	(7,780,454)	40,581,454
COVID-19 grant funds	40,784,967	-0-	40,784,967	-0-	-0-
Interest expense	(4,301,702)	(4,563,233)	261,531	(5,877,006)	1,313,773
Total nonoperating revenue (expense), net	60,183,054	28,237,767	31,945,287	(13,657,460)	41,895,227
Change in net position before other items	28,266,938	14,061,114	14,205,824	(24,660,384)	38,721,498
Other items					
Dividends to non-controlling interest	(490,085)	(644,451)	154,366	(640,728)	(3,723)
Redemption of non-controlling shares	(55,176)	(55,176)	-0-	-0-	(55,176)
Change in net position	27,721,677	13,361,487	14,360,190	(25,301,112)	38,662,599
Net position					
Beginning of year	428,846,457	415,484,970	13,361,487	440,786,082	(25,301,112)
End of year	\$ 456,568,134	\$ 428,846,457	\$ 27,721,677	\$ 415,484,970	\$ 13,361,487

Total operating revenue increased approximately \$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 by \$14,907,000 in 2019. Purchased services increased \$83,876,000 in 2019 while facilities and equipment leases increased \$11,823,000 in 2019. Nonoperating revenue (expense) increased by \$41,895,000 due to investment return 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.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 AND 2019

Consolidated Statements of Cash Flows

The required statement of cash flows presents cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and presents the sources and uses of cash for the period. Total cash and cash equivalents increased approximately \$51,443,000 in 2020. This represents an increase of \$14,335,000 over the 2019 increase. Operating activities generated cash of \$29,449,000 during 2020 compared to \$18,633,000 in 2019. Non-capital financing activities, comprised entirely of COVID-19 grant funds, increased cash and cash equivalents by \$57,888,000 in 2020. Capital and related financing decreased cash and cash equivalents by \$37,995,000 during 2020 compared to a decrease of \$27,364,000 in 2019, mainly as the result of expenditures for property and equipment additions. Investing activities increased cash and cash equivalents by \$2,101,000 in 2020 compared to \$45,838,000 in 2019. These figures represent market returns coupled with the results of investment sales and purchases.

	2020	2019	Change 2020 - 2019	2018	Change 2019 - 2018
Cash flow from activities					
Operating	\$ 29,448,604	\$ 18,632,899	\$ 10,815,705	\$ 10,701,828	\$ 7,931,071
Non-capital financing activities	57,888,255	-	57,888,255	-	-
Capital and related financing	(37,995,021)	(27,363,750)	(10,631,271)	(57,431,376)	30,067,626
Investing	2,101,095	45,838,389	(43,737,294)	33,506,102	12,332,287
Change in cash and cash equivalents	<u>\$ 51,442,933</u>	<u>\$ 37,107,538</u>	<u>\$ 14,335,395</u>	<u>\$ (13,223,446)</u>	<u>\$ 50,330,984</u>

Cash flows from operating activities in 2019 were approximately \$7,931,000 more than 2018. Cash flows used in capital and related financing activities in 2019 were \$30,068,000 more than 2018. Finally, cash flows used in investing activities in 2019 were \$12,332,000 more than 2018. Cash and cash equivalents in total increased \$37,108,000 in 2019.

Sources of Revenue

During 2020, 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 2020 but only 35% of Hendricks' net patient service revenues. The following is a table of major sources of gross patient revenues for 2020:

Payor	% of Gross Revenues
Medicare	42%
Anthem/Blue Cross	22%
Commercial and other	22%
Medicaid	12%
Self-Pay	2%
Total	<u>100%</u>

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 AND 2019

Outpatient services represented approximately 75% and 76% of acute care gross patient revenue for 2020 and 2019, respectively.

Capital Assets

During 2020, Hendricks' total capital assets decreased by approximately \$13,290,000 compared to a decrease of \$29,373,000 in 2019. The majority of the current year decrease was the result lower capital investments as a result of COVID-19 concerns coupled with current year depreciation.

	2020	2019	Change 2020 - 2019	2018	Change 2019 - 2018
Land and improvements	\$ 31,118,580	\$ 35,003,882	\$ (3,885,302)	\$35,003,690	\$ 192
Buildings and fixed equipment	297,514,436	289,450,169	8,064,267	286,006,646	3,443,523
Major moveable equipment	149,373,810	139,607,162	9,766,648	153,329,908	(13,722,746)
Construction in progress	3,657,139	4,929,874	(1,272,735)	5,729,794	(799,920)
Total capital assets	481,663,965	468,991,087	12,672,878	480,070,038	(11,078,951)
Accumulated depreciation	(226,539,571)	(200,576,774)	(25,962,797)	(182,282,802)	(18,293,972)
Capital assets - net	<u>\$ 255,124,394</u>	<u>\$ 268,414,313</u>	<u>\$ (13,289,919)</u>	<u>\$ 297,787,236</u>	<u>\$ (29,372,923)</u>

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 by approximately \$9,470,000 to \$117,822,000 during 2020 as a result of principal payments combined with the amortization of bond premium. More detailed information about Hendricks' long-term debt is presented in the Notes to the Consolidated Financial Statements.

Fiduciary Funds

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 plan is 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, 2020 AND 2019

Economic Outlook

In March 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may continue to adversely impact the local, regional, national and global economies. The extent to which COVID-19 continues to impact 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 their care. Consequently, the health care market place has been increasingly more competitive. Hendricks will continue to face the challenge of providing exceptional care in the face of a challenging reimbursement environment in a more competitive landscape.

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, 2020 AND 2019

ASSETS AND DEFERRED OUTFLOWS

	2020	2019
Current assets		
Cash and cash equivalents		
Undesignated	\$ 23,458,047	\$ 20,722,418
Board designated for COVID-19 and stimulus	29,742,513	-0-
Board designated for employee benefits	3,650,000	-0-
Board designated for capital purchases	9,167,890	-0-
Total cash and cash equivalents	66,018,450	20,722,418
Investments	56,664,402	56,422,844
Patient accounts receivable, less allowance for uncollectible accounts of \$47,063,000 in 2020 and \$34,876,000 in 2019	60,805,275	72,026,454
Inventories	3,406,062	3,368,601
Other current assets	37,485,808	43,827,539
Current portion of assets whose use is limited	9,233,062	9,290,099
Total current assets	233,613,059	205,657,955
Assets whose use is limited		
Board designated funded depreciation investments	231,825,743	210,341,004
Held by trustee	14,964,702	14,904,637
Other board designated investments	10,196,959	4,237,726
Total assets whose use is limited	256,987,404	229,483,367
Current portion	(9,233,062)	(9,290,099)
Noncurrent assets whose use is limited	247,754,342	220,193,268
Capital assets		
Land	21,125,043	25,010,345
Depreciable capital assets	456,881,783	439,050,868
Construction in progress	3,657,139	4,929,874
	481,663,965	468,991,087
Accumulated depreciation	(226,539,571)	(200,576,774)
Capital assets, net	255,124,394	268,414,313
Other assets		
Pension asset	4,818,570	9,420,967
Other	895,867	1,757,304
Total other assets	5,714,437	11,178,271
Total assets	742,206,232	705,443,807
Deferred outflows		
Total assets and deferred outflows	\$ 760,183,219	\$ 717,033,908

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 AND 2019

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	2020	2019
Current liabilities		
Current portion of long-term debt	\$ 9,233,062	\$ 9,290,099
Line of credit	14,000,000	24,000,000
Accounts payable	49,851,782	43,645,246
Accrued salaries and related liabilities	13,276,726	19,116,877
Accrued expenses and other current liabilities	70,677,675	55,611,177
Accrued interest	1,318,123	1,668,428
Medicare accelerated and advanced payments	20,697,110	-0-
Estimated third-party settlements	1,796,890	5,404,811
Total current liabilities	180,851,368	158,736,638
Long-term debt, net of current portion	108,589,016	118,001,767
Total liabilities	289,440,384	276,738,405
Deferred inflows	14,174,701	11,449,046
Total liabilities and deferred inflows	303,615,085	288,187,451
Net position		
Net investment in capital assets	137,302,316	141,122,447
Restricted		
Held by trustee	14,964,702	14,904,637
Non-expendable	1,189,495	1,235,202
Total restricted	16,154,197	16,139,839
Unrestricted	303,111,621	271,584,171
Total net position	456,568,134	428,846,457
Total liabilities, deferred inflows and net position	\$ 760,183,219	\$ 717,033,908

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Operating revenue		
Net patient service revenue	\$ 758,660,138	\$ 735,524,784
Other operating revenue	11,955,416	12,027,188
Total operating revenue	770,615,554	747,551,972
Operating expenses		
Salaries and wages	158,950,577	151,227,588
Employee benefits	32,809,280	38,408,836
Professional medical fees	1,863,055	1,736,505
Other professional fees	32,682,543	39,419,535
Medical and surgical supplies	50,182,038	41,134,773
Drugs and intravenous solutions	17,277,484	13,904,861
Food	9,587,834	10,190,458
Purchased services	313,876,153	277,167,065
Equipment rental	3,840,668	3,503,110
HAF and HIP program assessments	10,372,836	12,771,312
Telephone and utilities	15,408,106	16,383,735
Depreciation and amortization	27,219,045	28,199,568
Insurance	10,439,078	12,609,736
Facility and equipment leases	34,991,776	51,153,874
Other supplies and expenses	83,031,197	63,917,669
Total operating expenses	802,531,670	761,728,625
Operating loss	(31,916,116)	(14,176,653)
Nonoperating revenue (expense)		
Investment return	23,699,789	32,801,000
COVID-19 grant funds	40,784,967	-0-
Interest expense	(4,301,702)	(4,563,233)
Total nonoperating revenue (expense), net	60,183,054	28,237,767
Change in net position before other items	28,266,938	14,061,114
Other items		
Dividends to non-controlling interest	(490,085)	(644,451)
Redemption of non-controlling shares	(55,176)	(55,176)
Change in net position	27,721,677	13,361,487
Net position		
Beginning of year	428,846,457	415,484,970
End of year	\$ 456,568,134	\$ 428,846,457

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Operating activities		
Cash received from patient services	\$ 786,970,506	\$ 735,056,513
Cash paid for salaries, wages and benefits	(196,658,842)	(185,827,671)
Cash paid to vendors and suppliers	(572,818,476)	(542,623,131)
Other receipts, net	11,955,416	12,027,188
Net cash flows from operating activities	29,448,604	18,632,899
Non-capital financing activities		
COVID-19 grant funds	57,888,255	-0-
Net cash flows from non-capital financing activities	57,888,255	-0-
Capital and related financing activities		
Acquisition and construction of capital assets	(17,601,748)	(14,063,003)
Dividends to non-controlling interest	(490,085)	(644,451)
Redemption of non-controlling shares	(55,176)	(55,176)
Proceeds on sale of assets	3,806,615	-0-
Loss of disposal of property and equipment	248,036	-0-
Interest on long-term debt	(4,652,007)	(4,577,193)
Borrowings on line of credit	14,000,000	30,000,000
Payments on line of credit	(24,000,000)	(30,000,000)
Proceeds from issuance of long-term debt	-0-	87,335,515
Principal payments for long-term debt	(9,250,656)	(95,359,442)
Net cash flows from capital and related financing activities	(37,995,021)	(27,363,750)
Investing activities		
Investment return	23,699,789	32,801,000
Purchase of investments	(21,999,590)	(25,160,932)
Proceeds from sale of investments	400,896	38,198,321
Net cash flows from investing activities	2,101,095	45,838,389
Net change in cash and cash equivalents	51,442,933	37,107,538
Cash and cash equivalents		
Beginning of year	94,705,316	57,597,778
End of year	\$ 146,148,249	\$ 94,705,316
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets - cash and cash equivalents	\$ 66,018,450	\$ 20,722,418
In investments	54,979,557	54,851,898
In board designated investments	25,150,242	19,131,000
Total cash and cash equivalents	\$ 146,148,249	\$ 94,705,316

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Reconciliation of operating loss to net cash flows from operating activities		
Operating loss	\$ (31,916,116)	\$ (14,176,653)
Adjustment to reconcile operating loss to net cash flows from operating activities		
Depreciation and amortization	27,219,045	28,199,568
Provision for bad debts	23,433,925	24,607,476
Changes in operating assets and liabilities		
Patient accounts receivable	(12,212,746)	(25,691,991)
Inventories	(37,461)	(124,700)
Other current assets	6,341,731	(17,669,129)
Pension asset	4,602,397	(6,420,401)
Other assets	414,074	(361,482)
Deferred outflows	(6,386,886)	730,968
Accounts payable	6,052,738	5,657,933
Accrued salaries and related liabilities	(5,840,151)	2,394,060
Accrued expenses and other current liabilities	(2,036,790)	13,766,880
Medicare accelerated and advanced payments	20,697,110	-0-
Estimated third-party settlements	(3,607,921)	616,244
Deferred inflows	2,725,655	7,104,126
Net cash flows from operating activities	\$ 29,448,604	\$ 18,632,899
Supplemental disclosure of cash flows information		
Cash paid for interest	\$ 4,652,007	\$ 4,577,193
Noncash capital and related financing activities		
Capital asset purchases in accounts payable	\$ 153,798	\$ 854,578
Disposal of capital assets through release of liability	\$ -0-	\$ 16,319,167

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF FIDUCIARY NET POSITION DECEMBER 31, 2020 AND 2019

	Pension Trust Funds	
	2020	Restated 2019
Assets		
Cash and cash equivalents	\$ 733,432	\$ 686,426
Investments at fair value - mutual funds	86,093,341	76,714,391
Accrued interest	504,203	201,982
Total assets	<u>87,330,976</u>	<u>77,602,799</u>
Net position restricted for pensions	<u>\$ 87,330,976</u>	<u>\$ 77,602,799</u>

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION YEARS ENDED DECEMBER 31, 2020 AND 2019

	Pension Trust Funds	
	2020	Restated 2019
Additions		
Investment return		
Interest and dividends	\$ 3,253,194	\$ 2,978,171
Net change in fair value of investments	9,659,704	12,322,263
Total investment return	12,912,898	15,300,434
Total additions	12,912,898	15,300,434
Deductions		
Benefits paid to participants	2,988,149	2,598,951
Administrative expenses	196,572	207,153
Total deductions	3,184,721	2,806,104
Net change in fiduciary net position	9,728,177	12,494,330
Net position		
Beginning of year	77,602,799	65,108,469
End of year	\$ 87,330,976	\$ 77,602,799

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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, 2020 and 2019, 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, 2020 AND 2019

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. During 2020, Hendricks designated cash and cash equivalents in current assets of approximately \$42,560,000 for COVID-19 and stimulus funds, employee benefit plan funding and capital purchases expected to be used within the next fiscal year. Included in cash and cash equivalents in investments 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, 2020 and 2019, these amounts totaled \$54,100,000 and \$49,400,000, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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, 2017 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2018 through 2020 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2020 and 2019, the differences between original estimates and subsequent revisions for the final settlement of cost reports was not significant. 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:

	2020	2019
Medical supplies and other	\$ 2,761,020	\$ 2,435,541
Pharmaceutical	645,042	933,060
	<u>\$ 3,406,062</u>	<u>\$ 3,368,601</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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 \$29,797,000 and \$34,618,000 of the total as of December 31, 2020 and 2019, 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 \$1,706,000 and \$2,114,000 for 2020 and 2019, respectively.

Net Position

Net position of Hendricks is classified in four components. (1) Net investment in capital assets consist of capital assets net of accumulated depreciation reduced by the balance of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Restricted expendable net position includes assets that must be used for a particular purpose, as specified by creditors, grantors, or

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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. Unrestricted includes funds designated by the board for specific purposes and undesignated assets. 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 2020 and 2019 were approximately \$10,242,000 and \$10,948,000, respectively. Hendricks did not change its charity care and financial assistance policy during 2020 and 2019.

Of Hendricks' total expenses reported, including interest expense, in 2020 and 2019, an estimated \$4,210,000 and \$4,599,000 arose from providing services to charity patients during 2020 and 2019, 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 \$5,586,000 and \$7,222,000 for 2020 and 2019, respectively.

Federal or State Income Taxes

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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, 2019. 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, 2019. 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, 2020 and 2019, 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.

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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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 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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Fiduciary Funds

Following Hendricks' consolidated financial statements are separate 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.

Reclassifications

Certain amounts from the 2019 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 evaluated 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 were issued which was May 21, 2021.

2. CHANGE IN ACCOUNTING PRINCIPLES

During 2020, Hendricks implemented the following:

- Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations*. This statement addressed accounting and financial reporting issues related to asset retirement obligations. This statement also provides guidance for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. There was no impact to these consolidated financial statements as a result of adoption of this statement.
- Early implemented GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This statement addressed the determination of financial accountability for a potential component unit and the financial burden criteria of a potential component unit. Prior to the adoption of this statement, the assets, net position and activity related the Hendricks Regional Health 403(b) Tax Deferred Annuity Plan were included in Hendricks' consolidated financial statements. The Hendricks Regional Health 403(b) Tax Deferred Annuity Plan did not meet the financial accountability and financial burden criteria for fiduciary activities to be included as component units under this statement. The changes adopted to conform to the provisions of this statement were applied retroactively by restating the consolidated financial statements for 2019 as described in Note 3.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

3. RESTATEMENT RELATED TO GASB STATEMENT NO. 97

The accompanying consolidated financial statements as of December 31, 2019 and for the year ended have been restated to reflect Hendricks' adoption of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The adoption resulted in the Hendricks Regional Health 403(b) Tax Deferred Annuity Plan that was presented in the pension trust funds column of the statements of fiduciary net position and accompanying statements of changes in fiduciary net position being removed from the consolidated financial statements. As such, disclosures related to the Hendricks Regional Health 403(b) Tax Deferred Annuity Plan have also been removed from the consolidated financial statements. There was no impact on the other consolidated financial statements as a result of the restatement. The following table is a summary of the restatement for 2019.

	December 31, 2019		
	Originally Reported	Adjustments	Restated
Consolidated statement of fiduciary position			
Assets			
Investments	\$ 203,042,462	\$ 126,328,071	\$ 76,714,391
Employer contribution receivable	\$ 2,360,098	\$ 2,360,098	\$ -0-
Accrued interest	\$ 201,982	\$ -0-	\$ 201,982
Notes receivable	\$ 1,521,017	\$ 1,521,017	\$ -0-
Total assets	\$ 207,811,985	\$ 130,209,186	\$ 77,602,799
Net position restricted for pensions	\$ 207,811,985	\$ 130,209,186	\$ 77,602,799
Consolidated statement of changes in fiduciary position			
Contributions	\$ 18,745,462	\$ 18,745,462	\$ -0-
Investment return	\$ 35,775,830	\$ 20,475,396	\$ 15,300,434
Interest on notes receivable	\$ 87,748	\$ 87,748	\$ -0-
Total additions	\$ 54,609,040	\$ 39,308,606	\$ 15,300,434
Benefits paid	\$ 7,056,793	\$ 4,457,842	\$ 2,598,951
Administrative expenses	\$ 210,953	\$ 3,800	\$ 207,153
Total deductions	\$ 7,267,746	\$ 4,461,642	\$ 2,806,104
Change in fiduciary net position	\$ 47,341,294	\$ 34,846,964	\$ 12,494,330
Net position, beginning of year	\$ 160,470,691	\$ 95,362,222	\$ 65,108,469
Net position, end of year	\$ 207,811,985	\$ 130,209,186	\$ 77,602,799

4. INVESTMENTS

Investments consist of cash and cash equivalents, certificates of deposit, mutual funds, U.S. Government obligations and fixed income obligations. Mutual funds, exchange traded funds, and U.S. Government and fixed income obligations are reported at fair value. Investments balances as of December 31, 2020 and 2019 were approximately \$56,664,000 and \$56,423,000, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

5. 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, 2020 and 2019:

	2020	2019
Assets whose use is limited		
Cash and cash equivalents	\$ 25,150,242	\$ 19,131,000
Investments	231,837,162	210,352,367
	\$ 256,987,404	\$ 229,483,367

6. DEPOSITS AND INVESTMENTS

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

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

As of December 31, 2020 and 2019, Hendricks had the following investments and maturities, all of which were held in Hendricks' name by custodial banks that are agents of Hendricks:

	December 31, 2020				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Hendricks					
Mutual funds	\$ 225,722,113	\$ 225,722,113	\$ -0-	\$ -0-	\$ -0-
Common stocks	464,506	464,506	-0-	-0-	-0-
U.S. Government obligations	670,388	670,388	-0-	-0-	-0-
Fixed income obligations	6,665,000	-0-	-0-	-0-	6,665,000
	\$ 233,522,007	\$ 226,857,007	\$ -0-	\$ -0-	\$ 6,665,000
Pension trust funds					
Mutual funds	\$ 86,093,341	\$ 86,093,341	\$ -0-	\$ -0-	\$ -0-

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

	December 31, 2019				
	Carrying Amount	Investment Maturities (in years)			More than 10
		Less than 1	1-5	6-10	
Hendricks					
Mutual funds	\$ 203,005,292	\$ 203,005,292	\$ -0-	\$ -0-	\$ -0-
Exchange traded funds	646,226	646,226	-0-	-0-	-0-
U.S. Government obligations	1,161,795	1,161,795	-0-	-0-	-0-
Fixed income obligations	7,110,000	-0-	-0-	-0-	7,110,000
	\$ 211,923,313	\$ 203,005,292	\$ -0-	\$ -0-	\$ 7,110,000
Pension trust funds					
Mutual funds	\$ 76,714,391	\$ 76,714,391	\$ -0-	\$ -0-	\$ -0-

The common stocks as of December 31, 2020 are held by the Foundation.

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

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

Hendricks does not have a formal policy for credit and concentration of credit risk for deposits and investments. Deposits and investments consist of the following as of December 31, 2020 and 2019:

	Hendricks	
	2020	2019
Carrying amount		
Deposits	\$ 146,148,249	\$ 94,705,316
Investments	233,522,007	211,923,313
	\$ 379,670,256	\$ 306,628,629
Included in the balance sheet captions		
Cash and cash equivalents	\$ 66,018,450	\$ 20,722,418
Investments	56,664,402	56,422,844
Board designated funded depreciation investments	231,825,743	210,341,004
Held by trustee	14,964,702	14,904,637
Other board designated investments	10,196,959	4,237,726
	\$ 379,670,256	\$ 306,628,629
	Pension Trust Funds	
	2020	2019
Carrying amount		
Deposits	\$ 733,432	\$ 686,426
Investments	86,093,341	76,714,391
	\$ 86,826,773	\$ 77,400,817

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

7. FAIR VALUE MEASUREMENTS

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2020 and 2019:

- *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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Assets and liabilities measured at fair value on a recurring basis for Hendricks as of December 31, 2020 and 2019 are as follows:

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - short term bond	\$ 1,220,339	\$ 1,220,339	\$ -0-	\$ -0-
Common stocks	464,506	464,506	-0-	-0-
	<u>1,684,845</u>	<u>\$ 1,684,845</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Cash	54,979,557			
Total investments	<u>\$ 56,664,402</u>			
Assets whose use is limited				
Mutual funds				
Foreign large growth	\$ 8,258,012	\$ 8,258,012	\$ -0-	\$ -0-
Foreign large value	7,835,490	7,835,490	-0-	-0-
Intermediate-term bond	132,432,921	132,432,921	-0-	-0-
Large blend	60,073,886	60,073,886	-0-	-0-
Short-term bond	119,791	119,791	-0-	-0-
Small growth	9,169,465	9,169,465	-0-	-0-
Small value	6,612,209	6,612,209	-0-	-0-
Total mutual funds	224,501,774	224,501,774	-0-	-0-
U.S. Government obligations	670,388	-0-	670,388	-0-
Fixed income obligations	6,665,000	-0-	6,665,000	-0-
	<u>231,837,162</u>	<u>\$ 224,501,774</u>	<u>\$ 7,335,388</u>	<u>\$ -0-</u>
Cash	25,150,242			
Total assets whose use is limited	<u>\$ 256,987,404</u>			
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-
	<u>1,570,946</u>	<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-
	<u>210,352,367</u>	<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, 2020 AND 2019

Assets and liabilities measured at fair value on a recurring basis for Hendricks' pension trust funds as of December 31, 2020 and 2019 are as follows:

		December 31, 2020			
		Total	Level 1	Level 2	Level 3
Pension trust funds					
Investments					
Mutual funds					
Foreign	\$	14,439,675	\$ 14,439,675	\$ -0-	\$ -0-
Intermediate core-plus bond		25,763,820	25,763,820	-0-	-0-
Large blend		32,013,947	32,013,947	-0-	-0-
Small growth		8,403,460	8,403,460	-0-	-0-
Small value		5,472,439	5,472,439	-0-	-0-
Total investments	\$	86,093,341	\$ 86,093,341	\$ -0-	\$ -0-
		December 31, 2019			
		Total	Level 1	Level 2	Level 3
Pension trust funds					
Investments					
Mutual funds					
Foreign	\$	12,193,230	\$ 12,193,230	\$ -0-	\$ -0-
Intermediate core-plus bond		24,240,298	24,240,298	-0-	-0-
Large blend		28,726,798	28,726,798	-0-	-0-
Small growth		6,072,253	6,072,253	-0-	-0-
Small value		5,481,812	5,481,812	-0-	-0-
Total investments	\$	76,714,391	\$ 76,714,391	\$ -0-	\$ -0-

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, 2020 and 2019 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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

8. CAPITAL ASSETS

Progressions for capital assets for 2020 and 2019 follow:

	December 31, 2019	Additions	Disposals	Transfers	December 31, 2020
Land	\$ 25,010,345	\$ -0-	\$ (3,885,302)	\$ -0-	\$ 21,125,043
Land improvements	9,993,537	-0-	-0-	-0-	9,993,537
Buildings and fixed equipment	289,450,169	6,807,251	-0-	1,257,016	297,514,436
Major movable equipment	139,607,162	8,057,920	(1,197,366)	2,906,094	149,373,810
Construction in progress	4,929,874	2,890,375	-0-	(4,163,110)	3,657,139
Total capital assets	468,991,087	17,755,546	(5,082,668)	-0-	481,663,965
Accumulated depreciation					
Land improvements	(6,783,779)	(627,725)	-0-	-0-	(7,411,504)
Buildings and fixed equipment	(118,824,932)	(11,123,443)	1,008,520	-0-	(128,939,855)
Major movable equipment	(74,968,063)	(15,239,646)	19,497	-0-	(90,188,212)
Total accumulated depreciation	(200,576,774)	(26,990,814)	1,028,017	-0-	(226,539,571)
Capital assets, net	\$ 268,414,313	\$ (9,235,268)	\$ (4,054,651)	\$ -0-	\$ 255,124,394

	December 31, 2018	Additions	Disposals	Transfers	December 31, 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
Accumulated depreciation					
Land improvements	(6,133,919)	(649,860)	-0-	-0-	(6,783,779)
Buildings and fixed equipment	(108,826,572)	(9,998,360)	-0-	-0-	(118,824,932)
Major movable equipment	(67,322,311)	(17,323,117)	9,677,365	-0-	(74,968,063)
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

Significant outstanding commitments on capital assets as of December 31, 2020 were \$1,214,000, primarily related to software implementation and emergency room renovations.

9. LONG-TERM DEBT

Direct Borrowings/Placements

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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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.

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, 2020 and 2019, 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.

Lines of Credit

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, 2020 and 2019 was \$14,000,000 and \$24,000,000, respectively. The line of credit bears interest at the floating 30 day LIBOR rate plus 100 basis points (1.25% at December 31, 2020) and is secured by Hendricks' net revenues. The line of credit is renewable annually and expires in February 2022.

Hendricks entered into a second line of credit agreement with Fifth Third with a maximum amount of \$25,000,000 in April 2020. There was no balance outstanding as of December 31, 2020. The line of credit bears interest at the floating 30 day LIBOR rate plus 135 basis points (1.49% at December 31, 2020) and is secured by Hendricks' net revenues. The line of credit expired in February 2021 and was not renewed.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Hendricks entered into a line of credit agreement with BMO Harris Bank with a maximum amount of \$25,000,000 in April 2020. There was no balance outstanding as of December 31, 2020. The line of credit bears interest at the floating 30 day LIBOR rate plus 200 basis points, with a floor of 1% (3.00% at December 31, 2020), and is secured by Hendricks' net revenues. The line of credit expires in April 2021 and is not expected to be renewed.

Under the terms of the lines of credit, Hendricks is required to meet certain financial covenants. Hendricks believes the are in compliance with all covenants as of December 31, 2020 and 2019, respectively.

Loss on Bond Refunding

Included in deferred outflows as of December 31, 2020 and 2019 is a loss on bond refunding of approximately \$1,089,000 and \$1,207,000, 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 2020 and 2019 include the following:

	December 31, 2019	Additional Borrowings	Payments	December 31, 2020	Current Portion
Direct borrowings/placements					
Indiana Bond Bank					
Special Program Refunding					
Bonds Series 2007A	\$ 32,095,000	\$ -0-	\$ (2,230,000)	\$ 29,865,000	\$ 2,345,000
Indiana Taxable Economic					
Development Revenue Bonds					
Series 2009	4,890,000	-0-	(330,000)	4,560,000	350,000
Series 2016	2,220,000	-0-	(115,000)	2,105,000	120,000
Indiana Finance Authority					
Health Facility Revenue					
Refunding Bonds, Series 2019	82,270,000	-0-	(5,445,000)	76,825,000	5,605,000
	121,475,000	-0-	(8,120,000)	113,355,000	8,420,000
Other borrowings	3,570,756	-0-	(1,130,656)	2,440,100	813,062
	125,045,756	\$ -0-	\$ (9,250,656)	115,795,100	\$ 9,233,062
Unamortized bond premium	2,246,110			2,026,978	
	<u>\$ 127,291,866</u>			<u>\$ 117,822,078</u>	

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

	December 31, 2018	Additional Borrowings	Payments	December 31, 2019	Current Portion
Direct borrowings/placements					
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
	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	\$ 87,335,515	\$ (95,359,442)	125,045,756	9,290,099
Unamortized bond premium	2,640,833			2,246,110	
	<u>\$ 135,710,516</u>			<u>\$ 127,291,866</u>	

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Direct Borrowings/Placements		Other Borrowings		Total
	Principal	Interest	Principal	Interest	
2021	\$ 8,420,000	\$ 4,020,324	\$ 813,062	\$ 97,604	\$ 13,350,990
2022	8,725,000	3,713,989	634,989	65,082	13,139,060
2023	9,040,000	3,395,438	634,989	39,682	13,110,109
2024	9,370,000	3,064,124	357,060	14,282	12,805,466
2025	9,730,000	2,719,087	-0-	12,705	12,461,792
2026-2030	46,645,000	8,015,051	-0-	-0-	54,660,051
2031-2035	12,095,000	2,927,850	-0-	-0-	15,022,850
2036-2039	9,330,000	754,500	-0-	-0-	10,084,500
	<u>\$ 113,355,000</u>	<u>\$ 28,610,363</u>	<u>\$ 2,440,100</u>	<u>\$ 229,355</u>	<u>\$ 144,634,818</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

10. NET PATIENT SERVICE REVENUE

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

Medicare

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

Medicaid and Hospital Assessment Fee 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 2020 and 2019, Hendricks recognized HAF and HIP program assessments of approximately \$10,373,000 and \$12,771,000, 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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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 \$4,123,000 and \$5,605,000 during 2020 and 2019, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

Other Payors

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

Patient service revenue for 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Inpatient	\$ 216,185,083	\$ 201,373,747
Outpatient	653,021,669	651,770,616
Long-term care services	<u>433,779,717</u>	<u>411,272,147</u>
Gross patient service revenue	1,302,986,469	1,264,416,510
Contractual allowances	505,064,510	486,114,180
Uninsured self pay discounts	5,585,662	7,222,459
Charity care	10,242,234	10,947,611
Provision for bad debts	<u>23,433,925</u>	<u>24,607,476</u>
Deductions from revenue	<u>544,326,331</u>	<u>528,891,726</u>
Net patient service revenue	<u>\$ 758,660,138</u>	<u>\$ 735,524,784</u>

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

11. 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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.

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 2020 and 2019 and Hendricks does not expect to be required to contribute to the Plan in 2021.

Employees Covered by Benefit Terms

As of December 31, 2020 and 2019, the following employees were covered by the benefit terms of the Plan:

	<u>2020</u>	<u>2019</u>
Active plan members, including terminated but vested participants	693	762
Inactive plan members and beneficiaries receiving benefits	378	364
Inactive plan members entitled to but not yet receiving benefits	<u>256</u>	<u>294</u>
	<u>1,327</u>	<u>1,420</u>

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Contributions

The annual required contributions for 2020 and 2019 and estimated liabilities as of January 1, 2020 and 2019 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, 2020 and 2019, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of January 1, 2020 and 2019.

Actuarial assumptions

The total pension liability in the December 31, 2020 and 2019 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-2020. 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 2020 and 2019.

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.

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

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

Discount Rate

The discount rate used to measure the total pension liability was 5.50% and 7.00% for 2020 and 2019, 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 5.50%, as well as what Hendricks' net pension (asset) liability would be if it were calculated using a discount rate that is 1% lower (4.50%) or 1% higher (6.50%) than the current rate:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net pension (asset) liability	\$ 6,061,187	\$ (4,818,570)	\$ (13,804,838)

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Changes in the Net Pension (Asset) Liability

The changes in the net pension (asset) liability during 2020 and 2019 were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balance, 12/31/2019	\$ 68,181,832	\$ 77,602,799	\$ (9,420,967)
Service cost	292,364	-0-	292,364
Interest	4,688,609	-0-	4,688,609
Differences between expected and actual experience	(278,601)	-0-	(278,601)
Changes of assumptions	12,616,351	-0-	12,616,351
Benefit payments	(2,988,149)	(2,988,149)	-0-
Net investment income	-0-	12,869,888	(12,869,888)
Administrative expenses	-0-	(166,944)	166,944
Other	-0-	13,382	(13,382)
Net change	<u>14,330,574</u>	<u>9,728,177</u>	<u>4,602,397</u>
Balance, 12/31/2020	<u>\$ 82,512,406</u>	<u>\$ 87,330,976</u>	<u>\$ (4,818,570)</u>
	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 loss	-0-	15,258,882	(15,258,882)
Administrative expenses	-0-	(177,008)	177,008
Other	-0-	11,407	(11,407)
Net change	<u>6,073,929</u>	<u>12,494,330</u>	<u>(6,420,401)</u>
Balance, 12/31/2019	<u>\$ 68,181,832</u>	<u>\$ 77,602,799</u>	<u>\$ (9,420,967)</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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

For 2020 and 2019, Hendricks recognized pension expense of approximately \$823,000 and \$1,297,000, respectively. As of December 31, 2020 and 2019, 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, 2019	\$ 10,383,320	\$ (11,449,046)
Differences between expected and actual experience	-0-	(278,601)
Amortization of expected versus actual	(386,728)	246,749
Changes in assumptions	12,616,351	-0-
Amortization of changes in assumptions	(3,798,530)	60,433
Differences between projected and actual earnings on plan investments	-0-	(7,561,502)
Amortization of projected versus actual earnings on plan investments	(1,926,473)	4,807,266
Balance, December 31, 2020	16,887,940	\$ (14,174,701)
Deferred outflows - loss on bond refunding	1,089,047	
Total deferred outflows, December 31, 2020	\$ 17,976,987	
	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	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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

Year Ending December 31,	
2021	\$ 513,556
2022	1,637,904
2023	(393,469)
2024	955,248
	<u>\$ 2,713,239</u>

12. 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 2020 and 2019, the discretionary match was 50% of the plan member's deferral up to 10% of the eligible compensation. Hendricks can also elect to make discretionary employer contributions.

Hendricks' contributions to the plans for 2020 and 2019 were approximately \$4,636,000 and \$6,583,000, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

13. RENTAL EXPENSE

Hendricks has leases expiring at various times through 2025. 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 2020 and 2019 was approximately \$3,841,000 and \$3,503,000, respectively.

Minimum future payments on non-cancelable leases for the years following December 31, 2020 are:

Year Ending December 31,		
2021	\$	188,851
2022		180,962
2023		124,755
2024		84,853
2025		9,212
	\$	<u>588,633</u>

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$34,992,000 and \$51,154,000 for 2020 and 2019, respectively. Annual rent expense through 2026 is scheduled to approximate \$35,000,000 under these leases.

14. 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, 2020 and 2019 was as follows:

	Receivables		Revenues	
	2020	2019	2020	2019
Medicare	32%	29%	42%	43%
Medicaid	7%	10%	12%	11%
Anthem/Blue Cross	15%	14%	22%	21%
Commercial and other	31%	29%	22%	22%
Self-Pay	15%	18%	2%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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Under the long-term care leases, Hendricks recorded expenses related to purchased services from the managers of the facilities of approximately \$282,478,000 and \$246,014,000 during 2020 and 2019, respectively. Amounts due to the managers included in current liabilities as of December 31, 2020 and 2019 approximated \$77,964,000 and \$73,005,000, respectively.

15. 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, 2020 and 2019 is as follows:

	2020			
	Foundation	HAMCO	HRH Health Services	HRH Real Estate
Balance sheet				
Assets				
Current assets	\$ 2,352,744	\$ 2,278,616	\$ 5,411,796	\$ 3,913,479
Capital assets	-0-	789,935	-0-	2,198,837
Total assets	<u>\$ 2,352,744</u>	<u>\$ 3,068,551</u>	<u>\$ 5,411,796</u>	<u>\$ 6,112,316</u>
Liabilities				
Due to Hendricks	\$ 8,571	\$ 70,507	\$ -	\$ 2,054
Other current liabilities	171,422	508,702	11,469	-0-
Total liabilities	179,993	579,209	11,469	2,054
Net position				
Net investment in capital assets	-0-	789,935	-0-	2,198,837
Unrestricted	2,172,751	1,699,407	5,400,327	3,911,425
Total net position	<u>2,172,751</u>	<u>2,489,342</u>	<u>5,400,327</u>	<u>6,110,262</u>
Total liabilities and net position	<u>\$ 2,352,744</u>	<u>\$ 3,068,551</u>	<u>\$ 5,411,796</u>	<u>\$ 6,112,316</u>
Statement of revenues and expenses and changes in net position				
Revenues	\$ -0-	\$ 3,886,074	\$ 183,026	\$ 29,047
Expenses				
Depreciation	-0-	282,803	-0-	-0-
Other expenses	330,533	2,596,224	721,833	13,788
Total expenses	<u>330,533</u>	<u>2,879,027</u>	<u>721,833</u>	<u>13,788</u>
Operating income (loss)	(330,533)	1,007,047	(538,807)	15,259
Nonoperating revenues (expenses)	12,921	31,255	16,719	(138,687)
Excess revenues over expenses	(317,612)	1,038,302	(522,088)	(123,428)
Contributions (distributions) and other, net	-0-	(1,075,177)	-0-	-0-
Change in net position	(317,612)	(36,875)	(522,088)	(123,428)
Net position, beginning of year	2,490,363	2,526,217	5,922,415	6,233,690
Net position, end of year	<u>\$ 2,172,751</u>	<u>\$ 2,489,342</u>	<u>\$ 5,400,327</u>	<u>\$ 6,110,262</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

	2020			
	Foundation	HAMCO	HRH Health Services	HRH Real Estate
Statement of cash flows				
Cash provided by (used in)				
Operating activities	\$ (252,419)	\$ 350,619	\$ (545,693)	\$ (146,423)
Capital and related financing activities	-0-	(140,892)	-0-	3,885,302
Investing activities	(1,045,209)	-0-	4,003,281	-0-
Change	(1,297,628)	209,727	3,457,588	3,738,879
Cash and cash equivalents, beginning of year	1,740,856	15,575	1,905,473	174,600
Cash and cash equivalents, end of year	<u>\$ 443,228</u>	<u>\$ 225,302</u>	<u>\$ 5,363,061</u>	<u>\$ 3,913,479</u>
	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	<u>\$ 2,627,799</u>	<u>\$ 3,209,607</u>	<u>\$ 5,981,002</u>	<u>\$ 6,258,739</u>
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	<u>\$ 2,627,799</u>	<u>\$ 3,209,607</u>	<u>\$ 5,981,002</u>	<u>\$ 6,258,739</u>
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	<u>\$ 2,490,363</u>	<u>\$ 2,526,217</u>	<u>\$ 5,922,415</u>	<u>\$ 6,233,690</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

	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 equivalents, beginning of year	1,433,019	-0-	6,019,308	98,021
Cash equivalents, end of year	\$ 1,740,856	\$ 15,575	\$ 1,905,473	\$ 174,600

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.

16. SELF INSURANCE

Hendricks is self-insured for employee health claims. A third party administrator processes the claims for Hendricks who maintains an estimated liability for the amount of claims incurred but not reported. Hendricks also maintains reinsurance including a stop loss for individual employees over \$300,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$14,658,000 and \$18,045,000 for 2020 and 2019, 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:

	2020	2019
Unpaid claims, beginning of year	\$ 3,862,667	\$ 2,074,548
Incurred claims and changes in estimates	14,658,305	18,044,585
Claim payments	(14,122,357)	(16,256,466)
Unpaid claims, end of year	\$ 4,398,615	\$ 3,862,667

As of December 31, 2020 and 2019, 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, 2020 AND 2019

17. 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:

	2020	2019
Non-controlling interests	\$ 1,189,495	\$ 1,235,202

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, 2018	\$ 1,277,343	\$ 1,277,342	\$ 2,554,685
Operating income	668,904	637,787	1,306,691
Nonoperating revenue	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
Operating income	522,531	484,516	1,007,047
Nonoperating revenue	16,217	15,038	31,255
Dividends	(529,916)	(490,085)	(1,020,001)
Redemption of non-controlling shares	-0-	(55,176)	(55,176)
Change in net position	8,832	(45,707)	(36,875)
Net position, December 31, 2020	\$ 1,299,847	\$ 1,189,495	\$ 2,489,342

18. 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, 2020 AND 2019

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.

19. CONTINGENCIES

In March 2020, 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 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.

During 2020, Provider Relief Funds (PRF) authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. Hendricks received approximately \$57,888,000 of these funds from the CARES Act. PRF amounts are recognized to the extent Hendricks meets the terms and conditions. Hendricks recognized PRF of \$40,785,000 as COVID-19 grant funds in nonoperating revenue (expenses) in the consolidated statements of revenues, expenses and changes in net position for 2020. Hendricks deferred PRF of \$17,103,000, which is included in other current liabilities in the consolidated balance sheets. Compliance with the terms and conditions may also be subject to future government review and interpretation as they are emerging and uncertain at the time the consolidated financial statements were available to be issued. There can be no assurance that regulatory authorities will not challenge Hendricks' compliance with the terms and conditions, and it is not possible to determine the impact (if any) such claims would have upon Hendricks' financial position.

REQUIRED SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2020

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

	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	\$ 292,364	\$ 348,219	\$ 354,904	\$ 449,870	\$ 405,170	\$ 466,554	\$ 452,071
Interest	4,688,609	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-	-0-	246,372	-0-	-0-
Differences between expected and actual experience	(278,601)	249,765	940,439	271,415	(1,146,174)	659,468	-0-
Changes of assumptions	12,616,351	3,641,039	(124,468)	(248,774)	1,389,220	1,893,100	-0-
Benefit payments	(2,988,149)	(2,598,951)	(2,332,950)	(2,040,835)	(2,361,119)	(4,183,243)	(1,321,007)
Net change in pension liability	14,330,574	6,073,929	3,060,055	2,490,704	2,527,535	2,573,228	2,767,126
Total pension liability - beginning	68,181,832	62,107,903	59,047,848	56,557,144	54,029,609	51,456,381	48,689,255
Total pension liability - ending (a)	<u>\$ 82,512,406</u>	<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	\$ (2,988,149)	\$ (2,598,951)	\$ (2,332,950)	\$ (2,040,835)	\$ (2,361,119)	\$ (4,183,243)	\$ (1,321,007)
Net investment income	12,869,888	15,258,882	(4,241,637)	10,340,867	4,239,435	203,831	4,722,125
Administrative expenses	(166,944)	(177,008)	(135,542)	(144,474)	(140,674)	(229,428)	(71,215)
Other	13,382	11,407	16,907	17,280	15,894	8,498	-0-
Net change in plan fiduciary net position	9,728,177	12,494,330	(6,693,222)	8,172,838	1,753,536	(4,200,342)	3,329,903
Plan fiduciary net position - beginning	77,602,799	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>\$ 87,330,976</u>	<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>\$ (4,818,570)</u>	<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	105.84%	113.82%	104.83%	121.60%	112.50%	114.52%	128.41%
Covered payroll	\$ 14,012,543	\$ 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	-34.39%	-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, 2020

SCHEDULE OF CONTRIBUTIONS

	Actuarially Determined Contribution	Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as % of Covered Payroll
12/31/2020	\$ -0-	\$ -0-	\$ -0-	\$ 14,012,543	0.00%
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%

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 150 basis points to 5.50%

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	5.50%
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-2020



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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
 Hendricks Regional Health
 Danville, Indiana

Report on the Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Hendricks Regional Health (Hendricks), which comprise the consolidated balance sheets as of December 31, 2020, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year 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, 2020 and the related consolidated statement of changes in fiduciary net position for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated May 21, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Hendricks' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hendricks' internal control. Accordingly, we do not express an opinion on the effectiveness of Hendricks' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Hendricks' consolidated financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
Hendricks Regional Health
Danville, Indiana

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hendricks' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hendricks' internal control or on compliance. This report is an integral part of an audit performed in accordance *with Government Auditing Standards* in considering Hendricks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
May 21, 2021